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Assessing Transparency of Indian Banking System's Public Risk Disclosure Regime - A Regulation Based Approach

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Abstract

Complementing capital requirements and regulatory supervision, market participants also exercise influence over banks to discipline their actions and to help maintain systemic stability. In the banking system, market discipline operates through the depositor channel, the public investor channel, and the private investor channel. The functioning of the depositor and public investor channels is dependent on the quality of public information, while private investors have access to more than just public information. Integral to the effective functioning of the depositor and public investor channels is the need to ensure transparency of public disclosures made by banks. This is important as the majority of assets held by banks are illiquid and not traded in open markets, thus limiting the availability of market information on them. This paper assesses the public disclosure regime of the Indian banking sector, particularly of scheduled commercial banks, urban cooperative banks, regional rural banks and non-banking finance companies, and comments on the level and quality of transparency enabled by this disclosure regime. The analysis restricts its focus to RBI regulations, SEBI regulations and relevant accounting standards, which mandate public disclosure of risk related information. A five-dimensional transparency framework created by the Basel Committee on Banking Supervision in 1998 has been used to analyse the level and quality of transparency that is being enabled by these regulations. The disclosures mandated by the regulations were compared against the framework to assess the quality of transparency across the five dimensions. Our findings suggest that, across entities, disclosures on risk exposures and their underlying risk drivers, comes up short on both qualitative and quantitative aspects. The analysis also finds that for entities other than scheduled commercial banks, the current disclosures are too infrequent to accurately capture the risks that build up in the intervening period between successive disclosures. The paper also offers some policy recommendations that could bridge the gaps identified in the current disclosure regime.

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1. Introduction

In the world of banking, market discipline is exercised by three classes of market participants - public investors who invest in listed equity and debt of banking system entities, depositors who place their monies in demand and term deposit accounts of regulated banks and deposit-taking Non-Banking Financial Companies (NBFCs-D), and private investors who are chiefly sophisticated and non-retail capital providers who operate in the private markets. While there are overlaps among these classes of market participants, there are important differences in their mechanism of operation. One crucial difference is that public investors and depositors are entirely dependent on public information to assess a bank's performance. In contrast, private investors have access to more than just public information. Thus, to ensure the effective functioning of market discipline through the depositor and public investor channels, it is important that public disclosures of banks are transparent. Here, transparency is defined as public disclosure of reliable and timely information that enables users of that information to make an accurate assessment of a bank's financial condition and performance, business activities, and risk management practices (BCBS, 1998; Vishwanath & Kaufmann, 2001). Thus, to achieve transparency, it is not sufficient for banks to simply disclose information, but such disclosures must be made in a timely manner with accurate, relevant, and comprehensive information that would enable users to make a proper assessment of the bank's activities (BCBS, 1998).

Any assessment of transparency would also include an assessment of the relationship between transparency and financial stability. Articulating a precise definition of financial stability is difficult, but some attempts have been made in outlining the main principles that should constitute such a definition. One such principle relates to the presence of 'self-corrective, market disciplining mechanisms that create resilience and prevent problems from festering' (Garry, 2004). This has two beneficial outcomes - one, market discipline can work earlier in detecting and preventing problems from occurring and by incentivising banks to behave prudently and efficiently. Two, in times of stress/crisis, with access to transparent information, market participants will be better able to distinguish healthy banks from those that are vulnerable, thus reducing contagion risk (BCBS, 1998; Goldstein & Turner, 1996).

The links between transparency and financial stability have been the subject of many studies which have been conducted in the aftermath of financial crises that economies around the world have experienced in the past few decades. Based on a review of the experience of emerging economies, Goldstein & Turner (1996) list weaknesses in accounting and disclosure as one of the leading factors behind banking crises. Publicly reported financial information in Latin American countries were found to have had very little hints of the impending banking crises. Barth & Landsman (2010) analysed the accounting standards applicable in the United States of America before and during the crisis to scrutinise the role played by financial reporting in the financial crisis of 2007. They found that transparency of information reported on asset securitisations and derivatives was likely insufficient for investors to properly assess the value and riskiness of bank assets and liabilities.

In India, the Punjab National Bank scam, which involved the siphoning of Rs.13,000 crore over several years², exposed the supervisory lapses and the utter lack of information on the activities of banks. Since the occurrence of this scam, there have been renewed calls for greater transparency of banking activities. While there is a definite need for greater transparency in the banking sector, this needs to be tempered by an acknowledgement of the constraints faced by the entities disclosing information and the consumers of this information. Such constraints could include compliance costs for disclosing entities, and cognitive constraints that limit the ability of the consumers of information to process such disclosures effectively. Additionally, for any positive effects of transparency to be sustainable, a comprehensive review of the existing disclosure regime should be carried out to identify gaps, if any, and bridge them.

This study constructs a comprehensive record of, and comments on, the level of transparency in the Indian banking system. The Indian banking system is composed of different types of entities such as Scheduled Commercial Banks (SCBs) (including small finance banks or SFBs), Non-Banking Financial Companies (NBFCs), co-operative banks, and Regional Rural Banks (RRBs). For this study, we restrict the analysis to SCBs, NBFCs, Urban Co-operative Banks (UCBs), and RRBs. These cover a total balance sheet size of about Rs. 204 trillion as of March 2019³, comprising 97% of the banking system. SCBs are the biggest amongst these entities, contributing to about 81% of the total balance sheet size, with NBFCs forming 13% of the total, and UCBs and RRBs contributing about 3% each. Among NBFCs, the focus is only on NBFCs-D (listed and unlisted) and listed Non-Deposit taking Systemically Important NBFCs (NBFCs-ND-SI), the rationale being that the depositor and public investor channels of market discipline will apply to only these NBFCs⁴. The analysis of the disclosure requirements is therefore limited to those required by Reserve Bank of India (RBI) regulations, Securities and Exchange Board of India (SEBI) regulations and the Institute of Chartered Accountants of India (ICAI)'s accounting standards. Further, only those regulations relevant to the assessment of the financial stability of the system, i.e., belonging to the categories of risk management, risk exposures, and financial position are selected for analysis. For the evaluation of transparency enabled by these banking regulations, a five-dimensional transparency framework is employed, the details of which are elaborated in Section 3. A rubric for this analysis has been elaborated in Appendix 5.

The paper is structured in the following format. Section 2 discusses the key findings from academic literature on the role of disclosures and transparency in market discipline and the level of transparency in the Indian banking system. Section 3 describes the analytical framework used to assess the level of transparency enabled by regulations and the method of application of the framework. It includes a discussion on the types of entities selected

²See Radhika Merwin, "PNB scam: how a system was gamed.", February 21, 2018, *Business Line*. Accessible at: <https://www.thehindubusinessline.com/opinion/pnb-scam-how-a-system-was-gamed/article22818081.ece>

³Total assets/liabilities of each entity summed from their individual consolidated balance sheets. Source *Report on trend and progress of banking in India 2018-19*, Reserve Bank of India. Accessible at: <https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/ORTP241219FL760D9F69321B47988DE44D68D9217A7E.PDF>

⁴We acknowledge that there are some non-deposit taking and non-systemically important NBFCs which are also listed. However, the aggregate balance sheet size of these NBFCs is miniscule and hence these entities have not been included in our analysis.

for study and the rationale behind the selection. Section 4 discusses the key findings from the assessment of transparency across all the types of entities. Based on the gaps found from the assessment of disclosures, Section 5 suggests policy recommendations that can help bridge the gaps in the disclosure regime. Finally, Section 6 ends with discussing the scope for further research.

2. Literature Review

Market discipline, in the context of this paper, can be defined as the mechanism by which market participants monitor and discipline the risk-taking actions of a bank or a credit institution. Market discipline can be thought of as having two distinct components - Market Monitoring and Market Influence (Flannery, 2001). The market monitoring component involves investors and depositors accurately evaluating the financial health of a firm and incorporating those assessments into the firm's security prices and cost of funds. Integral to the functioning of the market monitoring component is the disclosure of information about the firm.

Economic theory suggests that firms that have higher levels of disclosures, experience lower costs of capital due to reduced information asymmetry. This thesis also provides an important economic rationale for accounting disclosures (Leuz & Verrecchia, 2000; Healy & Palepu, 2001). It assumes greater significance for banks, which, due to the nature of their operations, tend to have opaque balance sheets (Morgan, 2002; Iannotta, 2006; Flannery et al., 2010). This opacity makes it difficult for market participants to assess banks' financial health without accurate information on their financial position, risk exposure and risk management practices. Gorton & Ordonez (2014) show that opacity in debt markets results in market participants having similar opinions about the quality of borrowers, which can lead to financial fragility. Applying this in the context of banks, such opacity could lead to market participants being unable to distinguish between high and low-risk banks, thus leading to mispricing of risks and misallocation of capital. Thus, there are theoretical arguments that show both entity-specific and system-wide economic benefits of disclosures.

These theoretical arguments for disclosure and market discipline are well supported by many empirical studies. For instance, Leuz & Verrecchia (2000) find that German banks, which switched to reporting regimes with greater transparency of accounting disclosures, experienced lower levels of the information asymmetry component of its cost of capital. Flannery & Sorescu (1996) use bank balance sheet data and yield premia data to find evidence of investors disciplining excessive risk-taking by US banks through subordinated debenture yields. King (2008) analyses 20 years of US interbank market panel data and finds evidence of market discipline through price and rationing effects. In particular, he finds that high-risk banks consistently paid more than less risky banks for interbank loans and were less likely to use these loans for liquidity purposes. Demirguc-Kunt & Huizinga (1999) provide cross country, including both developed and developing countries, evidence on the existence of market discipline and its weakening in the presence of deposit insurance. Nier & Bauman (2002) investigate the effectiveness of market discipline in limiting excessive risk-taking by banks. Specifically, they examine the effect of three factors on the strength of market discipline on banks' incentives to hold capital buffers. These factors are the government safety net, the proportion of uninsured liabilities and the extent to which banks transparently disclose information about their risk profiles. Their results suggest that banks that disclose more information experience greater market discipline and thus limit their risk by having higher capital buffers. Overall, these papers provide empirical evidence consistent with market discipline.

However, the link between disclosure of information and the actions of market participants may fail for several reasons, impeding market discipline and thus reducing the effectiveness of disclosures. The expectation of government support, either through deposit insurance or bail outs, could reduce the incentives of investors and depositors to monitor and discipline banks effectively. Indeed, Demirguc-Kunt & Huizinga (1999) find evidence of this in the case of deposit insurance.

At a more fundamental level, market discipline hinges on the availability of timely and accurate information, i.e., transparent disclosures, to market participants, and their ability to process that information. Investors and depositors may not always be able to obtain the necessary information to assess a banks' riskiness (Angkinand et al., 2012) thus reducing the effectiveness of their disciplining mechanisms. Even if the disclosed information is transparent, its interpretation is still limited by behavioural biases and the cognitive capabilities of the market participants (Freixas & Lau, 2012). At a systemic level, Cordella & Yeyati (1998) find evidence of increased probability of bank failure when there is public disclosure of risk exposures not under the control of the bank. Chen & Hasan (2006) provide theoretical arguments on how improving the transparency of banks can lead to an inefficient contagious run on banks and thus reduce systemic stability.

The arguments and evidence, while highlighting the limitations and possible adverse effects of transparent disclosures, do not completely negate its utility. It needs to be recognised that disclosures are a necessary but not sufficient condition to ensure market discipline. Ample evidence exists on the effectiveness of market discipline and the importance of transparent disclosures in achieving this. On balance, it can be concluded that there are economic benefits from improving the transparency of disclosures.

Disclosure standards in the Indian banking sector have undergone significant changes over the past few decades in response to changes in the economic environment of the country and within the financial system itself. The first set of changes in disclosure norms was brought about by the financial sector reforms on the back of the recommendations made by the *Committee on the Financial System (Narasimham Committee I)* in 1991 that advocated a movement towards a market-oriented banking system. Higher quality accounting with stricter income recognition and asset classification norms and higher disclosure standards in financial reporting were aimed at introducing an element of market discipline which could reinforce RBI's supervisory efforts (Chipalkatti & Rishi, 2007). In 1999, in the backdrop of growing concern over non-performing assets (NPAs) on the balance sheet of banks, RBI adopted some of the transparency-enhancing disclosure norms recommended by the *Committee on Banking Sector Reforms (Narasimham Committee II)* in 1998. These required banks to disclose, for the first-time - a) movements in gross and net NPAs, b) the maturity pattern of loans and advances, investment securities, deposits, and borrowings, c) lending to sensitive sectors, and d) amount of foreign currency assets and liabilities (Chipalkatti, 2005).

In December 1999, RBI constituted a 'Standing Committee on International Financial Standards and Codes' to guide India's efforts towards creating a sound financial systems

architecture through learnings from global best practices⁵. This committee was created in the backdrop of the Mexican and Southeast Asian financial crises which highlighted the need for developing adequate transparency standards and codes at a sectoral and institutional level. One of the advisory groups formed by this committee, 'Advisory Group on Banking Supervision' published its report in September 2000⁶. This report assessed bank transparency in India against benchmarks/ principles enunciated in the 1998 Basel Committee on Banking Supervision (BCBS) paper on 'Enhancing Bank Transparency'. The report found the need for several changes in disclosure practices. It recommended specific disclosures across three categories - general balance sheet disclosures, risk management, and management and internal control, and called for a coordinated approach between ICAI and RBI in issuing comprehensive guidelines. Additionally, it also recommended a periodic review and update of Indian disclosures from time to time to match international standards.

In line with the above recommendation, RBI has been reviewing transparency in the operations of banks and NBFCs from time to time and has issued directions on disclosure standards to be adhered to in financial reporting. For example, in the year 2010, with a view to enhancing transparency of risk exposure of commercial banks (excluding UCBs and RRBs), RBI prescribed disclosures on concentration of risks and sector-wise NPAs, among other disclosure requirements⁷. More recently, in 2012, based on the documents 'Principles for Sound Liquidity Risk Management and Supervision' as well as 'Basel III: International Framework for Liquidity Risk Measurement, Standards and Monitoring', RBI issued guidelines requiring commercial banks (excluding UCBs and RRBs) to disclose information on their liquidity risk management practices in addition to their annual disclosures on Asset Liability Management (ALM) maturity pattern⁸. In 2014, a requirement to maintain Liquidity Coverage Ratio (LCR) along with related public disclosures was notified for commercial banks (excluding UCBs and RRBs) in the backdrop of BCBS issuing the document 'Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools'⁹. For NBFCs, in addition to the disclosures notified by RBI from time to time, Indian Accounting Standards (Ind-AS) have been made applicable in phases starting from the financial year 2018-19, which require enhanced disclosures¹⁰.

The changes in the regulatory regime around disclosure standards as outlined above are only illustrative in nature. If one were to assume that regulatory response has kept

⁵See *Report of the Standing Committee on International Financial Standards and Codes*, June 2002, Reserve Bank of India. Accessible at: <https://www.rbi.org.in/scripts/PublicationReportDetails.aspx?ID=284>

⁶See *Report of the Advisory Group on Banking Supervision - Part I*, September 2000, Reserve Bank of India. Accessible at: <https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?ID=185>

⁷See *Additional Disclosures by banks in Notes to Accounts*, March 15, 2010, Reserve Bank of India. Accessible at: <https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=5533&Mode=0>

⁸See *Liquidity Risk Management by Banks*, November 7, 2012, Reserve Bank of India. Accessible at: <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=7680&Mode=0>

⁹See *Basel III Framework on Liquidity Standards — Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and LCR Disclosure Standards*, June 9, 2014, Reserve Bank of India. Accessible at: <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=8934&Mode=0>

¹⁰See *Obligation to comply with Indian Accounting Standards (Ind AS)*, Rule 4 of the Companies (Indian Accounting Standards) Rules, 2015, Ministry of Corporate Affairs. Accessible at: [http://ebook.mca.gov.in/Childwindow1.aspx?pageid=25023&type=RU&ChildTitle=The%20Companies%20\(Indian%20Accounting%20Standards\)%20Rules,%202015#b](http://ebook.mca.gov.in/Childwindow1.aspx?pageid=25023&type=RU&ChildTitle=The%20Companies%20(Indian%20Accounting%20Standards)%20Rules,%202015#b)

pace with changes in the banking sector and the larger economy in terms of prescribing disclosure standards, a relevant question to ask is if these disclosures have facilitated the enforcement of market discipline. However, as discussed earlier, the market disciplining mechanism cannot function effectively if the disclosures are not adequately transparent (BCBS, 1998). In order to ascertain this, we reviewed available literature and found that studies which evaluate the transparency of disclosure standards in the Indian banking sector are sparse and not comprehensive enough.

Chipalkatti & Rishi (2007) used a Bank Transparency Score (BTS) index to measure the level of transparency of individual banks which were part of the sample based on the disclosures made in their annual reports. The index was constructed based on the recommendations of the BCBS report 'Enhancing Banking Transparency' published in 1998 and the International Accounting Standards Committee as per IAS No. 30 (1998). It included a list of 90 items which were considered as transparency-enhancing, high-quality public disclosures. The result found transparency levels to be low arising from poor disclosure quality, especially on risk exposures and risk management skills. While these results are significant and highlight the lack of transparency, the study is an ex-post analysis of disclosures as observed in the financial reports of the sampled banks. Additionally, significant changes have occurred in the disclosure regime since this study was published. In another study, Hossain (2008) examined the extent of both mandatory and voluntary disclosures of listed banking companies in India against regulatory requirements and found them to be highly compliant. They also found size, profitability, board composition, and market discipline variables to be significant in explaining the disclosure levels. A quantitative approach of assigning scores for disclosure/ non-disclosure was followed. Similar to the previous study, this study too is an ex-post analysis of disclosures and mainly focuses on compliance rather than an assessment of transparency itself.

The rest of the literature available on this topic discusses transparency in relation to specific aspects of financial statements of banks and as part of a host of other issues and not independently. Chandrashekar (2009) discusses the lack of prudential accounting and disclosure norms on derivative transactions in the context of rising exposure of the Indian banking system to off-balance sheet items. This was observed to result in difficulty in gauging the quantum of market and credit risks that banks are exposed to. Chipalkatti & Rishi (2007) highlight the importance of implementing international standards for disclosures related to loans and credit risk. They make this observation as a response to the findings from their study which indicated an understatement of gross NPAs by weak banks post 1999. Similarly, Chakrabarti (2005) and Bhide, Prasad, & Ghosh (2002) argue that lack of transparency has saddled banks with sizeable NPAs and resulted in understatement of NPAs respectively. Patel (2000) also discusses the issue of lack of disclosures around bad loans and NPAs and argues that information disclosure is key to effective light-handed supervision and market discipline. A similar argument is put forth by Tarapore (2000) based on the observation that the disclosure standards in India are not satisfactory. With respect to UCBs, Iyer (2005) argues that improved transparency of information can be effectively used by depositors as a tool for market discipline.

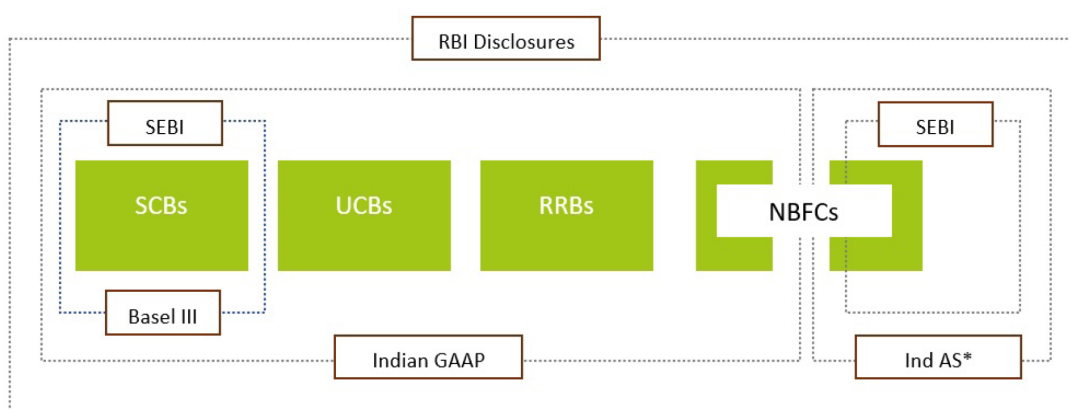
As can be seen from the above review, while there is a broad consensus on the need for enhanced transparency in disclosure standards currently followed in the Indian banking sector, there is a clear lack of empirical studies which look at transparency in disclosure

requirements ex-ante, i.e., as prescribed by the regulations themselves, in a comprehensive manner. With this study, we aim to fill the gap by reviewing various disclosure requirements along with related applicable accounting standards for the quality of their transparency being enabled by them. This is the first step, albeit an important one, in investigating whether transparent disclosures have indeed translated into effective enforcement of market discipline among banks and NBFCs in India.

3. Description of the Analytical Methodology

The objective of the study is to analyse the public disclosures mandated by RBI and SEBI regulations to assess the level of transparency furthered by these disclosures. In assessing these disclosures, we note that most of them are made along with the annual audited accounts as part of the Notes to Accounts. More pertinently, the regulation situates the disclosures in the Notes to Accounts as complementing other information disclosed in the balance sheet as mandated by ICAI's accounting standards. Thus, along with the relevant RBI and SEBI regulations, we have also analysed the relevant portions of the applicable accounting standards.

FIGURE 1: Applicability of Disclosure Regimes on RBI-regulated Entities



* Ind-AS applies to only listed (equity or debt) NBFCs and unlisted NBFCs having a net worth of Rs. 250 Cr and above

To analyse the disclosures through the lens of transparency, we use the framework given by the Basel Committee Publications - Enhancing Bank Transparency in 1998 (BCBS, 1998) (the Framework). The report classifies disclosures by a bank into 6 broad categories (See Box A), which would enable a market participant to satisfactorily assess the activities and financial health of a bank.

Box A: Framework for Enhancing Bank Transparency

The Basel Committee recommends that banks, in regular financial reporting and other public disclosures provide timely information which facilitates market participants' assessment of banks. It has identified the following six broad categories of information, each of which should be addressed in clear terms and appropriate detail to help achieve a satisfactory level of bank transparency:

- I. Financial Performance - this is a broad category that has considerable overlap with other categories like financial position and risk exposures. The information included in this category are -
 - a. Profitability metrics like return on assets, return on equity, net interest margin

- b. Breakdown of income and expenses by type, geography, legal entity, business segments
 - c. Management discussion on the financial performance of the entity
- II. Financial Position (including Capital, Solvency, and Liquidity) - the information under this category is used to estimate the ability of the entity to meet its commitments and liabilities. This includes information like -
 - a. Breakdown of assets, liabilities, and equity by type and duration
 - b. Information on notional amounts and fair value of off-balance sheet items, including contingent liabilities
 - c. Components of regulatory capital
- III. Risk Management Strategies and Practices - information in this category is non-quantitative in nature, unlike the preceding two categories. Information under this category would include -
 - a. Discussions on the risk management philosophy, risk policies, and methodologies of the entity
 - b. Information on the risk management structure, risk measurement, and mitigation methods and tools
- IV. Risk Exposures (including credit, market, liquidity, operational, and other types of risks) - while the previous category included information on the processes employed for risk management, the information disclosed under this category assists in assessing the magnitude, timing, and probability of risks to which the entity is exposed. These are -
 - a. Credit Risk - Disclosures on gross exposures (like loans, trading, and off-balance sheet exposures), types of counterparties, and level of concentration of exposures help estimate the level of credit risk taken on by an entity. The disclosures could also include information on derivative exposures and associated collateral.
 - b. Market Risk - Value at Risk (VaR) disclosures can provide useful data about market risk exposures like interest rates, commodity and equity prices. To help the user understand such model-generated information, the assumptions used in calculations (e.g., confidence level, holding period, etc.) should also be disclosed. In addition, a histogram of the daily profits or exposures over the reporting period may facilitate an understanding of the volatility of risk exposures. Foreign exchange risk is an important component of market risk. Thus, disclosures on market risk could also include information about investments in foreign subsidiaries, discussion on the nature and trend of currency exposures, and effectiveness of hedging strategies.

c. **Liquidity Risk** - Disclosures on liquidity risk should provide information about available liquid assets, their proportion as well as their sources. These disclosures should also be accompanied by a liquidity profile of the entity's liabilities. Also, information about the level of concentration of funding sources is useful in assessing an institution's liquidity risk. This quantitative information needs to be accompanied by a descriptive discussion about the diversity of funding options and contingency plans of the entity.

d. **Operational and Legal Risks** - Operational risks are an important part of the overall risk to which an entity is exposed. Disclosure on operational risks could include information on -

i. Amount and frequency of operational failures, along with qualitative discussions on the major failures and information on how the entity manages them

e. Legal contingencies and a discussion and estimate of potential liabilities

V. **Accounting Policies** - These policies provide a framework to interpret the financial information disclosed by the entity. The accounting policies of entities follow the standards laid down by the national standard-setting authority. Disclosure of accounting policies provide information on -

a. Changes in accounting policies/practice

b. Policies on loan loss provisions

c. Securitisations

d. Policies for determining impairment of assets

e. Income recognition

f. Valuation policies

g. Principles of consolidation

VI. **Basic business, management, and corporate governance information** - Information on the financial position, financial performance, and risk exposures need to be set in context to enable an accurate evaluation of the entity's prospects. This context is provided by information on the entity's business, management, and corporate governance. Information under this category could include -

a. Management discussion about the entity's business strategy and market position. The organisational structure, including information about the board, board committees, senior management and the members, the incentive and

remuneration structure of the entity, especially the policies on the compensation of senior management, information on the extent and nature of transactions with related parties

The categorisation enables us to analyse specific aspects of a bank's activity by allowing us to focus on disclosures belonging to particular categories. Among the categories listed by the report, we restrict our analysis to only disclosures on Financial Position, Risk Management Strategies and Practices, and Risk Exposures. In addition to the scheme of classification, the Framework also outlines five dimensions of transparency using which we assess these disclosures. A rubric for this analysis has been elaborated in Appendix 5.

3.1 Scope of the Study

While the Framework is useful for categorising the various information disclosures of banks, our study restricts its focus to only disclosures that relate to risk exposures, financial position, and risk management policies. The rationale for this restriction is to bring greater alignment between the objectives of this study and Dvara Research's primary focus on financial stability. Indeed, one of the main areas of research and advocacy for Dvara has been on strengthening the risk management practices in banks¹¹. More importantly, these categories of information directly impact a market participant's perception of the riskiness of the bank and thus have implications for systemic stability. In terms of coverage, this study is limited to the disclosures mandated by RBI, SEBI mandated disclosure by listed entities on default on bank loans and loans from financial institutions (FIs)¹² and accounting standards for SCBs (including SFBs), NBFCs, UCBs, and RRBs. While SCBs and listed NBFCs, do make other public disclosures as part of compliance with SEBI regulations, including quarterly financial statements, these disclosures, barring the disclosure of default on loans from FIs, relate to information on corporate governance, business information and accounting policies and hence are not considered for our analysis¹³. With regard to the entities selected, we have considered the major players in the banking system, covering 97% of the banking system.

¹¹See Deepti George, "Modernisation of India's Banking Sector", October 2016, *Dvara Research*. Accessible at: <https://www.dvara.com/research/wp-content/uploads/2016/10/Modernisation-of-Indias-Banking-Sector.pdf>

¹²This disclosure, though applicable to all listed entities, is considered in our analysis only for SI — NBFCs and D-NBFCs. This is because, interbank loans are usually of very short duration and banks have a prudential backstop through the LOLR facility and hence are not likely to default on such loans.

¹³See Section 4 — Information on general body meetings, capital structures and rights attached to shares

Section 30 — Information about events considered material by the board

Section 33 — Reporting of quarterly and yearly financial results

Section 34 — Publishing of Annual Report

Section 36 — Documents and information to the shareholders

of *SEBI Listing Obligations Disclosure Requirements (LODR) Regulations*, September 2015, Securities and Exchange Board of India. Accessible at: https://www.sebi.gov.in/legal/regulations/jan-2020/securities-and-exchange-board-of-india-listing-obligations-and-disclosure-requirements-regulations-2015-last-amended-on-january-10-2020-_37269.html

3.2 Categorisation of Information

The Framework broadly defines the various categories of information presented by banks and provides some indicative examples. However, the categories of information outlined in the Framework are not watertight. We recognise that there is an overlap between the informational categories of risk exposure and financial position. For instance, disclosure on the gross values of loan exposures can be categorised under either financial position or risk exposures. To resolve this, we recognise that disclosures relating to risk exposures need to go beyond just gross values and would have to provide some information on underlying economic risk. In general, we find that information on only gross and nominal values of assets and liabilities, with little information on other dimensions, can be classified as information on financial position. On the other hand, information describing the underlying risk of such exposures would be classified as belonging to risk exposures. To illustrate, information on the gross value of the investment portfolios will be classified under financial position, whereas, if this information is disaggregated by facility rating, then it will be classified under risk exposure, since the disclosure now includes some information on the underlying risk of these exposures. However, we recognise that there is still considerable subjectivity on what constitutes risk-related information. Thus, this method of categorisation is only a working solution and not an exact solution.

3.3 Assessment Methodology

In addition to the categories of information that banks disclose, the Framework also lists five dimensions of transparency, which we briefly outline below -

1. **Comprehensiveness** - the information disclosed should be aggregated and consolidated across several entities and activities to enable market participants to get a complete picture of the risks involved. For instance, the total loan exposure of a bank for a particular product should cover exposures under that product across all geographies and business units.
2. **Relevance and Timeliness** - the information disclosed should be relevant to the decision-making needs of the market participants who use it. For instance, information on the total capital market exposure of a bank might be more relevant to a swap counterparty of the bank than information on a particular credit portfolio. In a similar vein, for the information on capital market exposure to be timely, the information should be disclosed on a daily or weekly basis as market exposures can change significantly over such short durations.
3. **Reliability** - the information disclosed should faithfully represent that which it purports to represent and must reflect the economic substance of events and transactions. However, it has to be recognised that there is a trade-off between relevance and reliability. For instance, estimates of expected NPA slippages might be relevant but not particularly reliable since they are based on assumptions, whose reliability cannot be taken as a given.
4. **Comparability** - the definitions and measurement concepts used to construct information should be comparable across different points in time of the entity's history and also between the entity and its peers.

5. Materiality - a particular piece of information is considered material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information.

The above-mentioned five dimensions of transparency form the core of the Framework. These are the dimensions on which the regulations mandating disclosures are assessed to judge the level of transparency being promoted by these disclosures. To ensure consistency of application, a rubric¹⁴, based on the above dimensions, was devised to analyse the information being disclosed. For each type of entity, the disclosures were analysed regulation-wise and their adequacy, or otherwise, along each dimension of transparency was assessed using the rubric¹⁵. Given that each regulation focuses only on a particular aspect of the business, a meta-analysis of the individual regulatory analyses was done to check whether the inadequacies in individual disclosures were rectified when viewed holistically.

The analytical methodology described above is restricted to only the assessment of the regulations and the disclosures mandated by them. The analysis does not extend to the actual disclosures made by the entities under review. It also does not make any comment on the faithfulness, or otherwise, of the actual disclosures made by entities in accordance with these regulations.

¹⁴See Appendix 5

¹⁵see Appendices 1 to 4

4. Discussion of Analysis and Insights

There are significant differences among the disclosure regimes applicable to the entities examined. In terms of accounting standards, SCBs, UCBs and RRBs follow the Indian Generally Accepted Accounting Principles (Indian GAAP), while Ind-AS has been made applicable so far only for NBFCs¹⁶ (besides being applicable on non-financial corporates¹⁷). Also, within banks, SCBs have Basel III related disclosures whereas UCBs and RRBs have no such requirement. Thus, the forthcoming analysis will be split across SCBs, NBFCs, UCBs and RRBs.

4.1 Scheduled Commercial Banks (SCBs)

All SCBs (excluding some SFBs and payments banks) are listed and have permissions to accept public demand deposits. Thus, they are subject to market discipline by both public investors and depositors, in addition to by private investors. Eighteen RBI regulations mandate some form of disclosures for SCBs. All these disclosures are either shown as part of the Notes to Accounts in the Balance Sheet or as part of the Basel III disclosures. The 'Master Circular on Disclosure in Financial Statements' collates all of the disclosures to be made in the Notes to Accounts that are otherwise spread across various other circulars, while the Basel related disclosures form part of the 'Master Circular on Basel III Capital Regulations'. The financial statements themselves are prepared according to the Indian GAAP. While accounting standards were reviewed as part of our analysis, this was done only where RBI disclosures were found lacking. We analysed only those standards, which contained disclosures related to risk exposures, financial position, and risk management policies. Accordingly, our assessment included AS 11 on 'The Effects of Changes in Foreign Exchange Rates', AS 13 on 'Accounting for Investments', and Guidance Note on 'Accounting for Derivative Contracts' under Indian GAAP. The regulatory analysis was thus confined to these two Master Circulars and three other Master Circulars whose disclosure requirements cover most of the information in the Notes to Accounts and the relevant accounting standards where applicable¹⁸. In the following segment, we give a brief assessment¹⁹ of the overall level of transparency in the disclosure requirements for SCBs and highlight, in greater detail, some of the important themes and insights that emerged from our analysis.

¹⁶Ind-AS applies to only listed (equity or debt) NBFCs and unlisted NBFCs having a net worth of Rs. 250 Cr and above

¹⁷In other words, currently Ind-AS is applicable on all corporates that are listed (equity or debt) and have a net worth of Rs. 250 Cr and above

¹⁸We have excluded circulars providing information on categories other than risk exposure, financial position and risk management policies. The three Master Circulars are - Master Circular on Income Recognition, Asset Classification and Provisioning; Master Circular on Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks; Master Circular on Prudential Framework for Resolution of Stressed Assets

¹⁹See Appendix 1 for a detailed assessment

4.1.1 Transparency among SCBs²⁰ - a basic overview

Applying the Framework to the disclosures made by SCBs, our regulatory analyses reveal that, for the most part, the disclosures fare well on the dimensions of *comprehensiveness*, *reliability*, and *comparability*. The disclosures are *comprehensive* in that they cover all the geographies, business verticals, types of exposures (banking and trading book, and markets. For instance, on asset quality, the disclosures include information on NPAs in both the banking and trading books²¹. This gives a complete picture of the NPA situation in a bank. On the *reliability* dimension, most of the information disclosed is historical and audited. This enhances the *reliability* of the information disclosed. Where there is ex-post divergence, like for NPA numbers²², there are disclosures which provide information on these divergences. Also, the disclosure formats and metrics to be disclosed are defined objectively and applied uniformly across all SCBs. This enables an easy and accurate comparison of information among SCBs.

Regarding *timeliness*, the frequency of disclosure should match the minimum time it takes for risks to materialise for the disclosure to be considered timely. Risk here can be thought of as any event causing a material change in the book of accounts. For credit risk, this is at least 90 days since SCBs are following Indian GAAP, while market risks can manifest in a much shorter period. Thus, the capital, NPA position, and exposures of a bank could substantially change over the period of a quarter, or less. However, this is mitigated largely because Basel Pillar III disclosures on credit risk and capital adequacy are required to be disclosed at least every quarter with the other Pillar III disclosures to be made at least on a half-yearly basis²³.

The disclosures are found wanting in the remaining dimensions of transparency, i.e., on *relevance* and *materiality*. The shortcomings are most pronounced for information on risk exposures, discussed in the next section, and to a much lesser extent for information on financial position. With respect to the information on risk management strategies and practices, the Basel III disclosures mandate such information for each of credit, market, operational, and banking book interest rate risks. The disclosures in the Notes to Accounts have similar information on liquidity risk. However, a major lacuna here is the absence of an integrated picture of the risk management policies of the bank. This is important as it is not always obvious to the consumer of this information what the overall risk management philosophy of the bank is and if there are any blind spots in their risk management processes.

The following sections discuss in greater detail some of the important themes that emerged from our analysis.

²⁰While SCBs would include Small Finance Banks and Payments Bank, given their constrained nature of operations, the following analysis would have limited applicability to them. For instance, the section on credit risk would not apply to Payments Banks as they cannot take on credit risk.

²¹See Appendix 1, Section 1 C for an assessment of the transparency of asset quality related disclosures

²²See Appendix 1, Section 1 C for an assessment of the transparency of asset quality related disclosures

²³See Section 14.9 *Master Circular - Basel III Capital Regulations*, July 1, 2015, Reserve Bank of India. The major Pillar III disclosures that are to be disclosed at least on a half yearly basis are — Securitisation Exposures, Market risk in Trading Book, Operational Risk and Leverage Ratio. Accessible at: <https://rbidocs.rbi.org.in/rdocs/notification/PDFs/58BS09C403D06BC14726AB61783180628D39.PDF>

4.1.2 Inadequate and Inconsistent reporting of information on Risk Exposures

Disclosures on Credit Risk

Similar to information on risk management strategies and practices, the information on risk exposures is also spread across the Notes to Accounts in the annual reports and the Basel III Disclosures. The risk exposure related disclosures forming part of the Notes to Accounts cover many aspects of a bank's business, such as asset quality, provisions, and loss on derivative positions²⁴. However, most of this information is skewed towards describing credit risk. And even with regard to credit risk, the disclosures give little or no information on the creditworthiness of the counterparties to whom the bank has exposure. For instance, the disclosure on the Non-Statutory Liquidity Ratio (Non-SLR) investment portfolio has issuer composition disaggregated by investment grade, below investment grade, unrated and unlisted securities²⁵. However, this simple classification as above or below investment grade for rated securities masks the wide range of rating categories that these investments could occupy. Thus, the information presented is not granular enough to aid the user of the information to accurately estimate the riskiness of the portfolio.

Similarly, in the banking book, there is no disclosure of ageing of standard assets. Assets do not become NPAs overnight and disclosures on the Days Past Due (DPD) buckets of standard assets would go a long way in helping market participants estimate the emergent NPA situation. Further, these disclosures also do not contain any information on the composition of the exposures, both in the trading and banking books, along with risk weight buckets. Such a breakup would give an overall view of the risk composition of the bank's exposure. However, a mitigating factor here is that in the Basel III disclosures, SCBs need to provide information on exposure amounts under three major risk buckets²⁶- *Below 100% risk weight, 100% risk weight and more than 100% risk weight*.

An additional dimension that reveals the riskiness of credit exposures is the economic sector in which they are originated. While RBI regulations and Indian GAAP, as per Accounting Standard (AS) 17 on 'Segment Reporting', do mandate disclosures of assets and liabilities by segment, these segments are not clearly defined, thus leaving considerable scope for discretion to the banks. Consequently, the comparability of these disclosures, both among banks and across time periods, reduces. To mitigate this, RBI would need to clearly define and specify the economic sectors on which it mandates disclosure. The sectors should be defined in a way that they are clearly defined and mutually exclusive.

Risks materialise over time, and metrics on risk exposure have to be complemented with information on the risk drivers affecting the risk composition. This could take the form of qualitative and quantitative disclosures by the management on its analysis of what

²⁴See Appendix 1, Section 1 for an assessment of the transparency level of asset quality disclosures

²⁵The amount of investment in investment grade securities is not disclosed explicitly and could arrived at by subtracting the amounts in the below investment category from the total investment amount

²⁶See Table DF-4, *Master Circular - Basel III Capital Regulations*, July 1, 2015, Reserve Bank of India. Accessible at: <https://rbidocs.rbi.org.in/rdocs/notification/PDFs/58BS09C403D06BC14726AB61783180628D39.PDF>

the risk drivers are and how they are likely to evolve over time. While the management discussion and analysis of the business, which forms part of the annual report, could have some discussion on the risks faced by the business, this is usually done only in very broad and general terms with little or no quantitative analysis. The discussion on risk drivers is also absent in the Basel III disclosures. This gap could be filled by mandating banks to disclose the design and results of their stress tests along with the management's discussion on the same.

Disclosures on Market Risk

With respect to market risk, risk metrics like PV01 and loss due to counterparty default are disclosed for derivatives in the Notes to Accounts. However, there is no disclosure of similar risk metrics for the investment portfolios of banks²⁷. This is important as banks have faced considerable losses in their investment portfolios due to adverse changes in interest rates and their inability to hedge for these risks. For instance, there have been three episodes of adverse yield moves in government bonds in the past 15 years and in all three instances banks' capital position was adversely affected²⁸.

In the Basel III disclosures, SCBs are required to disclose quantitative information on only the capital requirements for Interest Rate Risk, Equity Position Risk, and Foreign Exchange Risk. As elaborated earlier, absolute values of capital requirements or gross exposures do not provide any information on the underlying risk drivers or the sensitivity to change in market movements. More *relevant* metrics like PV01, VaR, and Duration need to be disclosed for the various investment portfolios to enable a better understanding of the risk sensitivity of these portfolios. These metrics need to be disclosed not only at a point in time but also shown as a trend over the reporting period. Additionally, the assumptions and methodologies used to estimate market risk needs to be disclosed. While banks are expected to disclose the methodologies used to arrive at the fair value of derivative contracts as per Indian GAAP²⁹, this does not extend to other parts of the investment book of the bank.

Disclosures on Operational Risk

On operational risk, there is a general qualitative disclosure, under RBI's Basel III disclosure requirements, on the strategies, processes, policies and a mention of the operational risk capital assessment for which the bank qualifies³⁰. These disclosures on operational risk can be made more relevant by mandating disclosures on the amount and extent of insurance cover for the various operational risks faced by banks, claims related data and the insurance companies underwriting these risks. Additionally RBI can also mandate banks to disclose information on frauds. The FSR already publishes this information at an aggregate banking system level.³¹ Getting

²⁷See Appendix 1, Section 1 C for an assessment on the transparency level of investment disclosures

²⁸See "Understanding and Managing Interest Rate Risks at Banks", Speech by Dr. Viral Acharya, January 15, 2018, *Reserve Bank of India*. Accessible at: https://www.rbi.org.in/scripts/BS_SpeechesView.aspx?Id=1053

²⁹See *Accounting Standards (AS): Disclosure Checklist*, February 2020, The Institute of Chartered Accountants of India. Accessible at <https://resource.cdn.icaai.org/58286asb47542as.pdf>

³⁰See Table DF-8, *Master Circular - Basel III Capital Regulations*, July 1, 2015, Reserve Bank of India. Accessible at: <https://rbidocs.rbi.org.in/rdocs/notification/PDFs/58BS09C403D06BC14726AB61783180628D39.PDF>

³¹See Section III (A) of Chapter III of the Financial Stability Report, RBI, Dec 2019. Accessible at: <https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=953>

information from each bank would better enable investors distinguish banks with better operational management from others. The qualitative disclosures on operational risk are complemented with quantitative disclosures on customer complaints, awards passed by the banking ombudsman and penalties imposed by RBI in the Notes to Accounts. The disclosures in the Notes to Accounts give the absolute numbers on complaints pending, received and redressed during the year. Similarly, absolute numbers are disclosed regarding the awards passed by the banking ombudsman that were unimplemented, those that were implemented, and additional awards passed during the year. These disclosures are *comprehensive* in that they cover all customer complaints, as defined under the banking ombudsman scheme. However, these are only absolute numbers, and almost no disaggregated data is required to be disclosed by the bank³². Also, there is no information on the aging schedule of the complaints. To that extent, these disclosures are inadequate on the dimensions of *relevance* and *materiality*.

Disclosures on Liquidity Risk

In contrast to credit risk and market risk, there is a considerable amount of disclosure on liquidity risk in the Notes to Accounts of SCBs' financial statements. The main disclosures include both quantitative and qualitative disclosures on the components of the LCR, the main drivers of LCR, the composition of liquid assets, and the concentration of funding sources. However, like the other disclosures in the Notes to Accounts, these disclosures are to be published only annually³³, thus reducing their *timeliness*. Also, the disclosures on liquidity risk fall a bit short on *reliability* as the guidelines specify a minimum haircut to be applied for non-level 1 assets³⁴. Banks can apply greater haircuts depending on their estimation of market liquidity. Thus, without additional disclosures on if and by how much banks applied haircuts greater than the regulatory minimum, the aggregate numbers of non-level 1 assets do not convey the full picture.

4.1.3 Disclosure of stress test results

The Framework was developed in 1998, long before the use of stress tests became common in banking in India³⁵. Thus, it is not surprising that they do not find a mention in the categories of information. However, since then, stress tests have become an integral part of the bank's capital management process³⁶. The design of the stress test scenarios gives an insight into the management's view on the relevant risk drivers while the results of the stress tests indicate the impact of the evolution of these drivers on the balance sheet of the bank. All this constitutes *material* and *relevant* information for the stakeholders of the bank. Currently, none of this is mandated to be published by SCBs.

³²RBI's circular on Strengthening of Grievance Redress Mechanism in Banks, Jan 2021, expands the disclosures on customer complaints by mandating disclosures on the top 5 grounds of complaints. This reveals some level of granularity on complaint information.

³³See Appendix 1, Section 1 D for an assessment of the transparency of liquidity risk disclosures

³⁴Non - Level 1 assets comprise of assets that are not as liquid as the level 1 assets and have significant price volatility. This means that they can only be sold at a price lower than the holding price. This makes them weaker than level 1 assets as buffers for liquidity risk.

³⁵RBI introduced stress testing for banks in 2007 — See *Guidelines on Stress Testing*, June 26, 2007, Reserve Bank of India. Accessible at: <https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=3605&Mode=0>

³⁶See *Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline - Implementation of the New Capital Adequacy Framework*, July 1, 2008, Reserve Bank of India. Accessible at: <https://www.rbi.org.in/scripts/NotificationUser.aspx?Mode=0&Id=4353>

TABLE 1: Summary of Transparency of Disclosures Applicable to SCBs

Disclosure Category	Particulars of Disclosure	Comprehensiveness	Relevance & Timeliness	Reliability	Comparability	Materiality
Financial Position	Capital	Inadequate	Inadequate	Inadequate	Adequate	Inadequate
	Exposure	Inadequate	Inadequate	Adequate	Adequate	Adequate
	Income recognition and Asset classification	Adequate	Inadequate	Inadequate	Adequate	Adequate
Credit Risk	Asset quality	Adequate	Inadequate	Adequate	Adequate	Inadequate
	Restructuring of Stressed Assets	Inadequate	Inadequate	Inadequate	Inadequate	Inadequate
Liquidity Risk	Liquidity risk management practices	Adequate	Inadequate	Inadequate	Adequate	Inadequate
Operational Risk	Operational and conduct risk	Adequate	Inadequate	Adequate	Adequate	Inadequate
Market Risk	Investment	Inadequate	Inadequate	Adequate	Adequate	Inadequate

Based on authors' qualitative judgement

TABLE 2: Summary of Transparency Assessment of Risk Exposure Related Disclosures of SCBs

Type of Risk	Applicable Disclosure Requirements	Frequency	Shortfall/ Desired Disclosures
Credit Risk	Advances and exposures - top 20 accounts (amount and % share to total), secured/unsecured (amount)	Annual	None
	NPA - top 4 NPA accounts (amount), NPA by economic sector and major counterparty type (% share to total advances in the sector), gross and net NPAs, overseas NPAs, movement of NPAs and provisioning, NPAs (gross amount) by sub-standard, doubtful 1, doubtful 2, doubtful 3, loss	Quarterly	None
	Non-Performing Investments (amount)	Quarterly	None
	Ageing schedule of past-due loans and NPAs by geography (optional)	Quarterly	None
	For portfolios subject to standardised approach, bank's outstanding by — Below 100% risk weight, 100% risk weight and Above 100% risk weight	Quarterly	None
	Risk management policies and practices	Quarterly	Analysis and management discussion of the design and results of the stress test for credit risk (annual)
	Non-SLR portfolio issuer composition split by investment grade, below investment grade, unrated and unlisted	Annual	Exposures split by more granular rating categories

	Total amount of Securitisation exposures, securitised losses by exposure type, amount of assets intended to be securitised within a year, aggregate amount of on and off-balance sheet securitised exposures and associated capital charges	Half Yearly	None
	Restructuring of Advances - Movement of accounts restructured (including unstructured facilities), no. of borrowers, amount outstanding, provisioning (all disclosures by asset classification under CDR, SME, and other mechanisms)	Annual	Loan accounts referred to IBC - total value, % share of total loan book, % share of NPA, and status; bifurcation by restructured/non-restructured facilities; distinction between diminution in fair value and regular NPA provisioning; changes in base lending rate and provisioning; qualitative discussion of large accounts;
Liquidity Risk	Concentration risk - Top 20 largest depositors, both amount and % share	Annual	Funding by significant instrument/ product/ counterparty (all by amount and % share)
	ALM maturity pattern	Annual	Discussion on management of cash flow gaps
	Liquidity Coverage Ratio (LCR)	Annual	Rationale for haircuts applied
	Institutional set-up for risk management	Annual	Stress test results
	Risk management policies and practices	Annual	Analysis and management discussion of the design and results of the stress test for liquidity risk
Market Risk	Gross and net value of investments (within and outside India), Provisions and movement of provisions on investments, Face value of repo and reverse repo transactions.	Annual	PV01, VaR and duration of the investment portfolios split by issuer type and rating classes
	Risk exposure to derivatives - notional value, counterparty credit risk, concentration risk, PV01, Max and Min of 100*PV01 during the year	Annual	None
	Aggregate securitised exposures (retained and purchased) subject to market risk approach, by exposure type. Aggregate amount of capital requirements for securitisation exposures	Half Yearly	None
	Risk management policies and practices	Annual	Analysis and management discussion of the design and results of the stress test for market risk
	Capital requirements for interest rate risk, equity position risk and foreign exchange risk	Annual	None

Based on authors' qualitative judgement

Appendix 1 captures a detailed assessment of transparency of all disclosure requirements applicable to SCBs.

4.2 Non-Banking Financial Companies

In applying the Framework to assess transparency of disclosure requirements applicable to NBFCs, we have restricted our assessment to only those NBFCs that have permissions to raise their liabilities from public investors or depositors. The rationale is that only these market participants depend primarily on public disclosures to inform their actions. Accordingly, NBFCs-D (both listed and unlisted) and listed NBFCs-ND-SI are part of the analysis. While NBFCs-D are subject to market discipline by public depositors and (or) public investors, market discipline operates through the channel of public investors in the case of listed NBFCs-ND-SI³⁷.

Both NBFCs-ND-SI and NBFCs-D (listed and unlisted) are subject to disclosure requirements contained in 'Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016' issued by the RBI (referred to as "RBI Master Direction" in the rest of Section 4.2). A majority of these disclosures are required to be presented as part of Notes to Accounts in the balance sheets of the NBFCs. The rest are to be presented as part of 'Schedule to the Balance Sheet' which is required to be appended to the balance sheets of the NBFCs, or as in the case of quarterly disclosures on liquidity risk management, on their official websites. However, where these disclosures were found to be lacking on one or more dimensions of transparency, relevant accounting standards issued by the ICAI were evaluated to assess whether they help fill these gaps in disclosure requirements.

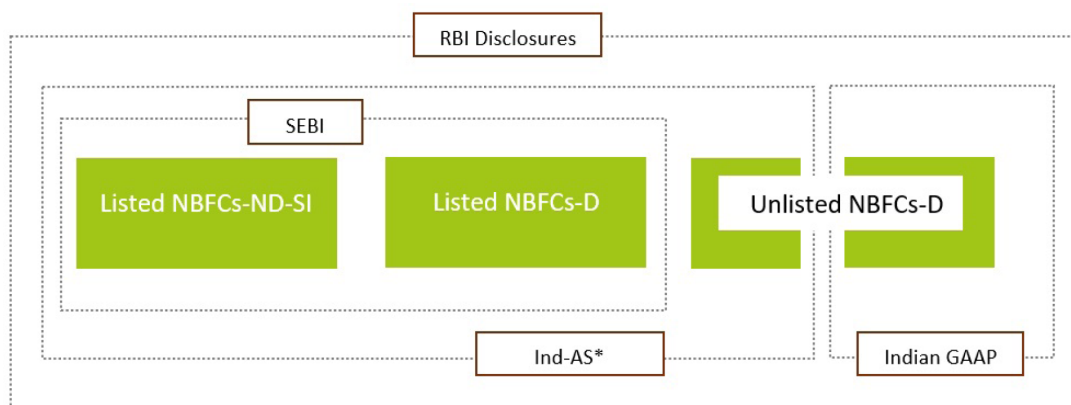
Currently, in India, two different accounting frameworks are applicable to NBFCs for the preparation of financial statements - Indian GAAP and Ind-AS³⁸. In both these accounting frameworks, we looked at those standards which contain disclosures that relate to risk exposures, financial position, and risk management policies, only where, as stated above, RBI disclosure requirements were found to be lacking. Accordingly, our assessment included AS 11 on 'The Effects of Changes in Foreign Exchange Rates', AS 13 on 'Accounting for Investments', and Guidance Note on 'Accounting for Derivative Contracts' under Indian GAAP, in addition to Ind-AS 1 on 'Presentation of Financial Statements' and Ind-AS 107 on 'Financial Instruments: Disclosures' under Ind-AS. Across the categories of information assessed for transparency in this report, i.e., financial position, risk exposures, and risk management strategies and practices, the disclosures mandated by RBI and those required under Indian GAAP and Ind-AS were found to interact in different ways. This had varying implications on the overall transparency of the information required to be reported. This has been discussed in detail with examples in the subsequent sections. In addition to RBI's disclosure requirements and those required under accounting standards issued by the ICAI, the SEBI circular requiring listed entities to

³⁷Unlisted NBFCs-ND-SI, unlisted and listed Non-SI NBFCs are excluded from this analysis as the former accesses only wholesale funds and the latter are subjected to minimal prudential regulations by the RBI and are akin to listed non-financial corporates. Hence, they have been left out of our analysis.

³⁸NBFCs with net worth of Rs. 500 crore or more, NBFCs having net worth less than Rs. 500 crore but with listed equity or debt instruments, and unlisted NBFCs having net worth of Rs. 250 crore and above but less than Rs. 500 crore are required to comply with IndAS. The remaining NBFCs are required to comply with Indian GAAP. See Rule 4 of the Companies (Indian Accounting Standards) Rules, 2015. Accessible at: [http://ebook.mca.gov.in/Childwindow1.aspx?pageid=25023&type=RU&ChildTitle=The%20Companies%20\(Indian%20Accounting%20Standards\)%20Rules,%202015#b](http://ebook.mca.gov.in/Childwindow1.aspx?pageid=25023&type=RU&ChildTitle=The%20Companies%20(Indian%20Accounting%20Standards)%20Rules,%202015#b)

disclose information on loans from banks/ FIs and unlisted debt securities has also been evaluated³⁹. For an overview of the applicability of various disclosure requirements see Figure 2.

FIGURE 2: Applicability of Disclosure Regimes on NBFCs-ND-SI and NBFCs-D



In the following sections, we provide a brief overview of the overall transparency levels in the disclosures required from NBFCs-ND-SI and NBFCs-D and highlight some of the major themes and insights that emerged from our analysis. We have discussed these findings by classifying these NBFCs under two broad groups:

1. Listed NBFCs-ND-SI and Listed NBFCs-D which are subject to market disciplining mechanism by public investors and (or) public depositors - For this sub-set of NBFCs, disclosure requirements under RBI Master Direction, Ind-AS, and SEBI were assessed.
2. Unlisted NBFCs-D which are subject to market disciplining mechanism by public depositors - For this sub-set of NBFCs, disclosure requirements under RBI Master Direction and Ind-AS or Indian GAAP (as applicable) were assessed.

4.2.1 Non-Banking Financial Company - Listed Systemically Important Non-Deposit taking Company and Listed Deposit taking Company

4.2.1.1 Transparency among Listed NBFCs-ND-SI and Listed NBFCs-D - a basic overview

At an overall level, for listed NBFCs-ND-SI and listed NBFCs-D, hereinafter referred to as “listed NBFCs”, the disclosures on their financial position are relatively more transparent when compared to the disclosures on risk exposures (credit, market, and liquidity risks). For example, disclosures on the borrowings of the listed NBFCs include information on carrying values of borrowings, amounts overdue (including interest accrued and not paid), and borrowings by instrument type. In addition to this, listed NBFCs are also

³⁹As discussed in Section 3.1, listed NBFCs do make other public disclosures as part of compliance with SEBI regulations, including quarterly financial statements. However, these disclosures relate to information on corporate governance, business information and accounting policies and hence are not considered for our analysis.

required to make disclosures to stock exchanges on defaults in payment of interest / instalment obligations on credit obtained from banks / FIs and unlisted debt securities. This disclosure is required to be made both for each instance of default as well as on a quarterly basis on persisting defaults. These disclosures provide the information required to help stakeholders understand the borrowing profile of the listed NBFCs. Hence, the disclosures cover *material* and *relevant* information on the borrowing profile of the listed NBFCs. The disclosures are also *timely*. With respect to capital, however, the disclosures are inadequate. These disclosures, for example, could be made more *comprehensive* and *relevant* if the information on components of the capital ratio, such as risk-weighted assets, with a breakup of off-balance sheet and on-balance sheet items are provided⁴⁰.

Comparability of information across NBFCs, and along their history, was one dimension along which disclosures were found to be most transparent across all information categories. *On the other hand*, except for information related to liquidity risk, *timeliness* of disclosures was of particular concern as disclosures across the board are annual in nature. When compared to the frequency at which potentially significant changes to the financial health of the listed NBFCs can take place (given that transactions of lending, borrowing, and investing occur throughout a financial year), annual disclosures fall short when it comes to ensuring that key financial information is continuously made available to various stakeholders. While disclosures on liquidity position⁴¹, except for the ALM maturity pattern which is annual, are made on both a quarterly and an annual basis, disclosure on other information such as capital, NPA, and value of investments are made only annually.

4.2.1.2 Disclosures on Risk Management Practices

Within risk-related disclosures, disclosures on risk management practices were found to be the most transparent. Here, many of the shortcomings with respect to the inadequacy in disclosure requirements of RBI have been overcome by Ind-AS disclosures. For example, RBI disclosure requirements on liquidity risk restricts itself to 'institutional set-up' without going into specifics of what should be included. It does not specifically cover information on methods and assumptions which go into computing the quantitative estimates. This makes the disclosures less *reliable* and less *comparable*. However, Ind-AS requires⁴² NBFCs to provide a qualitative discussion on each type of risk, including liquidity risk, covering exposures to risk and how they arise, the NBFC's objectives, policies, and processes for managing the risk, the methods used to measure the risk, and any changes in the two from one period to the other.

4.2.1.3 Disclosures on Liquidity Risk

With respect to the various risks that listed NBFCs are exposed to, disclosures were found to be least transparent on liquidity risk. Details that are *relevant* to obtaining an

⁴⁰See Appendix 2.1, Section 1 for transparency assessment of disclosures related to financial position.

⁴¹RBI's directions require listed NBFCs to make broadly 3 sets of disclosures on liquidity. These include disclosures on concentration risks under 'Liquidity Risk Management Framework' on their official website for quarterly disclosures and as part of annual balance sheet disclosures, asset liability maturity pattern as part of annual balance sheet disclosures, and LCR under guidelines issued on the same subject as part of annual balance sheet disclosures.

⁴²See Appendix 2.1, Section 2 for Ind-AS disclosure requirements on Risk Management Strategies and Practices

understanding of the risk and certain *material* information are absent in the disclosure requirements. For example, information on significant shortcomings in liquidity observed by a NBFC *during* the quarter/ year is unavailable as the LCR figures presented on a quarterly/ yearly basis are an *average* of monthly/ daily observations. Hence, a disclosure to this effect where the NBFC was unable to meet the LCR requirements *during* the reported period would be relevant. For this purpose, a threshold limit in terms of the shortfall can be prescribed. In addition, *material information*, such as results of stress tests conducted, as required under Guidelines on Liquidity Risk Management Framework, are not part of the disclosure requirements. On *reliability*, disclosure on LCR provides information on the ability of the applicable NBFCs to meet their liquidity needs for a 30 calendar-day time horizon under an assumed *significantly severe* liquidity stress scenario⁴³. Accordingly, RBI has prescribed minimum haircuts to be applied to high-quality liquid assets (HQLA) which are to be used in arriving at the LCR. However, there is no explicit requirement to disclose higher haircuts, if any, applied by the NBFCs along with qualitative information on the assumptions that went into arriving at the haircuts. Additionally, the requirement to disclose assumptions used in computing liquidity risk using the various methods is absent.

4.2.1.4 Disclosures on Market Risk

Regarding market risk, the disclosure requirements were found to be inadequate. For example, RBI's directions require listed NBFCs to provide information on market risks, and the associated credit risks, that arise from investments made in the real estate sector and capital markets, and mortgages and securities acquired from these markets. However, the disclosure is not *comprehensive* enough as real estate and capital market are not the only sectors through which NBFCs might be exposed to market risks. While RBI regulations fall short with respect to requiring disclosures on sources of market risks, Ind-AS requires listed NBFCs to disclose information on expected impact from such market risk exposures on their financials through sensitivity analysis (e.g., VaR). It would be useful if this analysis is also accompanied by information on trends in such impact over a period of time. Specifically with respect to investments, disclosures can include the impact of credit ratings downgrades on the investment portfolio of the listed NBFCs. Expected disclosure requirements for derivative instruments vary and *material* information is absent across each of them⁴⁴. Across all derivatives, information such as the value of the underlying exposure being hedged, tenure of the contracts, probability of risk materialising, expected volatility in such risks, and concentration of such risks (both counterparty credit risk and market risk) are *material* to understanding the market risks and their potential impact on the financial health of the listed NBFCs and are currently lacking.

4.2.1.5 Disclosures on Credit Risk

Disclosures on credit risk exposures of listed NBFCs are more transparent in comparison to that for liquidity and market risks, particularly on aspects of *comprehensiveness* and *materiality*. However, on information related to total advances and NPAs, further gran-

⁴³See *Liquidity Risk Management Framework for Non-Banking Financial Companies and Core Investment Companies*, November 4, 2019, Reserve Bank of India. Accessible at: <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11719&Mode=0>

⁴⁴See Appendix 2.1, Section 2.3. for transparency assessment of disclosures on market risk.

ularity would add more relevance to the information disclosed. For example, disclosure requirements do not include information on total advances extended by the listed NBFCs by economic sector. This would be useful to understand the exposure of the listed NBFC to different real sectors of the economy and possible credit risk arising from such an exposure pattern. The same information would also be useful when reading the disclosure on concentration of NPAs by sector⁴⁵. Here, only the % of the NPA in the sector to overall advances in the sector is required to be disclosed. However, the proportion of each sector in the overall loan portfolio of the NBFC would make this information more *relevant*⁴⁶. Also, for such a sector-wise disclosure to be *comparable*, the economic sectors should be clearly defined and be mutually exclusive.

4.2.1.6 Interaction between Ind-AS and RBI Disclosure Requirements

On the quantitative side, Ind-AS disclosures may come across as making up for some of the inadequacies in RBI disclosure requirements. Indeed, it provides relatively more detailed guidelines on the treatment of financial instruments as compared to the earlier applicable Indian GAAP for these listed NBFCs. However, while they provide useful information not covered by RBI, they cannot be viewed as necessarily complementing the overall information mandated by the latter. This is because, Ind-AS prescribes 'what' needs to be disclosed and leaves it to the judgement of the NBFCs to decide on 'how' they want to make the disclosures. For example, consider the criteria used for grouping/ categorisation of similar financial information. As discussed earlier, RBI's directions require NBFCs to disclose exposures to capital markets and real estate. However, these are only absolute values of the exposures at the end of the reporting period. Information on associated market risk and their expected impact on financial assets/ liabilities from volatility in factors such as interest rates and foreign exchange rates are missing. Ind-AS on the other hand requires NBFCs to disclose sensitivity analysis capturing the effects of reasonably probable changes in each type of market risk variable on the profit or loss account and equity of the NBFC. However, it leaves it to the discretion of the NBFCs to decide on the appropriate grouping/ categorisation⁴⁷ of the information to be presented. Hence, the information presented through the two do not necessarily complement each other. While overly prescriptive mandates might tend to overlook idiosyncrasies in each NBFC's business, RBI can define a basic set of disclosures/ information categories to make them more *comparable* and *reliable*. This can also ensure that certain key information is mandatorily covered.

⁴⁵Under *Sector-wise NPAs* listed NBFCs are required to disclose % of NPAs to total advances in each of the following categories of loans - agriculture & allied activities, MSME, corporate borrowers, services, unsecured personal loans, auto loans, and other personal loans.

⁴⁶See Appendix 2.1, Section 2.2 for assessment of transparency of disclosures on credit risk/ asset quality.

⁴⁷Ind-AS 107 on 'Financial Instruments: Disclosures' only provides guidance on sensitivity analysis and states that "an entity decides how it aggregates information to display the overall picture without combining information with different characteristics about exposures to risks from significantly different economic environments". Accessible at - <https://indasaccess.icaai.org/download/2019/asb0719/255/255asb-cias-2019-20-vol1-7.pdf>

TABLE 3: Summary of Transparency of Disclosures Applicable to Listed NBFCs-ND-SI, Listed NBFCs-D, and Unlisted NBFCs-D with Net Worth Equal to or Greater than Rs. 250 Crore

Disclosure Category	Particulars of Disclosure	Comprehensiveness	Relevance & Timeliness	Reliability	Comparability	Materiality
Financial Position	Capital	Inadequate	Inadequate	Inadequate	Adequate	Adequate
	Investment	Adequate	Inadequate	Adequate	Adequate	Adequate
	Borrowings availed	Adequate	Adequate	Adequate	Adequate	Adequate
	Securitisation	Inadequate	Adequate	Adequate	Adequate	Inadequate
Credit Risk	Concentration of advances, exposure, and NPA	Adequate	Inadequate	Adequate	Inadequate	Adequate
	Restructuring of advances	Inadequate	Inadequate	Inadequate	Adequate	Adequate
Liquidity Risk	Liquidity risk exposure	Adequate	Inadequate	Inadequate	Inadequate	Inadequate
	Liquidity risk management practices	Adequate	Adequate	Adequate	Adequate	Adequate
Market Risk	Exposures to Sectors and Specific Borrower/ Advance Type	Inadequate	Inadequate	Adequate	Adequate	Inadequate
	Risk Exposure in Derivatives	Adequate	Inadequate	Adequate	Adequate	Inadequate
	Market Risk Management Practices	Adequate	Adequate	Adequate	Adequate	Adequate

Based on authors' qualitative judgement

TABLE 4: Summary of Transparency Assessment of Risk Exposure Related Disclosures of Listed NBFCs-ND-SI, Listed NBFCs-D, and Unlisted NBFCs-D with Net Worth Equal to or Greater than Rs.250 Crore

Type of Risk	Applicable Disclosure Requirements	Frequency	Shortfall/ Desired Disclosures
Credit Risk	Advances and exposures - top 20 accounts (amount and % share to total), secured/ unsecured (amount)	Annual	Advances by economic sector (amount and % share)
	NPA - top 4 NPA accounts (amount), NPA by economic sector (% share to total advances in the sector), gross and net NPAs, gross and net NPAs by related/ other parties, movement of NPA and provisioning	Annual	% share of top 4 NPA accounts to gross NPA and total advances
	Details on collateral held	Annual	None
	Movement of 12 month and lifetime expected credit loss (ECL) (Ind-AS)	Annual	None
	Gross carrying value, 12 month and lifetime ECL (Ind-AS)	Annual	None

	Risk management policies and practices (Ind-AS)	Annual	None
	Restructuring of Advances - Movement of accounts restructured (including unstructured facilities), no. of borrowers, amount outstanding, provisioning (all disclosures by asset classification under CDR, SME, and other mechanisms)	Annual	Loan accounts referred to IBC - total value, % share of total loan book, % share of NPA, and status; bifurcation by restructured/non-restructured facilities; distinction between diminution in fair value and regular NPA provisioning; changes in bare lending rate and provisioning; qualitative discussion
Liquidity Risk	Concentration risk - Top 20 large deposits, top 10 borrowings, funding by significant instrument/ product/ counterparty (all by amount and % share), and stock ratios	Quarterly	None
	ALM maturity pattern	Annual	Discussion on management of cash flow gaps
	Liquidity Coverage Ratio (LCR)	Quarterly	Shortfalls in LCR during the quarter; haircuts applied; basic set of qualitative disclosures
	Maturity Analysis of financial assets and liabilities (Ind-AS)	Annual	None
	Institutional set-up for risk management	Quarterly	Stress test results
	Risk management policies and practices (Ind-AS)	Annual	Assumptions of methods used to measure liquidity risk
Market Risk	Amount of exposure to real estate and capital markets from investments and mortgages and securities	Annual	All economic sectors or sectors with material exposures; expected impact on financial assets/ liabilities from volatility in market risks and trend in such impacts over a period of time; models used for impact estimation; concentration risks; ratings of investments
	Risk exposure to derivatives - notional value, counterparty credit risk, concentration risk (not consistently applied across different instruments)	Annual	Value of the underlying exposure being hedged; tenor of the derivatives; market and counterparty credit risks; concentration risk; probability and volatility of risk; collateral/ margin money; underlying models and assumptions
	Sensitivity Analysis (Ind-AS)	Annual	None
	Risk management policies and practices	Annual	Changes if any from previous period
	Risk management policies and practices (Ind-AS)	Annual	None

Based on authors' qualitative judgement

For a detailed assessment of transparency of each of the disclosure requirements, see Appendix 2.1.

4.2.2 Non-Banking Financial Company - Unlisted Deposit taking Company

As indicated in Figure 2, Unlisted NBFCs-D can be divided into the following two categories based on the applicability of disclosure requirements under accounting standards issued by the ICAI.

4.2.2.1 Unlisted NBFCs-D with Net Worth Equal to or Greater than Rs. 250 Crore

Except for SEBI guidelines, which are applicable to only listed entities, the disclosure requirements under RBI Master Direction and Ind-AS are also applicable to Unlisted NBFCs-D with net worth equal to or greater than Rs. 250 crore. Hence, the themes and insights that emerged from the assessment of transparency of these disclosure requirements, as discussed under Section 4.2.1 and as summarised in Table 3 and Table 4, equally apply to this sub-set of NBFCs⁴⁸, with one exception. The non-applicability of the SEBI circular requiring disclosures on defaults by listed NBFCs on credit from banks/FIs and unlisted debt would mean that the disclosures on borrowing profile would be inadequate. Information on such defaults, if any, as and when they occur, or on a quarterly basis disclosing the defaults that have occurred during the reported period would ensure *material* information is available on a *timely* basis on the ability of these NBFCs to meet their interest and principal repayments as and when they become due, since these NBFCs raise term deposits from the retail public.

4.2.2.2 Unlisted NBFCs-D with Net Worth Less than Rs. 250 Crore

In this section, we discuss some of the key themes and insights that emerged from our assessment of the disclosure requirements applicable to Unlisted NBFCs-D with net worth less than Rs. 250 crore, hereinafter referred to as “applicable NBFCs”. The disclosure requirements assessed include those under Indian GAAP and the RBI Master Direction.

4.2.2.3 Transparency among Unlisted NBFCs-D with Net Worth Less than Rs. 250 Crore— a basic overview

At an overall level, both financial position and risk-related disclosures were found to perform poorly on transparency. The disclosures on financial position were most transparent on *comparability* and *relevance* dimensions. For example, with respect to investments held by the applicable NBFCs, the disclosures are relevant and cover details such as the gross value of investments, provision for depreciation, the duration for which the investments are intended to be held, along with the break-up of investments by instrument type. With respect to risk exposures and risk management practices, the disclosures were found to perform poorly on all dimensions of transparency.

Comparability is one dimension along which the disclosure requirements are most transparent across all information categories. This is due to the fact that the applicable regulations and accounting standards have been consistent in the metrics and the basis for the information required to be disclosed. On the other hand, disclosures under all information categories were found to be least transparent on the dimension of *timeliness*. All disclosures, except for disclosures related to LCR and liquidity risk management, are

⁴⁸See Appendix 2.1 for detailed assessment of transparency of RBI and Ind-AS disclosure requirements.

annual in nature. This was found to be inadequate as potentially significant changes to the financial health of the applicable NBFCs can take place (given that transactions of lending, borrowing, and investing occur throughout a financial year) at a much higher frequency. This can lead to non-availability of key financial information on a timely basis for the decision-making needs of various stakeholders.

4.2.2.4 Disclosures on Financial Position

Disclosures related to financial position were found to be least transparent along the dimensions of *comprehensiveness and materiality*.⁴⁹ For example, while disclosure requirements on investments cover broad metrics such as carrying value of investments, impairment, if any, in their values, and tenure for which they are meant to be held (as current or long-term), they do not provide information on the purpose for which they are meant to be held, i.e., for trade, sale, or to be held till maturity. This can shed light on the risks carried by the applicable NBFCs through its Held for Trade (HFT)/ Available for Sale (AFS) investments. While *material*, this information also adds to the *comprehensiveness* of the disclosures. Related to the borrowing profile of the applicable NBFCs, information on defaults in repayments of interest and principal amounts that occurred during the reported period can help indicate potential financial stress and the ability of the NBFCs to meet future obligations. However, this material information is unavailable.

4.2.2.5 Disclosures on Risk Management Practices

Disclosures on risk management practices were found to be inadequate across all types of risks faced by applicable NBFCs, i.e., credit risks, market risks and liquidity risks. Indian GAAP requires applicable NBFCs to disclose the overall financial risk management objectives, financial risks faced, and approach towards managing such risks. However, it does not require them to disclose how they identify, measure, and monitor such risks, along with details on models, methods and assumptions used in assessing such risks. While it does recognise the usefulness of some of these details, the language used indicates that the disclosures are not mandatory. The requirements from RBI itself on risk management practices cover only liquidity risk and risks from exposure to derivatives. On the former, RBI requires applicable NBFCs to disclose information on the institutional set-up for liquidity risk management without requiring other key information discussed earlier. As can be seen, with the lack of proper disclosure requirements from both RBI and Indian GAAP, there is scope for non-reporting of such *material* information and this can lead to inconsistencies in the information reported, rendering the disclosures *non-comparable* and *unreliable*⁵⁰.

4.2.2.6 Disclosures on Credit Risk

On risk-related disclosures, information on credit risk was found to be inadequate on the dimensions of *relevance, reliability, and materiality*. Specifically, on *relevance*, several key data points which are also *material* to understanding the credit risk exposure of the applicable NBFCs were not available. For example, loans extended by an NBFC by economic sector with percentage share of each of them in overall loan portfolio is not

⁴⁹See Appendix 2.2, Section 1. for transparency assessment of disclosures on financial position.

⁵⁰See Appendix 2.2, Section 2 for transparency assessment of disclosures on risk management practices.

available. While useful to understand possible credit risks from such an exposure pattern, this information can also put the already required disclosure on concentration of NPA by economic sector into perspective. It should also be noted that most of the disclosures on credit risk are focussed on loans which are recognised as non-performing by the applicable NBFCs and there is insufficient focus on performing or standard assets. NBFCs for which Ind-AS is applicable, for example, are required to report credit risk in the form of 12-month ECL and lifetime ECL. These two categories capture information on exposures before they become credit impaired⁵¹. Such information on movement in quality of loans within the standard assets category can help keep the public depositors informed of the emerging NPA situation. RBI already requires applicable NBFCs to create Special Mention Accounts (SMA) to identify incipient stress in accounts before they turn into NPA. This information can be made public. Additionally, on NPAs themselves, disclosure by asset quality, i.e., sub-standard, doubtful, and loss assets is not available⁵².

4.2.2.7 Disclosures on Market Risk

On market risks, the disclosure requirements were found to be inadequate along all dimensions except for *comparability*. For example, the information on exposures to market risks are not *comprehensive* and cover only those arising from the real estate sector and capital markets. However, the disclosure is not *comprehensive* enough as real estate and capital market are not the only sectors through which NBFCs might be exposed to market risks. It should be noted that information on market risks, while also inadequate, stops short at providing disclosures on sources of such exposures and does not go further into disclosing information on the expected impact from such market risk exposures on the financial position of the applicable NBFCs. Such information can include the expected impact from credit ratings downgrades, the impact of interest rate changes on AFS and HFT portfolios (e.g., modified duration, PV01, and trends in such impact over a period of time). Additionally, the *reliability* of such disclosures can be ensured by providing information on the models and assumptions used in assessing these market risks, including changes, if any, in such approaches from the previous period. With respect to risk exposure in derivatives, while the disclosures *comprehensively* cover all types of derivative contracts that the applicable NBFCs might enter into, certain *material* information is missing from the requirements. Across all derivatives, these include information such as the value of the underlying exposure being hedged, tenure of the contracts, probability of risk materialising, expected volatility in such risks, and concentration of such risks (both counterparty credit risk and market risk and their potential impact on the financial health of the applicable NBFCs⁵³).

4.2.2.8 Disclosures on Liquidity Risk

Disclosures on liquidity risk exposure, while *comprehensive*, were found to be inadequately transparent on other dimensions. Information that is *relevant* and *material* to

⁵¹As per Ind AS 109 on 'Financial Instruments', 12-month ECL represents losses from default events that are possible within next 12 months and lifetime ECL represent possible losses over the lifetime of exposures which have seen a significant increase in credit risk since they were initially recognized in the books of the NBFC. See <https://indasaccess.icai.org/download/2019/asb0719/257/257asb-cias-2019-20-vol1-9.pdf>

⁵²See Appendix 2.2, Section 2.1.1 for transparency assessment of disclosures on credit risk.

⁵³See Appendix 2.2, Section 2.3 for transparency assessment of disclosures on market risk.

understanding the liquidity risk position and their management by applicable NBFCs were not available. Information on significant shortcomings in liquidity observed by an NBFC *during* the quarter/ year is unavailable as the LCR figures presented on a quarterly/ yearly basis are an *average* of monthly/ daily observations. Hence, a disclosure to this effect where the NBFC was unable to meet the LCR requirements *during* the reported period along with reasons and the remedial measures taken would be relevant. For this purpose, a threshold limit in terms of the shortfall can be prescribed. With respect to the *materiality* of disclosures, RBI's Liquidity Risk Management Framework requires applicable NBFCs to conduct stress tests on a regular basis for various short-term/ protracted stress scenarios. However, there is no requirement for these to be made publicly available⁵⁴. On *reliability*, disclosure on LCR provides information on the ability of the applicable NBFCs to meet their liquidity needs for a 30 calendar-day time horizon under an assumed *significantly severe* liquidity stress scenario⁵⁵. Accordingly, RBI has prescribed minimum haircuts to be applied to high-quality liquid assets (HQLA) which are to be used in arriving at the LCR. However, there is no explicit requirement to disclose higher haircuts, if any, applied by the NBFCs along with qualitative information on the assumptions that went into arriving at the haircuts. Additionally, requirement to disclose assumptions used in computing liquidity risk using the various methods is absent.

⁵⁴See Appendix 2.2, Section 2.2 for transparency assessment of disclosures on liquidity risk.

⁵⁵See *Liquidity Risk Management Framework for Non-Banking Financial Companies and Core Investment Companies*, November 4, 2019, Reserve Bank of India. Accessible at: <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11719&Mode=0>

TABLE 5: Summary of Transparency of Disclosures Applicable to Unlisted NBFCs-D with Net Worth Less than Rs. 250 Crore

Disclosure Category	Particulars of Disclosure	Comprehensive-ness	Relevance & Timeliness	Reliability	Comparability	Materiality
Financial Position	Capital	Inadequate	Inadequate	Inadequate	Adequate	Adequate
	Investment	Inadequate	Inadequate	Inadequate	Adequate	Inadequate
	Borrowings Availed	Adequate	Inadequate	Adequate	Adequate	Inadequate
	Securitisation	Inadequate	Adequate	Adequate	Adequate	Inadequate
Credit Risk	Concentration of Advances, Exposure, and NPAs	Adequate	Inadequate	Inadequate	Inadequate	Inadequate
	Restructuring of Advances	Inadequate	Inadequate	Inadequate	Adequate	Adequate
Liquidity Risk	Liquidity Risk Exposure	Adequate	Inadequate	Inadequate	Inadequate	Inadequate
	Liquidity Risk Management Practices	Inadequate	Adequate	Inadequate	Inadequate	Inadequate
Market Risk	Exposures to Sectors and Specific Borrower/ Advance Type	Inadequate	Inadequate	Adequate	Adequate	Inadequate
	Risk Exposure in Derivatives	Adequate	Inadequate	Inadequate	Adequate	Inadequate
	Market Risk Management Practices	Inadequate	Adequate	Inadequate	Inadequate	Inadequate

Based on authors' qualitative judgement

TABLE 6: Summary of Transparency Assessment of Risk Exposure Related Disclosures of Unlisted NBFCs-D with Net Worth Less than Rs. 250 Crore

Type of Risk	Applicable Disclosure Requirements	Frequency	Shortfall/ Desired Disclosures
Credit Risk	Advances and exposures - top 20 accounts (amount and % share to total), secured/ unsecured (amount)	Annual	Advances by economic sector (amount and % share); emerging NPA situation for loans and advances under Standard Assets category
	NPA - top 4 NPA accounts (amount), NPA by economic sector (% share to total advances in the sector), gross and net NPAs, gross and net NPAs by related/ other parties, movement of NPA and provisioning	Annual	% share of top 4 NPA accounts to gross NPA and total advances
	Gross NPA, provisioning for NPA	Annual	Composition of Gross NPA and Provisioning for NPA by asset quality (sub-standard, doubtful, loss assets)

	Management of overall credit risk (Indian GAAP)	Annual	Risk identification, measurement, monitoring, and underlying methodology and assumptions, changes if any from previous period
	Restructuring of Advances - Movement of accounts restructured (including un-restructured facilities), no. of borrowers, amount outstanding, provisioning (all disclosures by asset classification under CDR, SME, and other mechanisms)	Annual	Loan accounts referred to IBC - total value, % share of total loan book, % share of NPA, and status; bifurcation by restructured/non-restructured facilities; distinction between diminution in fair value and regular NPA provisioning; changes in bare lending rate and provisioning; qualitative discussion
Liquidity Risk	Concentration risk - Top 20 large deposits, top 10 borrowings, funding by significant instrument/ product/ counterparty (all by amount and % share), and stock ratios	Quarterly	None
	ALM maturity pattern	Annual	Discussion on management of cash flow gaps
	Liquidity Coverage Ratio (LCR)	Quarterly	Shortfalls in LCR during the quarter; haircuts applied; basic set of qualitative disclosures
	Institutional set-up for risk management	Quarterly	Stress test results
	Management of overall liquidity risk (Indian GAAP)	Annual	Risk identification, measurement, monitoring, and underlying methodology and assumptions, changes if any from previous period
Market Risk	Amount of exposure to real estate and capital markets from investments and mortgages and securities	Annual	All economic sectors or sectors with material exposures; investments by credit ratings categories and movements; expected impact on financial assets/ liabilities from credit ratings downgrade, volatility in market risks (e.g., modified duration analysis) and trend in such impacts over a period of time; models and assumptions used for impact estimation; concentration risks
	Risk exposure to derivatives - notional value, counterparty credit risk, concentration risk (not consistently applied across different instruments)	Annual	Value of the underlying exposure being hedged; tenor of the derivatives; market and counterparty credit risks; concentration risk; probability and volatility of risk; collateral/ margin money; underlying models and assumptions
	Methodology used to arrive at fair value of derivative contracts, the extent of gains/ losses	Annual	None
	Risk management policies and practices with respect to derivatives	Annual	Changes if any from previous period

	Management of overall market risk (Indian GAAP)	Annual	Risk identification, measurement, monitoring, and underlying methodology and assumptions, changes if any from previous period
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Based on authors' qualitative judgement

4.3 Urban Co-operative Banks

Unlike SCBs, UCBs are not listed but have permissions to accept public deposits. Thus, only the depositor channel of market discipline is applicable to them. The assessment of transparency of UCBs' disclosures was based on the RBI circular 'Balance Sheet of Banks - Disclosure of Information' which collates the disclosures required of all UCBs. These disclosures are required as part of the Notes to Accounts. Where RBI disclosures were found lacking, we looked at those standards under Indian GAAP which contain disclosures that relate to risk exposures, financial position, and risk management policies. Accordingly, our assessment included AS 11 on 'The Effects of Changes in Foreign Exchange Rates', AS 13 on 'Accounting for Investments', and Guidance Note on 'Accounting for Derivative Contracts' under Indian GAAP. Additionally, the regulatory analysis refers to one other regulation on market risk which applies to only those UCBs with Authorised Dealer (AD) Category 1⁵⁶ license. In the following sections, we briefly discuss the overall level of transparency of UCB's disclosures and discuss in detail the main findings from the analysis.

4.3.1 Transparency among UCBs - a basic overview

Disclosures belonging to the categories of financial position and more so, of risk exposures of UCBs, performed poorly on the dimension of *materiality*. This is especially in the case of disclosures related to NPAs. For instance, details such as sector-wise NPAs, the concentration of NPAs among certain entities or borrowers, and slippages of NPA amounts across the classifications of substandard and doubtful are not included in the disclosures⁵⁷. Another omission is of the details - number of accounts, amount of credit outstanding, and provision against the diminution of fair value due to restructuring of accounts. The current set of disclosures on NPAs further lacks in how they pertain to past information and provide no sense of future position which could be gained by disclosure items on incipient stress, i.e., movements of past-due credit amounts before they become NPAs or results of stress tests of the bank which could give a picture of the potential movement of NPAs. Other results of stress tests such as the impact on capital position during stress scenarios also need to be published. The omission of these details is a severe hindrance to the accurate assessment of the risk position of the UCBs. Also, there are currently no disclosures on the liquidity risk position of UCBs. This is a major lacuna as these entities offer demand deposits.

⁵⁶Authorised Dealer (AD) Category 1 bank is one of the three types of authorised persons for money changing activities approved by the RBI under the Foreign Exchange Management Act, 1999 (FEMA). Refer: *Frequently Asked Questions, Money Changing Activities, RBI FAQs*. Accessible at: <https://m.rbi.org.in/Scripts/FAQView.aspx?Id=54#1>

⁵⁷See Appendix 3, section 1.a for an assessment of the transparency level of NPA disclosures

4.3.2 Disclosures relating to Financial Position

The disclosures regarding the financial position of UCBs are mostly inadequate with the disclosures faring well only on the dimensions of *comprehensiveness* and *comparability*. The disclosures on capital and provisions contain very little information, as several details such as the amounts of risk-weighted assets, amounts of Tier I and Tier II capital, the instruments employed within the different components of capital, provision coverage ratio, the extent of provisions made in excess of the regulatory minimum are all not included in the disclosures. These omitted details make a significant difference in the interpretation of the financial position of the bank. Moreover, the figures in the capital and provision disclosures do not fare well on *reliability*, as divergences from the earlier stated figures due to divergences of NPA amounts are not required to be published. Further, due to the changes in NPA amounts manifesting over a much shorter period than annually (which is the current periodicity), the capital and provision disclosures fall short on *timeliness* as well.

4.3.3 Disclosures on Market Risk

The disclosures on market risk are required of only those UCBs with AD Category 1 licenses, making the disclosure information not *comparable* across all the other UCBs without AD Category 1 licenses which are subject to elements of market risk (other than foreign exchange risk), such as interest rate risk. Further, these sets of disclosures have limited information - quantitative disclosures require only the capital requirements for interest rate risk, equity position risk, and foreign exchange risk, and qualitative disclosures require only specifying the portfolios covered by the standardized approach. Although these limited disclosures may be considered commensurate to the level of exposure undertaken by the UCB, there are other material items that are not included such as qualitative disclosures on where the risk is arising from given the limited scope of exposure, and the effectiveness of any hedging procedure employed.

TABLE 7: Summary of Transparency of Disclosures Applicable to UCB

Disclosure Category	Particulars of Disclosure	Comprehensiveness	Relevance & Timeliness	Reliability	Comparability	Materiality
Financial Position	Capital	Adequate	Inadequate	Inadequate	Adequate	Inadequate
	Provision	Adequate	Inadequate	Inadequate	Inadequate	Inadequate
	Exposures	Inadequate	Inadequate	Adequate	Adequate	Adequate
Risk Exposures	Credit Risk	Adequate	Inadequate	Inadequate	Adequate	Inadequate
	Market Risk	Inadequate	Adequate	Adequate	Inadequate	Inadequate

Based on authors' qualitative judgement

TABLE 8: Summary of Transparency Assessment of Risk Exposure Related Disclosures of UCBs

Type of Risk	Applicable Disclosure Requirements	Frequency	Shortfall/ Desired Disclosures
Credit Risk	Advances against real estate, construction, housing; advances against shares and debentures; advances to directors, their relatives, companies/firms in which they are interested:	Annual	Advances by top economic sector (amount and % share)
	NPA - Gross NPA, Net NPA	Annual	Sub-standard advances amount; doubtful advances amount; GNPA and NNPA as a ratio of advances; NPAs by economic sector; % share of top 4 NPA accounts; divergences in NPAs from earlier published numbers
	Movement in NPA	Annual	Additions & reductions in sub-standard advances amount; additions & reductions in doubtful advances
	Non-performing non-SLR investments - opening balance, additions during the year, reductions during the year, closing balance	Annual	Amounts in sub-standard and doubtful categories
	Restructured accounts: No. of borrowers, amount outstanding and sacrifice (diminution in fair value) for each of standard, sub-standard and doubtful advances restructured across the categories of housing loans, SME debt structuring and 'others.'	Annual	Across other relevant categories — such as Corporate Debt Restructuring scheme; number and amounts of repeatedly restructured accounts; changes in BPLR and/ or changes in sacrifice amounts due to BPLR changes
Market Risk	Qualitative disclosures: the general qualitative disclosure requirement for market risk including the portfolios covered by the standardized approach	Annual	Sources of risk; hedging strategy used; effectiveness of strategy
	Quantitative disclosures: the capital requirements for: a) interest rate risk b) equity position risk c) foreign exchange risk	Annual	None
Liquidity Risk	None	Annual	Concentration risk - Top 20 largest depositors, both amount and % share
	None	Annual	ALM maturity pattern

Based on authors' qualitative judgement

Appendix 3 contains a detailed assessment of transparency of all disclosure requirements applicable to UCBs.

4.4 Regional Rural Banks

Unlike SCBs, RRBs are not listed but have permissions to accept public deposits. Thus, only the depositor channel of market discipline is applicable to them. The assessment of transparency of RRBs' disclosures was based on the NABARD Master Circular - 'Disclosure in Financial Statements by RRBs - Notes on Accounts' and a supplementary RBI Circular - 'Additional Disclosures by Regional Rural Banks in Notes to Accounts'. These two circulars collate all the disclosures required of RRBs. Where RBI disclosures

were found lacking, we looked at those standards under Indian GAAP which contain disclosures that relate to risk exposures, financial position, and risk management policies. Accordingly, our assessment included AS 11 on 'The Effects of Changes in Foreign Exchange Rates', AS 13 on 'Accounting for Investments', and Guidance Note on 'Accounting for Derivative Contracts' under Indian GAAP. In the following section, we give a brief assessment of the overall level of transparency enabled by RBI's regulations. We also discuss in detail the main insights from the analysis.

4.4.1 Transparency among RRBs - a basic overview

All the risk exposures-related disclosures were inadequate along the dimensions of *relevance*, *timeliness*, *reliability*, and *materiality*. In the case of both asset quality and asset-liability management, the disclosures are not *timely* since they are only disclosed annually, whereas the picture of asset quality of both advances and investments is subject to changes even in a quarter. A similar gap exists for disclosures on asset-liability management. Regarding asset quality, there is insufficient granularity especially in the disclosure of restructured accounts where amounts within specific restructuring schemes are not disclosed, thus reducing the *relevance* of the disclosures. The *reliability* of asset quality disclosures too is low as any divergences found in the classification of NPAs are not required to be disclosed.

In the case of the investment portfolio, disclosure along the categorization into AFS/HFT/Held to Maturity (HTM) is not required, thus providing an incomplete picture of the risk position of the bank. Further, in the case of non-SLR investments, the disclosures have details of only issuer-wise amounts of 'below investment grade securities', 'unrated securities', and 'unlisted securities.' In the case of both above and below investment grade, there are several more gradations of ratings which could indicate vastly different credit qualities of the securities - their absence from the disclosure format implies that changes to the portfolio quality due to ratings migration are not available, and this compromises the adequacy of these disclosures with respect to the risk exposure of the bank.

With respect to *materiality*, as is the case with UCBs, no forward-looking information on the asset quality of the loan portfolio is published. In the case of asset-liability management disclosures, several items of material importance in assessing the liquidity risk profile of the bank such as the extent of liquidity available (as may be given by the amount of HQLA), amount and reason for mismatches (if any) in the maturity buckets, especially in the shorter-term ones, and other qualitative disclosures such as details of the risk policies and procedures employed, are not required to be published.

4.4.2 Disclosures relating to Financial Position

All the disclosures relating to the financial position are lacking in the dimension of *relevance and timeliness*. There is insufficient granularity especially in the case of capital-related disclosures which do not include several *relevant* items such as the amounts of risk-weighted assets, amount of capital funds, amounts of different instruments within the components of Tier I and Tier II capital, all of which are essential for a meaningful interpretation of the capital position of the bank. As seen in the case of NPAs, the lack of *timeliness* affects the disclosures of capital and provisions as well, which are bound

to change with changes in NPA at a higher frequency than the annual periodicity of the current disclosures. Similar to UCBs, the figures of capital and provisions are not *reliable* either, due to divergences of these amounts not being disclosed.

TABLE 9: Summary of Transparency of Disclosures Applicable to RRBs

Disclosure Category	Particulars of Disclosure	Comprehensive-ness	Relevance & Timeliness	Reliability	Comparability	Materiality
Financial Position	Capital	Adequate	Inadequate	Inadequate	Adequate	Inadequate
	Provision	Adequate	Inadequate	Inadequate	Adequate	Adequate
	Exposures	Inadequate	Inadequate	Adequate	Inadequate	Adequate
Risk Exposures	Credit Risk	Adequate	Inadequate	Inadequate	Adequate	Inadequate
	Liquidity Risk	Adequate	Inadequate	Inadequate	Adequate	Inadequate

Based on authors' qualitative judgement

TABLE 10: Summary of Transparency Assessment of Risk Exposure Related Disclosures of RRBs

Type of Risk	Applicable Disclosure Requirements	Frequency	Shortfall/ Desired Disclosures
Credit Risk	NPA - Net NPAs to Net Advances (%); sector-wise advances	Annual	Sub-standard advances amount, doubtful advances amount; % share of top 4 NPA accounts; divergences in NPAs from earlier published numbers
	Movement in NPAs (gross); Movement of Net NPAs	Annual	Additions & reductions in sub-standard advances amount, additions & reductions in doubtful advances
	Non-performing non-SLR investments - opening balance, additions during the year, reductions during the year, closing balance	Annual	Amounts in sub-standard and doubtful categories
	Details of loan assets subject to restructuring, rescheduling, renegotiation across standard assets, sub-standard assets and doubtful assets.	Annual	Categorisation across schemes
Liquidity Risk	Concentration of deposits	Annual	None
	ALM maturity Pattern	Annual	Choice of volatility estimation methodology; Amount of HQLA; Discussion on the management of maturity mismatches;

Based on authors' qualitative judgement

Appendix 4 contains a detailed assessment of transparency of all disclosure requirements applicable to RRBs.

5. Policy Recommendations

Based on our analysis, we suggest some recommendations that RBI can consider implementing to enhance the transparency of disclosures mandated by it -

1. Greater and more consistent disclosure of risk metrics for all entities covered: A common thread running through our analysis is the inadequate disclosures of risk-related information for SCBs, NBFCs, UCBs, and RRBs. The focus of disclosure needs to shift from just disclosing gross values of exposures and capital charges, to disclosing more qualitative and quantitative information on the underlying risk drivers and the models used for valuing these risks.
2. Disclosure of Stress Test results for all entities covered: The design of the stress test scenarios gives an insight into the management's view on the relevant risk drivers while the results of the stress tests indicate the impact of the evolution of these drivers on the balance sheet of the bank. This information is forward-looking and complements the historical information disclosed in the risk metrics.
3. Bringing greater alignment between RBI mandated disclosures and Ind-AS: Much of the gap in RBI's disclosure requirements for NBFCs (where Ind-AS is applicable) with regard to qualitative information/ discussion have been filled by Ind-AS. However, on the quantitative side, while Ind-AS makes up for the shortfall in some of the gaps left by RBI's disclosure requirements, they cannot be viewed as improving the overall transparency levels of the latter. This is because, while Ind-AS prescribes 'what' needs to be disclosed, it leaves it to the judgement of the NBFCs to decide on 'how' they want to make the disclosures. While overly prescriptive mandates might tend to overlook idiosyncrasies in each NBFC's business, RBI can define a basic set of disclosures, to make them more comparable and reliable, and also ensure that certain key information is mandatorily covered.⁵⁸
4. Extending Ind-AS for SCBs, UCBs, and RRBs: Our analysis for NBFCs finds that the disclosures under Ind-AS complement RBI's disclosures in many areas. Extending Ind-AS to banks would not only aid greater transparency of their balance sheets but also harmonise the accounting standards applicable across all entities. It would also complement RBI's disclosures in many areas. In particular, the disclosures on expected credit loss, mandated by Ind-AS, would enhance the relevance of information on credit risk. Additionally, due to ex ante provisioning under ECL, the investors can get a better idea on how well banks are able to assess their credit risk. ECL provisioning could also reduce volatility of profits.
5. Mandating quarterly disclosures for NBFCs, UCBs, and RRBs: Lack of timeliness of disclosures is a common concern across NBFCs, UCBs and RRBs as almost all disclosures are only annual. While there is no scientific basis to determine the frequency of disclosures, the minimum duration for materialisation of risk, compliance costs, and cognitive limitations of information users are some of the factors that need to be considered. Considering the above factors, we believe that disclosures on certain aspects like capital, NPAs, and credit risk need to be made at least on a quarterly basis. This is also in line with Basel III disclosure requirements.

⁵⁸See Section 4.2.1.6 on Interaction between Ind-AS and RBI Disclosure Requirements for a detailed explanation

6. Conclusion and Areas for Further Study

Our detailed analysis presents some important insights into the disclosure regime governing the financial statements related to disclosures of SCBs, NBFCs, UCBs, and RRBs. Primary among them is the absence of adequate disclosures, both quantitative and qualitative, on risk exposures and underlying risk drivers. Another important insight is the lack of timely disclosures for NBFCs, UCBs and RRBs since almost the entirety of their disclosures are published only annually. Having only annual disclosures could end up masking substantial risks that can build up during a year. These are areas that need immediate attention.

The present study focussed entirely on the Indian context and dealt with a limited set of information categories. While risk-related information is an important component in assessing the financial health of an entity, focussing only on the risk aspect will only offer a blinkered view of the entity. Corporate governance and other business-related information are also important in evaluating the economic prospects and financial health of an entity. Future research could consider these additional categories of information also.

Transparent disclosures, while necessary to enable market discipline, are not sufficient. The linkages between transparent disclosure and actions of market participants are not well understood in the Indian context. Our work on transparency could be extended to empirically analyse how the actual disclosures of these entities compare against the transparency framework and consequently identify if, and how, these disclosures influence market participants.

Finally, we theorise that the amount and complexity of disclosures mandated by a regulator is linked to its supervisory capacity and the business model flexibility it allows its regulated entities to have. We hope to explore this hypothesis in a future paper by analysing and comparing these characteristics and their interactions, across various jurisdictions, including India.

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Appendices

Appendix 1. Scheduled Commercial Banks

The banking sector plays an important role in the Indian economy. As of June 2020, the total outstanding credit from the banking sector was more than Rs. 100 lakh crores⁵⁹. Banks also provide more than 90% of the credit flowing to the private real sector⁶⁰. Given their central role in the economy and the variety and number of stakeholders they engage with, the continued financial health of these entities becomes critical. Equipping these stakeholders with accurate information about the financial status of banks is one way to ensure that market discipline is effective in incentivising banks to maintain their financial health.

Given this context, this section attempts to assess each regulatory notification, which mandates some form of public disclosure, put out by RBI along the dimensions of transparency as outlined in our analytical framework. The regulations analysed here pertain only to the following aspects of business -

- I. Financial Position (including Capital, Solvency, and Liquidity)
- II. Risk Management Strategies and Practices
- III. Risk Exposures (including credit, market, liquidity, operational and other risks)

1. Regulation - Master Circular: Disclosure in Financial Statements - 'Notes to Accounts'⁶¹

Background

This Master Circular consolidates all regulations issued to banks on the disclosures that need to be made in the 'Notes to Accounts' of their Financial Statements. The disclosures mandated under these regulations cover a variety of information, including on financial position, risk exposures, and corresponding risk management policies. For ease of analysis, the master circular has been broken down into the following components and the level of transparency under each component has been analysed separately -

1. Capital
2. Exposure
3. Asset Quality
4. Liquidity Management

⁵⁹Table 1.1 Outstanding Credit of Scheduled Commercial Banks according to population group, DBIE

⁶⁰Data obtained from BIS. Accessible at: <https://www.bis.org/statistics/totcredit.htm?m=6%7C380%7C669>

⁶¹See *Master Circular - Disclosure in Financial Statements - 'Notes to Accounts'*, July 1, 2015, Reserve Bank of India. Accessible at : https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9906

In the forthcoming analyses, it should be kept in mind that the disclosures mandated in this Master Circular are only the minimum and are to be analysed in addition to other disclosures as required under the accounting standards.

A) Notes to Accounts: Capital related Disclosures

Capital is the buffer banks use to absorb losses and protect people's deposits⁶². Capital adequacy ratios provide a measure of the ability of the bank to absorb the risk arising due to its business⁶³. The capital-related disclosures should thus enable its intended audience to arrive at an accurate picture of the capital position of the bank and consequently its solvency. To assess this, we analyse the disclosures using our transparency framework. These disclosures would come under the Financial Position category. The following information is covered under this section -

- Capital Adequacy
- Draw down of Reserves
- Taxes on Income

Dimension	Assessment	Summary
Comprehensiveness	The regulation, along with the currently applicable accounting standards for banks, mandate disclosing the various components of the regulatory capital aggregated across all subsidiaries of the bank ⁶⁴ . Given that the disclosures cover all the components of capital, it can be said that it is comprehensive. However, when viewed with the broader lens of capital adequacy, the disclosures are quite inadequate. This is because the disclosures on capital adequacy focus only on the numerator and nothing is disclosed about the denominator - the amount of risk-weighted assets. Additionally, the disclosures only mandate quantitative information to be presented. There is no requirement for a qualitative discussion on the management of capital by the bank.	Inadequate
Relevance & Timeliness	The capital of a bank can get eroded if any of the business risks that it takes materialises. Risk here can be thought of as any event causing a material change in the accounts. In the case of credit risk, this can take at least 90 days while market risks can manifest in a much shorter period. Thus, the capital of a bank could substantially deteriorate over the period of a quarter. However, the disclosures mandated here are presented only annually. This reduces the timeliness of the information disclosed. While the disclosure covers most of the relevant metrics relating to the capital position of a bank, nothing is disclosed with regard to its risk-weighted assets. There needs to be more granular disclosure on the composition of the risk weighted assets and their risk weights. Also, given that Perpetual Debt Instruments (PDIs) issued by banks form a part of their capital, banks must disclose the rating of these instruments periodically.	Inadequate

⁶²See "Why do banks need to hold capital?", May 23, 2019, *European Central Bank*, Banking Supervision. Accessible at: https://www.bankingsupervision.europa.eu/about/ssmexplained/html/hold_capital.en.html

⁶³See "Banking on leverage", Keynote Address by Stefan Ingves, then Chairman of Basel Committee on Banking Supervision, February 26, 2014. Accessible at: <https://www.bis.org/speeches/sp140226.htm>

⁶⁴See 'AS 21 - Consolidated Financial Statements', *Accounting Standards (AS): Disclosure Checklist*, February 2020, The Institute of Chartered Accountants of India. Accessible at: <https://resource.cdn.icaai.org/58286asb47542as.pdf>

Reliability	The disclosures show the capital position of the bank at a point of time in the past. However, there is no requirement for the bank to disclose any changes in capital position due to a restatement of NPA numbers. This constitutes a gap in the reliability of the information disclosed.	Inadequate
Comparability	The format and the elements of the information being disclosed have not had any significant change over the past few years, thus ensuring comparability over time. Also, these disclosures apply, without any modification, to all banks thereby ensuring comparability across entity types.	Adequate
Materiality	These disclosures only present information on the historical capital position of the bank. Equally material information would be the results of stress test scenarios on the capital levels and the management's view on the same.	Inadequate

B) Notes to Accounts: Exposure related Disclosures

Banks, as part of their normal business, give loans to individuals and enterprises. They also invest in the securities, both debt and equity, of firms. An understanding of the composition of such exposures is essential to assess the magnitude, timing, and the probability of materialisation of risks that the bank is exposed to. These disclosures would come under the Financial Position category. The following information is covered under this section -

- Investments
- Derivatives
- Exposures
- Disclosure of Letter of Credits (LOCs)
- Concentration of Deposits, Advances, Exposures, and NPAs
- Sector Wise Advances
- Off-Balance Sheet SPVs sponsored
- Securitisation Exposures
- Credit Default Swaps (CDS)
- Intra Group Exposures
- Unhedged Foreign Currency Exposures

Dimension	Assessment	Summary
Comprehensiveness	These regulations mandate disclosures on exposures of the bank on both its banking and trading book. With regard to the banking book, the disclosures mandate information at a sectoral level while the disclosures in the investment book are captured across entity/portfolio/derivative instruments. Also, when combined with current accounting standards, they cover exposures of all legal entities over which the bank has a controlling interest. However, with regard to the trading book, investments in AFS/HFT categories are not disclosed. Given that these categories carry significant amounts of exposure and require capital, disclosures should be made on the average amount of investments in these categories throughout the year, their rating, and duration for all investment portfolios. While there is disclosure on sector-wise advances, the regulation hard codes some of these, like the real estate sector. This sector, while an important source of risk for any bank, is not the only sector that any bank has significant exposure to. These disclosures should be extended to all other important sectors as well.	Inadequate
Relevance and Timeliness	The value of investments which are marked to market can change on a real-time basis. The value of loan exposures can change on a daily basis. However, this does not necessitate daily disclosures. The periodicity of disclosures should be long enough to allow for a material change in the economic position before it is disclosed. While there is no scientific method to determine what is the right periodicity of disclosure, cognitive constraints of the user, and compliance costs for the disclosing entity can be used to limit the frequency of disclosure. Given the above context and the fact that a loan takes 90 days to go from standard to NPA, we think these disclosures should be made every quarter. For the most part, the disclosures on financial position contain relevant metrics. However, the disclosures could also include duration wise split of assets and liabilities.	Inadequate
Reliability	The information disclosed here is historical and not an estimate of the future. Almost all information that is disclosed contains the information for the previous year also. While this is not as transparent as also disclosing if there were any changes to the numbers previously disclosed, these disclosures still enable the users of the information to meaningfully compare the numbers over the years and assess if there has been any change in the reported numbers and thus ensure their reliability	Adequate
Comparability	These disclosures apply to all commercial banks, excluding RRBs. Also, there is no special carve-out for any particular bank or type of bank. This ensures that the information disclosed is comparable across all banks. The format and the elements of the information being disclosed have not had any significant change over the past few years, thus ensuring comparability over time.	Adequate
Materiality	The information disclosed in the Notes to Accounts elaborate on the items in the balance sheet and provide context to them. To that extent, they are material to the reasonable assessment of the financial health of any bank.	Adequate

C) Notes to Accounts: Asset Quality and Operational Risk related Disclosures

The assets of a bank, unlike other non-financial enterprises, are mostly opaque and illiquid with no market-based mechanism for valuing them⁶⁵. Also, the revenue from these assets accrues over a period of years during which the asset needs to remain standard. Hence,

⁶⁵Diamond, D., & Rajan, R. (2001). Banks and Liquidity. *The American Economic Review*, 91(2), 422-425. Retrieved October 26, 2020, from <http://www.jstor.org/stable/2677801>

getting an accurate picture of the quality and fair value of assets of banks is critical to assessing their financial health. These disclosures would come under the Risk Exposures category. The following information is covered under this section -

- Asset Quality
- Provisions and Contingencies
- Floating Provisions
- Provision Coverage Ratio
- Movement of NPAs
- Customer complaints
- Penalties imposed by the RBI

Dimension	Assessment	Summary
Comprehensive-ness	These regulations mandate disclosures on the quality of assets of the bank on both its banking and trading book, including details on restructured advances. In the banking book, the disclosures include information on NPAs across all geographies, product lines and business verticals. With regard to the trading book, the disclosures mandate providing information on provisions and aggregate NPAs on the non-SLR portfolio. Also, when combined with current accounting standards, they cover exposures of all legal entities over which the bank has a controlling interest.	Adequate
Relevance and Timeliness	<p>A bank broadly faces 4 types of risk - 1) Credit Risk; 2) Market Risk; 3) Operational Risk and 4) Liquidity Risk. In this section C, we confine ourselves to only credit, operational and market risks. These risks materialise over varying durations. For instance, credit risk due to loans takes at least 90 days to materialise, whereas market risks can manifest on a real-time basis. For the information being disclosed to be timely, the periodicity of disclosure should ideally be as frequent as the minimum time taken for risk to materialise. However, these disclosures are made on an annual basis. Thus, the timeliness of these disclosures is inadequate.</p> <p>With regard to relevance, a meaningful analysis of the risk exposures of a bank would require information on the various components and sources of these risk exposures. The information disclosed is disaggregated across sectors, derivative instruments, issuers, and geographies. However, little is known about the creditworthiness of the borrowers to whom the bank has exposure. For instance, there is some information on the amount of securities below and above investment grade. But this binary classification subsumes almost a dozen different rating classes and thus is not granular enough. More information relating to the creditworthiness of the borrowers is required. Also, while the banks have to report divergences in NPA classification, this information is required to be reported only at an overall level and not disaggregated at a sector level. This presents a gap when assessing the relevance of disclosures. Similarly, with regard to investments, risk metrics like VaR exceedances, PV01, and duration for all investment portfolios need to be disclosed. It should be noted here that RBI disclosures include PV01 for derivatives but not investments. With regard to operational risk, while there is disclosure of absolute numbers of customer complaints, there is no granular information available of these complaints and their value.</p>	Inadequate
Reliability	All information disclosed under asset quality is historical in nature. Additionally, the banks also have to report material divergences in the classification of NPAs, after assessment by RBI.	Adequate

Comparability	These disclosures apply to all commercial banks, excluding RRBs. Also, there is no special carve-out for any particular bank or type of bank. This ensures that the information disclosed is comparable across all banks. The format and the elements of the information being disclosed have not had any significant change over the past few years, thus ensuring comparability over time.	Adequate
Materiality	While historical information on NPAs is necessary to estimate the true value of assets of a bank, it might not be sufficient in making an informed decision about the expected level of NPAs that would occur in the future. Equally material information would be the results of stress test scenarios on the NPA levels. This gives an estimation, of both the bank and RBI, of the NPA levels under various stress scenarios.	Inadequate

D) Notes to Accounts: Liquidity Management related Disclosures

Given that banks finance a substantial part of their assets through demand deposits, the liquidity risk faced by a bank is significant and needs to be managed well⁶⁶. Even if a bank has high-quality assets, mismanagement of liquidity risks can lead to a run on the bank and thereby adversely affect its solvency. Hence it is important to get a clear picture of the liquidity risk of, and its management by, a bank. These disclosures would come under the Risk Exposures category. The following information is covered under this section -

- Asset Liability Management
- Liquidity Coverage Ratio

Dimension	Assessment	Summary
Comprehensive-ness	These regulations mandate disclosures on the Asset-Liability maturity pattern buckets and the LCR of the bank, with the latter being aggregated and disclosed on a quarterly basis. The disclosure also includes a qualitative discussion of the composition, risks, and drivers of the LCR. Also, when combined with current accounting standards, they cover exposures of all legal entities over which the bank has a controlling interest.	Adequate
Relevance and Timeliness	<p>The LCR is a summary metric indicating the extent to which a bank is able to cover its cash outflows. The disclosures include a fairly detailed breakup of the constituents of LCR and its calculation. This increases the relevance of the information presented. However, it is unclear from the language whether this includes any significant shortcomings on liquidity observed by the bank during the year. Hence, a disclosure to this effect where the bank did not meet the LCR requirements along with reasons and the remedial measures taken would be relevant.</p> <p>Similar to the other information presented under Notes to Accounts, the LCR, while aggregated at a quarterly level, is presented at an annual level. While this information is still presented only on an annual basis, the presentation of quarterly level information increases its usefulness. However, information on Asset-Liability maturity buckets is disclosed only on an annual basis. This should also be disclosed on a quarterly basis along with LCR disclosures.</p>	Inadequate

⁶⁶Diamond, D., & Rajan, R. (2001). Banks and Liquidity. *The American Economic Review*, 91(2), 422-425. Retrieved October 26, 2020, from <http://www.jstor.org/stable/2677801>

Reliability	Most of the information presented is historical in nature. However, the guidelines only specify a minimum haircut to be applied to non-level 1 assets. Banks can apply larger haircuts while valuing HQLAs. It will be useful to know if and by how much banks applied haircuts greater than the regulatory minimum.	Inadequate
Comparability	These disclosures apply to all commercial banks, excluding RRBs. Also, there is no special carve-out for any particular bank or type of bank. This ensures that the information disclosed is comparable across all banks. The format and the elements of the information being disclosed have not had any significant change over the past few years, thus ensuring comparability over time.	Adequate
Materiality	While historical information on the LCR is necessary to estimate the ability of the bank to withstand liquidity risks, it might not be sufficient in making an informed decision about the expected level of liquidity stress that would occur in the future. Equally material information would be the results of stress test scenarios on the LCR.	Inadequate

2. Regulation - Prudential Framework for Resolution of Stressed Assets⁶⁷

Background

This circular lays out the framework for the early recognition, reporting, and time-bound resolution of stressed assets. In particular, the directions in this circular provide guidelines to banks to initiate insolvency proceedings under the IBC against specific borrowers. The information disclosed under this circular can be classified under Risk Exposures. The following information is covered under this section -

- Appropriate disclosures in the 'Notes to Accounts'

Dimension	Assessment	Summary
Comprehensiveness	The circular only specifies that banks make appropriate disclosures in their financial statements, under the 'Notes to Accounts'. No guidance is given on coverage of entities/verticals/businesses etc. This leaves scope for substantial ambiguity.	Inadequate
Relevance and Timeliness	Given the relatively long timelines involved in the implementation of resolution processes, disclosing the information relating to the same in the annual financial statements can be considered timely. However, no mention is made on the level of granularity of disclosures. This leaves scope for substantial ambiguity and diminishes relevance.	Inadequate
Reliability	The disclosures relate to historical information, in this case, information on resolution processes that have been implemented. In the absence of specific guidelines on what information is to be disclosed, it is unclear how reliable the disclosed information would be given that resolution processes tend to span across financial years and hence continuity of information is critical.	Inadequate
Comparability	With the circular leaving the information to be disclosed at the discretion of the banks, it is very likely that information given by different banks will not be comparable.	Inadequate

⁶⁷See *Prudential Framework for Resolution of Stressed Assets*, June 7, 2019, Reserve Bank of India. Accessible at: <https://www.rbi.org.in/scripts/NotificationUser.aspx?Mode=0&Id=11580>

Materiality	With the circular leaving the information to be disclosed at the discretion of the banks, it is very likely that there might be some oversight on the part of banks in providing material information relating to assets under resolution.	Inadequate
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3. Regulation - Master Circular: Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances⁶⁸

Background

This master circular lays out the guidelines for income recognition, asset classification, and provisioning for the advances given by banks. Providing loans and advances form the main business of banking. It is thus essential to know the true economic value of these assets in order to estimate the financial health of a bank. The guidelines that are given in this master circular help banks and investors by providing objective standards for the income recognition, asset classification, and provisioning of loans and advances. The guidelines are quite objective, detailed, and consistently applied. The information disclosed under this circular can be classified under Financial Position.

Dimension	Assessment	Summary
Comprehensive-ness	This regulation covers all types of loans and advances that are given by banks and also loans bought by banks. It also covers assets that are at various stages of impairment and resolution. The regulation also mandates disclosures on the level of provisions, including floating provisions, for both standard and non-standard assets. All this ensures that the disclosures comprehensively capture information.	Adequate
Relevance and Timeliness	Impairment of assets can happen over a quarter, while these disclosures are made in the 'Notes to Accounts' of the annual financial statements. This reduces the timeliness of the information being provided. Also, the information disclosed has details on sub-standard assets and provisioning at the highest aggregate level. To enable better decision making by the investors the information needs to be provided at a more relevant granular level i.e in terms of sectors/geographies/borrower types. This would increase the relevance of information being disclosed.	Inadequate
Reliability	All information disclosed under this circular is historical in nature. However, banks are not required to report any divergences in NPAs reported by them. This reduces the reliability of the asset classification data presented by banks.	Inadequate
Comparability	These disclosures apply to all commercial banks, excluding RRBs. Also, there is no special carve-out for any particular bank or type of bank. This ensures that the information disclosed is comparable across all banks. The format and the elements of the information being disclosed have not had any significant change over the past few years, thus ensuring comparability over time.	Adequate
Materiality	The circular does not exclude any material information pertaining to the asset classification, income recognition, or the provisioning of a bank.	Adequate

⁶⁸See *Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances*, July 1, 2015, Reserve Bank of India. Accessible at: <https://www.rbi.org.in/scripts/NotificationUser.aspx?Mode=0&Id=9908>

4. Regulation - Master Circular: Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks⁶⁹

Background

This master circular consolidates and lays down the guidelines for the investment portfolio of banks. In particular, this circular lays out a framework for the prudential classification, valuation, and operation of the investment portfolio of banks. Along with loans and advances, investments by banks constitute a significant portion of their overall assets. Ascertaining their value and performance is thus critical in estimating the health of a bank. Also, unlike loans and advances, investments tend to be more liquid and hence form a critical part of the liquidity management framework of banks. The information disclosed under this circular can be classified under Risk Exposures.

Dimension	Assessment	Summary
Comprehensiveness	The disclosures relating to investments cover all geographies, entities, and instruments. However, investments in AFS/HFT categories are not disclosed. One reason for this could be that investments in these categories tend to be of short term with the intent to trade rather than stay invested for capital appreciation or coupon payments. Given that these categories could carry significant amounts of exposure and require capital, some disclosure should be made on the average amount of investments in these categories throughout the year. Especially since, unlike HTM investments, these investments carry significant market risk and their risk exposure can vary significantly throughout the year.	Inadequate
Relevance and Timeliness	The disclosures provide information on the type of issuers, type of securities and aggregate NPAs. Additionally, there is information on amount of investment in 'non-investment grade' and unrated securities, split by issuer type, for non-SLR investments. This level of granularity on investment rating of securities is insufficient. There are wide variations in the credit rating of securities which are classified as investment or non-investment grade. To arrive at an accurate estimate of the true value of investments and their performance, amount of exposure at each level of credit rating is required. Information disclosed should also include a sectoral disaggregation of investment exposures. Also, there is no disclosure with regard to the other types of risks faced by investment portfolios — Interest rate risk, Foreign exchange risk and Equity price risk. These disclosures are made annually in the 'Notes to Accounts'. While HTM investments are carried at acquisition cost and carry little to no risk, non-HTM investments carry significant risk and are usually marked to market. This introduces considerable volatility in the value of these investments. While daily disclosures would carry a high compliance cost and might also be redundant, quarterly disclosures, especially on non-performing investments, would give more timely information.	Inadequate
Reliability	The information disclosed is historical in nature. Information pertaining to provisions and NPAs, which can change ex post facto, carry both their current values and the corresponding values for the previous year. This enables the user of the information to validate the values with the previous year's annual reports and check if any change has been made. While this is not the most ideal way of increasing the reliability of the disclosure, this can be considered as ensuring the reliability of the disclosure.	Adequate

⁶⁹See *Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks*, July 1, 2015, Reserve Bank of India. Accessible at: <https://www.rbi.org.in/scripts/NotificationUser.aspx?Mode=0&Id=9904>

Comparability	These disclosures apply to all commercial banks, excluding RRBs. The formats, definitions, and method of valuation are all quite objective and are applied uniformly across banking entities. The format and the elements of the information being disclosed have not had any significant change over the past few years, thus ensuring comparability over time.	Adequate
Materiality	As mentioned in the comprehensiveness dimension above, the disclosures need to include information on the HFT/AFS portfolio of banks.	Inadequate

5. Regulation - Master Circular: Basel III Capital Regulations⁷⁰

Background

Market discipline is an important pillar of the Basel III regulatory framework. An integral component of this pillar is the achievement of transparency through appropriate disclosure requirements. The objective of Market discipline is to complement the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). The disclosures outlined in this regulation provide information on the scope of application, capital, risk exposures, risk assessment processes and hence, the capital adequacy of the institution. The information disclosed under this circular can be classified under Financial Position, Risk Management Strategies, and Risk Exposure. The following items of information are covered under these disclosures -

1. Scope and Application of Capital Adequacy, including both quantitative and qualitative disclosures
2. Risk Exposure and Assessment, across Credit, Market, Operational, and Interest rate risk
3. Composition of Capital
4. Leverage Ratio

These disclosures are to be made at least on a half-yearly basis, with specific information on capital adequacy and credit risk to be reported on a quarterly basis.

Dimension	Assessment	Summary
Comprehensiveness	The information disclosed covers the banking group, the entities covered under regulatory consolidation, the entities not covered under the regulatory consolidation, and the reasons for the same. The scope of information disclosed also covers all geographies across both the banking and the trading books, to the extent they impact the capital adequacy of the bank/banking group.	Adequate

⁷⁰See *Master Circular: Basel III Capital Regulations*, July 1, 2015, Reserve Bank of India. Accessible at: <https://www.rbi.org.in/scripts/NotificationUser.aspx?Mode=0&Id=9859>

<p>Relevance and Timeliness</p>	<p>The disclosures provide information on capital, risk exposures, and leverage across various dimensions. These include qualitative disclosures on strategies, processes, structures, and policies that banks employ to manage each of credit, market, operational, and interest rate risks. It also includes quantitative disclosures on exposures (across industries, counterparties, and geographies), risk sensitivity, NPAs, and capital requirements for each type of risk mentioned above. Thus, the quantitative metrics and qualitative information required to be disclosed cover all the relevant aspects of capital, risk, and leverage. These disclosures are required to be made at least on a half-yearly basis with some information on capital adequacy and credit risk to be made on quarterly intervals. This is appropriate as the periodicity of disclosure corresponds to the minimum time period over which events that impact the information disclosed occur.</p>	<p>Adequate</p>
<p>Reliability</p>	<p>Unlike all previous disclosures, which are audited by an external auditor, the validity of these disclosures is derived from the fact that the information disclosed must be consistent with the annual audited statements. Additionally, the management is required to ensure that appropriate verification of the information is done according to the disclosure principles set out in the regulation. Thus, while most information disclosed does not contain the corresponding values for the prior period, the fact that these are disclosed more frequently than the annual audited statements and are expected to be consistent with them imparts substantial credibility to the information being disclosed.</p>	<p>Adequate</p>
<p>Comparability</p>	<p>These regulations apply to all SCBs uniformly.</p>	<p>Adequate</p>
<p>Materiality</p>	<p>The circular includes all material information pertaining to the capital adequacy, risk exposures, and leverage of a bank.</p>	<p>Adequate</p>

Appendix 2. Non-Banking Financial Companies

NBFCs play an important role in the Indian financial system in providing last-mile credit delivery and catering to the credit needs of niche segments in the economy. At the end of March 2020, there were a total of 9,601 NBFCs registered with the RBI, of which 66 were NBFCs-D and 278 were NBFCs-ND-SI. As of March 2019, NBFCs-ND-SI accounted for 86.3% of the total asset size of the NBFC sector and as of March 2020, NBFCs were the largest net borrowers of funds from the financial system.⁷¹ Hence, in addition to the important role they play in fulfilling the credit needs of the economy, NBFCs pose a systemic risk through the linkages they hold with various stakeholders in the financial sector.

In the following sections, we assess the transparency of disclosure requirements required to be made by NBFCs-ND-SI and NBFCs-D. RBI disclosure requirements applicable to both these categories of entities are contained in 'Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016'⁷². The directions also state that accounting standards and Guidance Notes issued by the Institute of Chartered Accountants of India (ICAI) shall be followed insofar as they are not inconsistent with any of the directions contained under the Master Direction. Hence, where the disclosures as mandated by RBI were found to be lacking in transparency, applicable Indian GAAP and Ind-AS were evaluated to assess whether they help fill the gaps in disclosure requirements⁷³. Hence, a final assessment of transparency levels has been made after taking both RBI and ICAI disclosure requirements into consideration.

Given the applicability of Ind-AS to only a subset of NBFCs, our assessment has been carried out by grouping the two categories of NBFCs relevant to our analysis in the following manner:

1. Listed NBFCs-ND-SI, Listed NBFCs-D, and Unlisted NBFCs-D with net worth equal to or greater than Rs. 250 crore for which Ind-AS is applicable
2. Unlisted NBFCs-D with net worth less than Rs. 250 crore for which Indian GAAP is applicable

⁷¹Financial Stability Report, Reserve Bank of India, Issue No. 21, Jul 2020. Accessible at: <https://rbidocs.rbi.org.in/rdocs/PublicationReportPdfs/0FSRJULY2020C084CED43CD1447D80B4789F7E49E499.PDF>

⁷²See *Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016*, September 1, 2016, Reserve Bank of India. Accessible at: <https://rbidocs.rbi.org.in/rdocs/notification/PDFs/45MD01092016B52D6E12D49F411DB63F67F2344A4E09.PDF>

⁷³NBFCs with net worth of Rs. 500 crore or more, listed NBFCs (equity or debt instruments) having net worth less than Rs. 500 crore, and unlisted NBFCs having net worth of Rs. 250 crore and above but less than Rs. 500 crore are required to comply with these standards. See Rule 4 of the Companies (Indian Accounting Standards) Rules, 2015. Accessible at: [http://ebook.mca.gov.in/Childwindow1.aspx?pageid=25023&type=RU&ChildTitle=The%20Companies%20\(Indian%20Accounting%20Standards\)%20Rules,%202015#b](http://ebook.mca.gov.in/Childwindow1.aspx?pageid=25023&type=RU&ChildTitle=The%20Companies%20(Indian%20Accounting%20Standards)%20Rules,%202015#b)

Appendix 2.1 Non-Banking Financial Company - Listed Systemically Important Non-Deposit taking Company, Listed Deposit taking Company, and Unlisted Deposit taking Company with Net Worth Equal to or Greater than Rs. 250 Crore

In this sub-section we assess the transparency of disclosure requirements to be made by Listed NBFCs-ND-SI, Listed NBFCs-D, and Unlisted NBFCs-D with net worth equal to or greater than Rs. 250 crore, henceforth referred to as “applicable NBFCs”. RBI disclosures contained in ‘Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016’ are largely balance sheet related disclosures required to be presented as part of Notes to Accounts of the financial statements of the applicable NBFCs⁷⁴. The rest are to be presented as part of ‘Schedule to the Balance Sheet’ which is required to be appended to the balance sheets of the NBFCs, or as in the case of quarterly disclosures on liquidity risk management, on their official websites.

For the purpose of this assessment, the disclosures mandated have been categorised as below:

1. Financial Position
 - 1.1. Capital
 - 1.2. Investments
 - 1.3. Borrowings Availed
 - 1.4. Securitisation
2. Risk Exposure and Risk Management Practices
 - 2.1. Credit Risk
 - 2.1.1. Concentration of Advances & Exposures and Non-performing Assets
 - 2.1.2. Restructuring of Advances
 - 2.2. Liquidity Risk
 - 2.2.1. Liquidity Risk Exposure
 - 2.2.2. Liquidity Risk Management and Practices
 - 2.3. Market Risk
 - 2.3.1. Exposures
 - 2.3.2. Risk Exposure in Derivatives

⁷⁴Any exceptions to applicability of the directions to the applicable NBFCs or disclosures outside the ambit of Notes to Accounts disclosures have been made explicit.

2.3.3. Market Risk Management Practices

1. Financial Position

1.1. Capital

The directions require applicable NBFCs to make the following disclosures with respect to the capital they hold with comparative figures for the previous financial year.

- a. Capital to Risk Assets Ratio (%) (CRAR)
- b. Tier I Capital (%) and Tier II Capital (%)
- c. Amount raised through issue of subordinated debt and perpetual debt instruments

NBFCs-ND-SI may issue perpetual debt instruments in the form of bonds and debentures for inclusion as Tier I and Tier II Capital, subject to certain terms and conditions as outlined in the directions. The directions also require NBFCs issuing such PDIs to make disclosures in their annual reports with respect to the following:

- a. Amount of funds raised through PDI during the year and outstanding at the close of the financial year.
- b. Amount of PDI as a percentage of Tier I Capital.
- c. The financial year in which interest on PDI has not been paid in accordance with the lock-in clause.

Additionally, applicable NBFCs are also required to disclose information on draw down from reserves, if any, under Notes to Accounts.

Ind-AS 1 on 'Presentation of Financial Statements'⁷⁵ also requires applicable NBFCs to disclose information that can enable users of its financial statements to evaluate its objectives, policies, and processes for managing capital. These include:

- a. Qualitative information about its objectives, policies, and processes for managing capital
- b. Summary quantitative data about what it manages as capital
- c. Information on each capital requirement to which the entity is subject to
- d. Any changes from the previous period

⁷⁵See *Indian Accounting Standards (Ind-AS): Disclosures Checklist*, February 2020, The Institute of Chartered Accountants of India. Accessible at: <https://resource.cdn.icai.org/58287asb47542ias.pdf>

Dimension	Assessment	Summary
Comprehensiveness	<p>While RBI mandated disclosure covers the two main components of regulatory capital — Tier I and Tier II capital, there is no disclosure required on the components of risk-weighted assets, based on which whether a NBFC is holding adequate capital (CRAR) or not is assessed.</p> <p>On the qualitative side, while there is no requirement from RBI to provide a discussion on the management of capital, Ind-AS makes up for this shortfall. It requires NBFCs to disclose their overall objectives, policies, and processes for managing capital, including disclosure of externally imposed capital requirements (RBI in this case), nature of those requirements, how these have been incorporated into the management of capital, whether it complied with the requirements and the consequences of non-compliance. These data points can be useful for the users of this information to assess the capital adequacy levels against a benchmark considered appropriate by the regulator.</p> <p>Disclosure of ratings with respect to PDIs would be helpful to understand the changes, if any, in the risk associated with the debt instrument to its subscribers.</p>	Inadequate
Relevance and Timeliness	<p>Information on capital and its adequacy is critical, especially for investors and creditors, to assess the ability of NBFCs to remain solvent and operate as a going concern. In addition to components of regulatory capital, it would be useful to understand the values of on-balance sheet and off-balance sheet items that constitute risk-weighted assets. Any movement in these components will help put movement in capital into perspective.</p> <p>With respect to deferred interest payments on PDIs on account of invocation of the lock-in clause, in addition to the financial year in which the interest has not been paid on the instruments, it might be useful for the investors to understand the value of interest that is due to be paid.</p> <p>While issued capital which forms part of Tier I and Tier II capital might not be subject to frequent changes, risks faced by NBFCs such as credit/ market risks can materialise/ change on a more frequent basis, requiring adequate cushion to be created out of reserves. Any such action during the year can lead to changes in the capital reserves available with an NBFC. Hence, an annual disclosure as mandated would not be sufficient and a more frequent disclosure becomes necessary. However, the annual nature of disclosures on PDI is adequate given that PDIs are perpetual in nature and would require reporting only on any additional funds raised and deferral of interest payments.</p>	Inadequate
Reliability	<p>The components which go into the computation of CRAR are historical in nature and the need for estimation of data based on an assessment of future events is nil. The same is true for the information presented on PDI as well. However, any restatement of provisions made for risks such as credit risk on non-performing assets can lead to changes in the NBFC's capital position. However, there is no requirement at present to disclose such changes in capital.</p>	Inadequate
Comparability	<p>With NBFCs transitioning to Ind-AS, while the basic framework used for computation of CRAR has remained the same, factors that go into determining Tier I and Tier II capital have undergone some changes. However, given that NBFCs are required to prepare comparatives for the previous non-Ind-AS reporting period using Ind-AS, the information presented is still comparable. Additionally, Ind-AS requires any changes from the previous reporting period to be disclosed.</p>	Adequate
Materiality	<p>No material information has been excluded from disclosure requirements.</p>	Adequate

1.2. Investments

RBI's directions require applicable NBFCs to measure and value investments held by them based on whether they are current (intended to be held for not more than one year) or long term and whether quoted and unquoted.

Additionally, it requires NBFCs to provide for depreciation in the value of investments. As part of Notes to Accounts, the following information is required to be disclosed, disaggregated to indicate investments made in India and outside India:

- a. Gross value of investments
- b. Provisions for depreciation
- c. Net value of investments
- d. Movement of depreciation provisions during the year

Separate disclosure on overseas assets including the name of the Joint Venture/ Subsidiary and total assets is required to be disclosed under Notes to Accounts.

Apart from the above disclosure, applicable NBFCs are also required to present the break-up of investments by the type of instrument held (shares, debentures and bonds, units of mutual funds, government securities, and others) as part of 'Schedule to the Balance Sheet'. This break-up is required to be presented for both current and long-term investments and quoted and unquoted investments under each of them.

Ind-AS 107 on 'Financial Instruments: Disclosures'⁷⁶ also requires applicable NBFCs to make certain disclosures in their Balance Sheet or Notes to Accounts on investments which can be treated as financial assets. These disclosures include broadly the following:

- a. Carrying amounts of financial assets measured at amortised cost (HTM), fair value through profit and loss account (HFT), and fair value through other comprehensive income (held for sale).
- b. Measurement bases used in preparing the financial statements and other accounting policies used that are relevant to an understanding of the financial statements.

Dimension	Assessment	Summary
Comprehensiveness	The disclosures cover broad metrics which are important to understand the investment portfolio of a NBFC. These include - carrying values of the investment, the purpose for which the investments have been held, impairment in the value of investments, and qualitative description of the treatment of investments in the books of the NBFC.	Adequate
Relevance and Timeliness	Considered together, the disclosure requirements provide sufficient granularity in the information presented. These disclosures are annual in nature. However, given that investments which are HFT and for sale can be subject to volatilities in their carrying values, a more frequent disclosure, i.e., quarterly disclosure of this information would be relevant.	Inadequate

⁷⁶See *Indian Accounting Standards (Ind-AS): Disclosures Checklist*, February 2020, The Institute of Chartered Accountants of India. Accessible at: <https://resource.cdn.icai.org/58287asb47542ias.pdf>

Reliability	Measurement of fair values of investments involves estimation of values based on various factors or data points available with a NBFC. For a complete understanding of the information presented, disclosure of methodologies used to arrive at the numbers, assumptions based, etc. would be essential. Given that Ind-AS requires such qualitative information to be made available, the disclosures are reliable in nature.	Adequate
Comparability	Given that these disclosure requirements apply to all NBFCs-D and NBFCs-ND-SI and there have been no changes in the definitions or measurement concepts, the disclosures are comparable.	Adequate
Materiality	No material information has been left out of disclosure requirements.	Adequate

1.3. Borrowings Availed

RBI's directions require applicable NBFCs to disclose information on its liabilities as part of 'Schedule to the Balance' which is required to be appended to its annual balance sheet. The disclosures broadly include the following:

- a. Outstanding and overdue values of borrowings availed, inclusive of interest accrued, but not paid, categorised by instrument type (debentures, term loans, public deposits, etc.)
- b. Break-up of public deposits by instrument type - unsecured debentures, party secured debentures, and other public deposits

Applicable listed NBFCs-D are also required to disclose information on concentration of deposits covering the following:

- a. Total deposits of twenty large depositors and % of these to total deposits

Ind-AS 107 on 'Financial Instruments: Disclosures'⁷⁷ also requires applicable NBFCs to make certain disclosures in their balance sheet or Notes to Accounts on their financial liabilities. These disclosures include broadly the following:

- a. Carrying amounts of financial liabilities measured at amortised cost (HTM) and fair value through profit and loss account (HFT)
- b. Measurement bases used in preparing the financial statements and other accounting policies used that are relevant to an understanding of the financial statements.

In addition to the above disclosure requirements, SEBI also requires listed entities to disclose any defaults on loans, including revolving facilities like cash credit, from banks/ FIs which continues beyond 30 days and default on

⁷⁷See *Indian Accounting Standards (Ind-AS): Disclosures Checklist*, February 2020, The Institute of Chartered Accountants of India. Accessible at: <https://resource.cdn.icai.org/58287asb47542ias.pdf>

unlisted debt securities⁷⁸. The disclosures are to be made to stock exchanges as follows:

- a. For each instance of default, not later than 24 hours from the 30th day of default
- b. Within 7 days from the end of each quarter of outstanding defaults, if any, as on the last of quarter

Dimension	Assessment	Summary
Comprehensiveness	The disclosures cover broad metrics which are important to understand the liability profile of an NBFC. These include - carrying values at each balance sheet date, including overdue interest payments, type of instrument through which funds have been raised, and qualitative description of the treatment of liabilities in the books of the NBFC.	Adequate
Relevance and Timeliness	Together, RBI, SEBI and Ind-AS disclosure requirements provide sufficient granularity in the information presented. These disclosures are annual in nature. Given that these are intended at making available information that can facilitate understanding of the liability profile of a NBFC, the frequency of disclosure is adequate. Additionally, information on defaults is required to be disclosed for each instance of default as well as on a quarterly basis.	Adequate
Reliability	Ind-AS requires qualitative information to be made available on the measurement bases used in accounting and classification of financial liabilities. The disclosures are hence reliable and allow for an understanding of restatement, if any, in the outstanding value of liabilities arising from changes in their treatment.	Adequate
Comparability	Given that these disclosure requirements apply to all NBFCs-D and NBFCs-ND-SI and there have been no changes in the definitions or measurement concepts, the disclosures are comparable.	Adequate
Materiality	No material information has been left out of disclosure requirements.	Adequate

1.4. Securitisation

Under this section of disclosures, applicable NBFCs are required to present information on the following four categories of transactions.

- a. Details of outstanding amount of securitised assets, both own and third party
- b. Details of assignment transactions undertaken by the NBFC
- c. Details of financial assets sold to securitisation/ reconstruction company for asset reconstruction
- d. Details of non-performing financial assets purchased/ sold

⁷⁸See *Disclosures by listed entities of defaults on payment of interest/ repayment of principal amount on loans from banks / financial institutions and unlisted debt securities*, November 21, 2019, Securities and Exchange Board of India. Accessible at: https://www.sebi.gov.in/legal/circulars/nov-2019/disclosures-by-listed-entities-of-defaults-on-payment-of-interest-repayment-of-principal-amount-on-loans-from-banks-financial-institutions-and-unlisted-debt-securities_45036.html

Additionally, applicable NBFCs are also required to disclose the names of off-balance sheet SPVs sponsored both domestic and overseas.

Dimension	Assessment	Summary
Comprehensiveness	The disclosures required to be made are only quantitative in nature covering exposure of NBFCs to securitisation transactions in various forms. In addition to quantitative information, a qualitative discussion around some of the regulatory norms on securitisation transactions would help provide context to the numbers required to be presented. Additionally, on all securitisation exposures, own (through SPV route and direct assignments) and third party, quantitative information can include certain data points on an aggregate level - categorisation by loan type/ sector (personal loan, vehicle loan, etc.), securitisation product (nature and tenor) and ratings of the securitisation structures.	Inadequate
Relevance and Timeliness	The various data points required to be disclosed on securitisation and other NPA sale/ purchase transactions are captured at a sufficiently granular level and convey the required information. These disclosures are required to be made on an annual basis as part of Notes to Accounts. Given that these transactions give rise to balance sheet items which are mostly in the form of investments or off-balance sheet items and do not necessarily occur frequently, the annual nature of the disclosures is adequate.	Adequate
Reliability	The information to be disclosed under this requirement is to an extent historical in nature and are based on contractual obligations, the values of which are already known to the NBFCs. Hence, the use of estimates to measure future values is nil. The disclosures are hence reliable in their present form without the need for any additional information on the assumption or methodology used in calculating the figures.	Adequate
Comparability	Given that the disclosures apply to all NBFCs-ND-SI and NBFCs-D and there have been no changes to the information to be disclosed, they are comparable in nature.	Adequate
Materiality	The disclosures mandated for securitisation created through the route of SPVs are only restricted to exposures of NBFCs. An additional data point that might be useful for the users of this information would be a disclosure of the amount of gain/ loss made by NBFCs through these transactions. Similarly, gain/ loss arising out of the sale of financial assets/ NPAs to securitisation/ asset reconstruction companies or others (c. and d. above) would also be useful. Applicable NBFCs are also required to conduct regular stress tests on their securitisation positions and on the portfolio of loans purchased by them using various scenarios/ factors. Making the results of these tests public is critical to understanding the ability of these asset portfolios to perform under varying economic conditions.	Inadequate

2. Risk Exposure and Risk Management Practices

Ind-AS 107 on 'Financial Instruments: Disclosures' mandates applicable NBFCs to disclose information that can enable users of its financial statements to evaluate the nature and the extent of risks arising from financial instruments to which NBFCs are exposed at the end of the reporting period.

Accordingly, applicable NBFCs are required to provide an overview (*qualitative discussion*) for each type of risk (credit risk, liquidity risk, and market risk):

- a. The exposures to risk and how they arise

- b. Its objectives, policies and processes for managing the risk and the methods used to measure the risk, and
- c. Any changes in (a) or (b) from the previous period.

On the quantitative side, NBFCs are required to disclose:

- a. Summary quantitative data about its exposure to risk at the end of the reporting period
- b. concentration of risk

Apart from the above, Ind-AS has prescribed specific disclosures for each type of risk.

2.1. Credit Risk/ Asset Quality

2.1.1. Concentration of Advances & Exposures and Non-performing Assets

The Master Direction requires every applicable NBFC to disclose in their balance sheets the provisions made against NPAs. These directions require all the applicable NBFCs to disclose the following:

- a. Provisions recognised without netting them from the value of assets and to be distinctly indicated under separate heads of accounts under the title 'Provision for bad and doubtful debts' (Balance Sheet disclosure)
- b. Concentration of NPAs determined by exposure to top four NPA accounts & different sectors of the economy (Notes to Accounts disclosure)
- c. Movement of NPAs and provisioning for NPAs (Notes to Accounts disclosure)
- d. Gross and Net NPAs showing the amounts pertaining to related parties and other separately (Schedule to the Balance Sheet)
- e. Break-up of loans and advances as secured/ unsecured (Schedule to the Balance Sheet)

With respect to concentration of advances, deposits and exposures, the following disclosures have been prescribed for the applicable NBFCs:

- a. The total made up by top twenty in each category
- b. Percentage of the top twenty to overall total in each category

Additionally, applicable NBFCs are also required to disclose information on loans extended against security of gold jewellery (being the single product) and details of the auction of such security, if any.

Ind-AS 107 on 'Financial Instruments: Disclosures' also requires certain disclosures to be made by applicable NBFCs with respect to credit risk and expected credit losses (ECL) arising out of the financial assets held by them. The disclosures broadly cover the following:

- a. Reconciliation (start to end of reporting period) of loss allowances equal to 12-month ECL and lifetime ECL⁷⁹ by class of financial instruments (grouped appropriately)
- b. Gross carrying amount of financial assets and significant credit risk concentrations by credit risk rating grades for financial assets with loss allowance equal to 12-month ECL and lifetime ECL
- c. Maximum exposure to credit risk without taking into accounts collaterals/ credit enhancements by class of financial instruments
- d. Quantitative and qualitative information about collateral held for credit-impaired financial assets
- e. Qualitative information that can help evaluate the quantitative information including changes in the amount of ECL and the reasons for change

It should be noted that RBI's circular on 'Implementation of Indian Accounting Standards' requires NBFCs to hold impairment allowances as required under Ind-AS. However, in parallel, they are also required to maintain asset classification and compute provisions as per extant prudential norms on Income Recognition, Asset Classification and Provisioning (IRACP). They are required to provide a comparison between provisions required as per IRACP and impairment allowances made under Ind-AS 109 - 'Financial Instruments' in the notes to their financial statements to provide a benchmark to their Boards, RBI supervisors and other stakeholders, on the adequacy of provisioning for credit losses.⁸⁰ Further, where impairment as computed under Ind-AS 109 is lower than the provisioning required under IRACP, NBFCs are required to park the difference in a separate 'Impairment Reserve'.

Dimension	Assessment	Summary
Comprehensiveness	Taking into consideration the requirements under both RBI's directions and Ind-AS, the disclosures cover various key metrics related to credit risk exposure of the NBFCs. These include information on total advances (NPA and non-NPA), gross NPA, NPA loss allowances, concentration of risks and information on collaterals. Additionally, qualitative information that can help evaluate quantitative information has also been prescribed.	Adequate

⁷⁹Includes both assets for which credit risk has increased significantly and those which are credit impaired as per Ind-AS 109.

⁸⁰See *Implementation of Indian Accounting Standards*, March 13, 2020, Reserve Bank of India. Accessible at: https://m.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=11818#F2

Relevance and Timeliness	<p>The key metrics mentioned under 'Comprehensiveness' were further assessed for relevance along exposure to NPA categories, top accounts, economic sectors, and credit ratings and were found to be lacking on the following:</p> <p><u>Total advances/ exposures:</u> Information on total advances/ exposures extended by the NBFC by economic sector is not available. This would be useful to understand the exposure of the NBFC to different sectors of the economy and the possible credit risk arising from such an exposure pattern. The same information would also be useful under the disclosure of concentration of NPA by economic sector. Here, only the % of the NPA in the sector to overall advances in the sector is required to be disclosed. However, the weight of each sector in the overall loan portfolio of the NBFC is not available which would make this information more relevant.</p> <p>It should be noted that while Ind-AS requires NBFCs to disclose significant concentration risks, it leaves it to the judgement of the NBFC to determine these groupings. While each NBFC's concentration risk can be idiosyncratic in nature, basic disclosure providing information for example on top accounts and economic sectors can be useful. To this end, RBI's disclosure partly fills the gap left by Ind-AS.</p> <p>All the disclosures under this section are required to be made on an annual basis. The frequency is not adequate given that exposure to credit risk continuously evolves for a NBFC given that it lends throughout the year. This has repercussions on both the quality of its loan book as well as the strength of its financial position. Hence, these disclosures would be more useful and relevant if made on a more frequent basis, i.e., along with its quarterly statements.</p>	Inadequate
Reliability	<p>Computation of ECL involves the use of both forward-looking information and past information. As indicated at the beginning of Section 2, NBFCs are required to make qualitative disclosures on the objectives, policies, and processes for managing credit risk, along with the methods used. Specifically, with respect to credit risk, they are also required to disclose assumptions and information used to measure ECL and changes, if any, from the previous period.</p>	Adequate
Comparability	<p>The disclosures required under RBI's directions are to be made only for values outstanding at the end of the reporting year. This is excluding the information on movement of NPAs and provisioning for NPAs for which both the previous year and reporting year figures are required to be disclosed. More relevant and appropriate comparison would be facilitated if all the disclosures show a comparison to the previous quarter/ year.</p>	Inadequate
Materiality	<p>Disclosures on non-performing assets along with the credit risk exposure (or the loss allowance made) are critical to understanding the quality of underwriting by the NBFCs, the ability of the NBFCs to fulfil their obligations and to sustain in the long term. Additionally, no material information has been excluded.</p>	Adequate

2.1.2. Restructuring of Advances

The Master Direction contains guidelines on restructuring of advances by applicable NBFCs. As stated in the guidelines, the basic objective of restructuring is to preserve the economic value of units, and not ever-greening of problem accounts. The guidelines go on to state that this should be achieved by the NBFCs and borrowers through careful assessment of the viability, quick detection of weaknesses in accounts, and a time-bound implementation of restructuring packages.

Applicable NBFCs are required to disclose information with respect to restructured advances in their annual Balance Sheets under Notes to Accounts. The prescribed format for disclosure includes:

- a. Details of accounts restructured on a cumulative basis excluding the standard restructured accounts which cease to attract higher provision and risk weight (if applicable);
- b. Provisions made on restructured accounts under various categories; and
- c. Details of movement of restructured accounts.

Applicable NBFCs are required to disclose the total amount of outstanding in all the accounts/ facilities of borrowers whose accounts have been restructured and not just the restructured facility.

Dimension	Assessment	Summary
Comprehensiveness	The disclosure requirements apply to all forms of restructuring including those under Corporate Debt Restructuring Mechanism (CDR) and Small and Medium Enterprise (SME) Restructuring and all categories of advances. Additionally, the disclosure also provides information on movement of restructured advances between different asset classifications (standard, sub-standard, doubtful, and loss) based on their quality. Apart from these, specific information on loans that have been referred to IBC (restructured/ otherwise) for resolution can help indicate the action taken by NBFCs towards recovery. Such information can include the total value of such loans, the value of such loans as a percentage of the loan book and as a percentage of NPAs, and the status of such cases.	Inadequate
Relevance and Timeliness	<p>While the disclosure exhaustively covers important information related to restructured advances, certain granular details within what is already mandated to be disclosed are necessary to provide more clarity. The values, both number of accounts and the amounts involved, relating to all the facilities/ accounts outstanding against a particular borrower involved in a restructuring transaction and <i>not just</i> the restructured facility is required to be disclosed. While this information is important to assess the overall value of assets which might be at risk, a separate disclosure on restructured and non-restructured advances at the beginning and the end of the year would help assess the magnitude of deterioration in the quality of assets against overall outstanding balances with respect to a borrower. Also, it is not clear if the provisions to be disclosed refers to the diminution in the fair value of assets involved in the transaction, provisioning based on asset quality category, or both combined. It would be useful if these two provisions are disclosed separately. Information on regular provisioning based on asset quality would help users in understanding the impact of such restructured assets on the financial position of the NBFC, particularly in cases where the asset quality deteriorates post restructuring. The provision for diminution in fair value on the other hand would provide the loss incurred by NBFCs upon restructuring of advances.</p> <p>These disclosures are to be made by NBFCs on an annual basis under Notes to Accounts. Restructuring arrangements can be entered into by NBFCs at any point during a financial year. Depending on the loss/ sacrifice taken on by the NBFCs, they can result in the erosion of its capital. This is in addition to loss provisioning on account of deterioration in the quality of assets post restructuring. Hence, quarterly disclosures would be more appropriate.</p>	Inadequate

Reliability	The information to be disclosed is ex-post in nature. However, there is an element of estimation involved in computing the diminution in the fair value of the advances which have been restructured. While quantitative information is disclosed on the provision made for such diminution in value, there is no qualitative discussion around how the same is computed. While such information cannot help the users to reconstruct the diminution in values, it can help provide a better context to how the numbers have been arrived at. Hence, a discussion on the methodology and the base lending rate used for computing the diminution in value can be useful. Additionally, given that the NBFCs are required to re-compute the diminution in the fair value at each balance sheet date, information on changes in the base lending rate along with the value of reversals in/ additional provisioning would be useful.	Inadequate
Comparability	While the disclosures do not require a direct year on year comparison, it does provide a reconciliation of the balances as at the beginning and end of the financial year with information on such restructuring transactions undertaken during the year. Additionally, given that these disclosure requirements apply to all NBFCs-D and NBFCs-ND-SI and there have been no changes in the definitions or measurement concepts, the disclosures are comparable.	Adequate
Materiality	Investors and creditors would be the main stakeholders who would be interested in this disclosure. Restructuring of advances can result in arrangements where in order to preserve the economic value of the asset under consideration, as stated in the guidelines, some loss would have to be taken on by the NBFC. This has the effect of altering the future cash flows of the NBFC which can have an impact on both its financial performance and its profitability. Additionally, no material information has been omitted from the disclosure.	Adequate

2.2. Liquidity Risk

Liquidity indicates a NBFC's ability to meet its obligations as they become due and any unmanaged risk arising from its asset/ liability portfolio can pose a threat to its functioning and financial stability. Hence, information on liquidity risk is crucial to understanding the level of risk present on the financials of the NBFC and the characteristics of such risks. Accordingly, three sets of disclosures have been prescribed by RBI through this Master Direction in addition to disclosures required as per Ind-AS.

- a. Disclosures under Guidelines on Liquidity Risk Management Framework
- b. Disclosure on Asset Liability Management Maturity Pattern as part of Notes to Accounts
- c. Disclosures under Guidelines on Liquidity Coverage Ratio (LCR)
- d. Disclosures required as per Ind-AS

2.2.1. Liquidity Risk Exposure

Here, we evaluate the quantitative information to be disclosed by NBFCs to enable market participants to make an informed judgement about their liquidity position.

Non-deposit taking NBFCs with asset size of Rs.100 crores and above, systemically important Core Investment Companies, and all deposit taking NBFCs with certain exceptions⁸¹ are required to adhere to the Guidelines on Liquidity Risk Management Framework. Apart from various aspects of liquidity management, the guidelines also specify the information to be publicly disclosed by the NBFCs to enable market participants to make an informed judgement about the soundness of its liquidity risk management framework and liquidity position. These include:

- a. Funding concentration based on significant counterparty (both deposits and borrowings - value, % of total deposits, % of total liabilities)
- b. Aggregate Top 20 large deposits (amount and % of total deposits)
- c. Aggregate Top 10 borrowers (amount and % of total borrowings)
- d. Funding Concentration based on significant instrument/product
- e. Stock ratios of commercial papers, non-convertible debentures, and other short-term liabilities (% of total public funds, liabilities, and total assets)

Applicable NBFCs are also required to disclose information in their Notes to Accounts on ALM maturity pattern of certain items of assets and liabilities under specified time buckets.

Guidelines on Liquidity Coverage Ratio (LCR) contained in this Master Direction are applicable to NBFCs-ND-SI with an asset size of Rs. 5,000 crore and above with a few exceptions⁸² and all NBFCs-D irrespective of their asset size. These NBFCs are required to maintain prescribed levels of LCR with effect from December 1, 2020. LCR is computed as a ratio of Stock of High-Quality Liquid Assets to Total Net Cash Outflows over the next 30 days. The objective of this requirement is to promote the resilience of NBFCs to potential liquidity disruptions by ensuring that they have enough HQLA to survive any acute liquidity stress scenario lasting for 30 days. Disclosures on LCR are required to be presented as per the format specified in the guidelines. Additionally, the NBFCs are required to provide sufficient qualitative discussion around LCR to facilitate understanding of the results and the data provided.

Ind-AS 107 on 'Financial Instruments: Disclosures' also requires applicable NBFCs to disclose maturity analysis of derivative and non-derivative financial liabilities that shows remaining contractual maturities spread across time bands as deemed appropriate by the NBFCs. Additionally, NBFCs are also required to describe how they manage the liquidity risk arising from such liabilities through an

⁸¹Type 1 NBFC-ND, Non-Operating Financial Holding Company and Standalone Primary Dealer

⁸²Core Investment Companies, Type 1 NBFC-NDs, Non-Operating Financial Holding Companies and Standalone Primary Dealers

accompanying maturity analysis of its financial assets and might consider disclosing other relevant information that indicate the options that the NBFC has at hand to manage the liquidity risk. These include access to committed borrowing facilities, diverse funding sources, internal control processes and contingency plans, etc.

Dimension	Assessment	Summary
Comprehensiveness	Together, the disclosure requirements under liquidity risk management framework (covering funding concentration and stock ratios), ALM maturity pattern, LCR, and maturity analysis cover key information required to understand the liquidity position of NBFCs and the associated liquidity risk.	Adequate
Relevance and Timeliness	<p>Information on significant shortcomings in liquidity observed by a NBFC <i>during</i> the quarter/ year is unavailable as the LCR figures presented on a quarterly/ yearly basis are an <i>average</i> of monthly/ daily observations. Hence, a disclosure to this effect where the NBFC was unable to meet the LCR requirements <i>during</i> the reported period along with reasons and the remedial measures taken would be relevant. For this purpose, a threshold limit in terms of shortfall can be prescribed. Also, the current disclosures on concentration of borrowings and deposits is disclosed on an aggregate basis for the largest borrowers/depositors. This needs to be shown in a disaggregated manner.</p> <p>While the disclosures under the liquidity risk management framework are required to be made both on a quarterly and on an annual basis, information on asset-liability maturity pattern is required only on an annual basis. Hence, at present, except information on asset liability maturity pattern, all disclosures including liquidity risk management strategies and practices and LCR are made both on a quarterly and an annual basis. Therefore, making ALM maturity pattern disclosures quarterly would help provide a holistic picture of liquidity position on a more consistent and frequent periodicity.</p>	Inadequate
Reliability	<p>The information to be disclosed under LCR guidelines has both data based on known facts (such as value of HQLAs owned by the NBFCs) as well as estimates of data based on an assessment of future events. Specifically, LCR computation requires the NBFCs to apply haircuts to HQLAs depending upon the risk involved. The haircuts specified by the guidelines are only the minimum required and the NBFCs can provide for a higher number based on their judgement of the liquidity of the HQLAs. Components of HQLA with information on the haircuts applied to each of them along with qualitative information on the assumptions that went into arriving at the haircuts would help facilitate better understanding for the users.</p> <p>The qualitative information required to be disclosed on LCR is only indicative in nature and does not provide an exhaustive list and it depends on the judgement of the NBFCs as to what constitutes relevant information. The disclosures can be more reliable if there is consistency in what is reported from one period to the other and to an extent, this can be ensured by making the requirements explicit in the guidelines. Additionally, there is no requirement to disclose the assumptions for the methods used to measure liquidity risk.</p>	Inadequate
Comparability	The guidelines do not propose a change in the definitions and the measurement concepts which go into constructing the information to be disclosed and there are no differences in the requirements across the NBFCs to which these disclosures are applicable. However, as stated earlier, the qualitative disclosures are open-ended in nature, leaving it up to the judgement of the NBFCs to determine what information is relevant. This can reduce the comparability of information across different NBFCs. Hence, making the disclosure requirements explicit might be useful.	Inadequate

Materiality	As discussed under the relevance section, information on liquidity risk is critical to understanding the operations and finances of NBFCs. RBI's Liquidity Risk Management Framework requires NBFCs to which the framework is applicable, to conduct stress tests on a regular basis for various short-term/ protracted stress scenarios. However, there is no requirement for the NBFCs to make the results of such tests public.	Inadequate
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2.2.2. Liquidity Risk Management Practices

As per RBI's Guidelines on Liquidity Risk Management Framework, applicable NBFCs are also required to disclose information on institutional set-up for liquidity risk management which can enable the market participants to make an informed judgement about the soundness of their risk management framework.

As discussed at the beginning of this section, Ind-AS 107 on 'Financial Instruments: Disclosures' requires NBFCs to make qualitative disclosures on liquidity risk arising from financial instruments covering exposure to risk and how they arise, its objectives, policies, and processes for managing the risk, methods used to measure the risk and changes if any from the previous period.

Dimension	Assessment	Summary
Comprehensiveness	RBI's disclosure requirement restricts itself to institutional set-up for liquidity risk management and does not go into other processes and methods adopted by NBFCs for liquidity risk management. While this is inadequate and can lead to non-reporting of key information/ inconsistencies in information reporting across different entities, disclosures required by Ind-AS 107 facilitates a better and more comprehensive understanding of the NBFCs' liquidity risk management framework and policy.	Adequate
Relevance and Timeliness	This disclosure facilitates understanding of policies and internal processes put in place by the applicable NBFCs for liquidity risk management and can help provide context for the quantitative information presented on liquidity risk. Additionally, it also informs the users of this information of the extent of adherence by NBFCs to RBI's guidelines on liquidity risk management framework. While RBI's guidelines require disclosures to be made both on a quarterly (on NBFCs' websites) and an annual basis, Ind-AS requirements are annual in nature. Given that the disclosures are intended at discussing the broad framework and policies for managing liquidity risk which are not expected to change frequently once set-up, the frequency of dissemination of this information is adequate.	Adequate
Reliability	Given that the disclosure is qualitative in nature and is a statement of policies adopted by the NBFCs which is factual in nature, it can be considered as reliable. Additionally, any changes from the previous period are also required to be disclosed.	Adequate
Comparability	The structure provided by Ind-AS covering specific aspects of liquidity risk management to be covered by the disclosures facilitates the comparison of the information across the applicable NBFCs.	Adequate
Materiality	For the reasons discussed in the relevance section, this disclosure is material.	Adequate

2.3. Market Risks

In addition to the disclosure requirements mandated by RBI which have been discussed under sections 2.3.1 - 2.3.3 below, Ind-AS 107 - 'Financial Instruments: Disclosures' requires NBFCs to present

- a. Sensitivity analysis which shows the effect of reasonably probable changes in each type of market risk variable on the profit or loss account and equity.
- b. Methods or assumptions used in preparing the analysis
- c. Changes if any from the previous period in the methods and assumptions used and the reasons for such changes.

In presenting the above analysis, the entity decides how it wants to aggregate information. This however is required to be done without combining information with different characteristics about exposures to risks from significantly different economic environments.

These disclosures are in addition to the disclosures on summary quantitative data on exposures to risk and concentration of risk.

2.3.1. Exposures to Sectors and Specific Borrower/ Advance Type

As part of Notes to Accounts in their balance sheets, applicable NBFCs are required to disclose information on the value of exposure to market risk and credit risk arising from various lending and investing activities. The following are the sectors/ activities in relation to which NBFCs are required to make the disclosures:

- i. Exposure to real estate
- ii. Exposure to capital market
- iii. Details of financing of parent company products
- iv. Details of Single Borrower Limit (SGL)/ Group Borrower Limit (GBL) exceeded by the applicable NBFC (not applicable to NBFC MFIs with asset size of Rs. 500 crore and above)
- v. Unsecured advances

Dimension	Assessment	Summary
Comprehensiveness	The disclosures require NBFCs to provide information on exposure to credit risks and market risks arising from direct investments made in the real-estate sector and capital markets and those arising from mortgages and securities secured for loans extended. However, real estate is only one of the many real economic sectors through which a NBFC might be exposed to such risks. Hence, a more comprehensive disclosure covering all sectors of the economy to which the NBFC is exposed to/ sectors to which the exposure is considered as material (beyond a specified threshold of, for example, 10% of the total exposure) would provide a complete picture of the risk profile of the NBFC.	Inadequate

Relevance and Timeliness	<p>In addition to disaggregation by sector, it would be useful to understand the risk levels arising from investments that have been made by the NBFC. To address this gap, applicable NBFCs can disclose investments by credit rating categories and movements in ratings, if any, from the previous period.</p> <p>Given that these disclosures are to be made on an annual basis, they fall short in comparison to the frequency at which market and credit risk from exposure to different economic sectors can materialise. Hence, a more frequent disclosure, i.e., on a quarterly basis would be useful.</p>	Inadequate
Reliability	<p>The information to be disclosed under RBI's directions are historical in nature and are based on contractual obligations, the values of which are already known to the NBFCs. Additionally, as listed at the beginning of this section, Ind-AS requires NBFCs to disclose objectives, policies, processes, and methods used to measure market risks. Specifically, on sensitivity risk, it requires NBFCs to disclose the assumptions used, and changes if any from the previous period. These disclosures are hence reliable in their present form without the need for any additional information on the assumption or methodology used in calculating the figures.</p>	Adequate
Comparability	<p>The guidelines do not propose a change in the definitions and the measurement concepts which go into constructing the information to be disclosed and there are no differences in the requirements across the applicable NBFCs and other NBFCs-D and NBFCs-ND-SI.</p>	Adequate
Materiality	<p>With respect to exposures to capital markets and real estate, the RBI's directions as indicated earlier require only the value of exposure at the end of the reporting period. However, the following crucial information related to associated market risks are missing:</p> <ol style="list-style-type: none"> 1. Expected impact on financial assets/ liabilities from credit ratings downgrade, volatility in market risks such as interest rates (e.g., modified duration), foreign exchange rates, and prices are missing. On the latter, information can also include trends over a period of time. Without these, the users of this information might be unable to understand the implications of exposures to capital markets and real estate on the financial position of the applicable NBFCs. 2. Additionally, to make such additional disclosures more reliable, the models and assumptions used to estimate such expected impact along with reasons for changes if any from previous period would be required. 3. Within the buckets under which the disclosures are required to be made, the risk arising from the concentration of such exposures to specific sectors/ geographies/ others is important. <p>While the presentation of sensitivity analysis and risk concentration required by Ind-AS is relevant and to an extent can be considered to fill the gaps left by RBI, these two disclosures are not necessarily comparable. While RBI's disclosures are more specific in nature and provide a list of categories of exposures against which information is required to be presented, Ind-AS disclosures indicate what needs to be presented leaving the categories/ groupings of information to be presented to the judgement of each NBFC. While each NBFC's exposures can be idiosyncratic in nature, defining a set of basic disclosures can make the disclosures more comparable and reliable.</p>	Inadequate

2.3.2. Risk Exposure in Derivatives

With respect to risk exposure in derivatives, applicable NBFCs are required to make quantitative disclosures on the following:

- i. Forward Rate Agreement / Interest Rate Swap
- ii. Exchange Traded Interest Rate (IR) Derivatives

iii. Currency Derivatives

iv. Credit Default Swaps (CDS)

Dimension	Assessment	Summary
Comprehensiveness	While the information required to be disclosed for the above listed derivative contracts vary, they cover all types of derivatives contract a NBFC might enter in order to manage its market risks/ credit risks.	Adequate
Relevance and Timeliness	An assessment of whether the disclosures cover relevant elements of risk exposure reveals that each of them has a few components missing. For all the above listed derivative instruments, it would be appropriate if the disclosures are categorised by derivative instrument type, and against each of them, notional value and any collateral/ margin money involved in the contract are disclosed. Specifically, with respect to CDS, in addition to the above, it would be useful if categories of debt issuers whose default risk is sought to be covered with a CDS and materiality threshold, if any, are disclosed. The regulations currently require NBFCs to disclose information related to their derivate exposures on an annual basis as part of their Notes to Accounts. However, since NBFCs can potentially enter into derivative contracts throughout any given year (for risk mitigation/ trading) exposing them to risks, annual disclosure might be inadequate. Hence, a more frequent disclosure, i.e., on a quarterly basis would be relevant and useful.	Inadequate
Reliability	Given that derivative contracts also come under the purview of Ind-AS 107, the disclosures on risk management policies for market risk would be applicable which require information on policies, objectives, models used, and assumptions to be presented. Hence, the disclosures can be considered as reliable.	Adequate
Comparability	The guidelines do not propose a change in the definitions and the measurement concepts which go into constructing the information to be disclosed and there are no differences in the requirements across the applicable NBFCs and other NBFCs-D and NBFCs-ND-SI.	Adequate
Materiality	As stated earlier, the disclosure requirements for each of the derivative exposures vary. From a materiality perspective, there are certain data points that are material to the understanding of the risk exposure but are entirely missing in the requirements. These include the value of the underlying exposure being hedged. With respect to the derivatives contract itself, tenure of the contract, risk arising from the derivatives contract, probability of such risks materialising, and the expected volatility in such risks. Additionally, information on counterparty credit risk, a by-product of the derivatives contracts, and concentration of such risks are also important. While the presentation of sensitivity analysis and risk concentration required by Ind-AS is relevant and to an extent can be considered to fill the gaps left by RBI, these two disclosures are not necessarily comparable. While RBI's disclosures are more specific in nature and provide a list of derivative instruments against which information is required to be presented, Ind-AS disclosures indicate what needs to be presented leaving the categories/ groupings of different types of exposures to the judgement of each NBFC. While each NBFC can have exposures, which are idiosyncratic in nature, defining a set of basic disclosures can make the disclosures more comparable and reliable.	Inadequate

2.3.3. Market Risk Management Practices

As part of qualitative disclosures, applicable NBFCs are required to describe their risk management policies with respect to derivatives. The discussion is required to include the following:

- i. The structure and organization for management of risk in derivatives trading,
- ii. The scope and nature of risk measurement, risk reporting and risk monitoring systems,
- iii. Policies for hedging and / or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges / mitigants, and
- iv. Accounting policy for recording hedge and non-hedge transactions; recognition of income, premiums and discounts; valuation of outstanding contracts; provisioning, collateral and credit risk mitigation.

These are in addition to the qualitative disclosures to be made as per Ind-AS 107 on 'Financial Instruments: Disclosures' as indicated at the beginning of Section 2.

Dimension	Assessment	Summary
Comprehensiveness	The qualitative disclosures required under this section cover overall market risk management practices as well as those specifically related to derivative contracts entered by a NBFC without any exceptions.	Adequate
Relevance and Timeliness	Information on risk management practices can help users understand the approach (systematic or otherwise) adopted by a NBFC in managing market risks and if adequate and appropriate mechanisms have been put in place. NBFCs are required to disclose information on their risk management practices on market risks in general and specifically on derivatives too. The latter cover details such as policies, associated risks, and the business purposes served by the derivatives. Given that these are institutional mechanisms which are not subject to frequent changes, the annual frequency of these disclosures is adequate.	Adequate
Reliability	Given that the information is qualitative in nature and is a statement of policies adopted by NBFCs, the disclosures are reliable. While there is no explicit provision in RBI's directions requiring NBFCs to disclose changes, if any, in the approach adopted by them to risk management, Ind-AS requires such changes from previous period to be disclosed.	Adequate
Comparability	Information required to be disclosed has been made explicit by the regulations, thus facilitating comparison across all applicable NBFCs.	Adequate
Materiality	All material information relevant for assessing the risk management policies and practices has been mandated to be disclosed.	Adequate

Appendix 2.2 Non-Banking Financial Company - Unlisted Deposit taking Company with Net Worth Less than Rs. 250 Crore

In this sub-section, we assess the transparency of disclosures to be made by Unlisted NBFCs-D with net worth less than Rs.250 crore, henceforth referred to as "applicable NBFCs". RBI disclosures contained in 'Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016' are largely balance sheet disclosures required to be presented as part of Notes to Accounts of the applicable NBFCs⁸³.

⁸³Any exceptions to applicability of the directions to the applicable NBFCs or disclosures outside the ambit of Notes to Accounts disclosures have been made explicit.

For the purpose of this assessment, the disclosures mandated have been categorised as below:

1. Financial Position
 - 1.1. Capital
 - 1.2. Investments
 - 1.3. Borrowings availed
 - 1.4. Securitisation
2. Risk Exposure and Risk Management Practices
 - 2.1. Credit Risk
 - 2.1.1. Concentration of Advances & Exposures and Non-performing Assets
 - 2.1.2. Restructuring of Advances
 - 2.2. Liquidity Risk
 - 2.2.1. Liquidity Risk Exposure
 - 2.2.2. Liquidity Risk Management and Practices
 - 2.3. Market Risk
 - 2.3.1. Exposures
 - 2.3.2. Risk Exposure in Derivatives
 - 2.3.3. Market Risk Management Practices

1. Financial Position

1.1. Capital

The directions require applicable NBFCs to make the following disclosures with respect to the capital they hold with comparative figures for the previous financial year.

- a. Capital to Risk Assets Ratio (%) (CRAR)
- b. Tier I Capital (%) and Tier II Capital (%)
- c. Amount raised through issue of subordinated debt and perpetual debt instruments

Additionally, applicable NBFCs are also required to disclose information on draw down from reserves, if any, under Notes to Accounts.

Dimension	Assessment	Summary
Comprehensiveness	<p>While RBI mandated disclosure covers the two main components of regulatory capital — Tier I and Tier II capital, there is no disclosure required on the value of risk-weighted assets, based on which whether a NBFC is holding adequate capital (CRAR) or not is assessed.</p> <p>On the qualitative side too, there is no requirement from RBI to provide a discussion on the management of NBFC's capital. Such a discussion can include overall objectives, policies, and processes for managing capital, including disclosure of RBI imposed capital requirements, nature of those requirements, how these have been incorporated into the management of capital, whether it complied with the requirements and the consequences of non-compliance. These data points can be useful for the users of this information to assess the capital adequacy levels against a benchmark considered appropriate by the regulator.</p>	Inadequate
Relevance and Timeliness	<p>Information on capital and its adequacy is critical, especially for investors and creditors, to assess the ability of NBFCs to remain solvent and operate as a going concern. In addition to components of regulatory capital, it would be useful to understand the values of on-balance sheet and off-balance sheet items that constitute risk-weighted assets. Any movement in these components will help put movement in capital into perspective.</p> <p>While issued capital which forms part of Tier I and Tier II capital might not be subject to frequent changes, risks faced by NBFCs such as credit/ market risks can materialise/ change on a more frequent basis, requiring adequate cushion to be created out of reserves. Any such action during the year can lead to changes in the capital reserves available with a NBFC. Hence, an annual disclosure as mandated might not be sufficient and a more frequent disclosure might be necessary.</p>	Inadequate
Reliability	<p>The components which go into the computation of CRAR are historical in nature and the need for estimation of data based on an assessment of future events is nil. However, any restatement of provisions made for risks such as credit risk on non-performing assets can lead to changes in the NBFC's capital position. There is no requirement at present to disclose such changes.</p>	Inadequate
Comparability	<p>These disclosure requirements apply to all NBFCs-D and NBFCs-ND-SI. Additionally, there have been no changes in the definitions or measurement concepts used to arrive at the information. The disclosures are hence comparable.</p>	Adequate
Materiality	<p>No material information has been excluded from disclosure requirements.</p>	Adequate

1.2. Investments

RBI's directions require applicable NBFCs to measure and value investments held by them based on whether they are current (intended to be held for not more than one year) or long term and quoted and unquoted. Additionally, it requires NBFCs to provide for depreciation in the value of investments. As part of Notes to Accounts, the following information is required to be disclosed, disaggregated to indicate investments made in India and outside India:

- a. Gross value of investments
- b. Provisions for depreciation
- c. Net value of investments
- d. Movement of depreciation provisions during the year

Separate disclosure on overseas assets including the name of the Joint Venture/ Subsidiary and total assets is required to be disclosed under Notes to Accounts.

Apart from the above disclosure, applicable NBFCs are also required to present the break-up of investments by the type of instrument held (shares, debentures and bonds, units of mutual funds, government securities, and others) as part of 'Schedule to the Balance Sheet'. This break-up is required to be presented for both current and long-term investments and quoted and unquoted investments.

Disclosures under AS 13 on 'Accounting for Investments'⁸⁴ are along the same lines as RBI requirements. They broadly cover the following:

- a. Accounting policy used for determination of carrying amount of investments
- b. Disclosure of investments by current and long-term
- c. Aggregate amount of quoted, unquoted, and market value of quoted investments

Dimension	Assessment	Summary
Comprehensiveness	The disclosures cover broad metrics which are important to understand the investment portfolio of a NBFC. These include — carrying values of the investment, impairment in the value of the investment, if any, tenure for which the investments are intended to be held and quoted and unquoted investments. However, tenure and listing status by themselves do not provide adequate information on the purpose for which investments are held by the applicable NBFCs on their books (e.g., for sale, for trade, etc.) and this information is not part of the disclosure requirements.	Inadequate
Relevance and Timeliness	The disclosure requirements provide sufficient granularity in the information presented. These disclosures are annual in nature. However, given that investments which are HFT and for sale can be subject to volatilities in their carrying values, a more frequent disclosure, i.e., quarterly disclosure of this information would be relevant.	Inadequate
Reliability	In addition to the accounting policy used for determining the carrying value of investments, the disclosures would be made more reliable if the methods/ assumptions used in ascertaining the fair value/ market value of the investments are also disclosed.	Inadequate
Comparability	These disclosure requirements apply to all NBFCs-D and NBFCs-ND-SI. Additionally, there have been no changes in the definitions or measurement concepts used to arrive at the information. The disclosures are hence comparable.	Adequate
Materiality	As mentioned under comprehensiveness section, composition of investment book of a NBFC (AFS, HFT and HTM) can have material implications on the financial health of a NBFC. This information is however not part of the present disclosure requirements.	Inadequate

⁸⁴See *Accounting Standards (AS): Disclosure Checklist*, February 2020, The Institute of Chartered Accountants of India. Accessible at: <https://resource.cdn.icai.org/58286asb47542as.pdf>

1.3. Borrowings Availed

RBI's directions require applicable NBFCs to disclose information on its liabilities as part of 'Schedule to the Balance' which is required to be appended to its annual balance sheet. The disclosures broadly include the following:

- a. Outstanding and overdue values of loans and advances availed inclusive of interest accrued but not paid categorised by instrument type (debentures, term loans, public deposits, etc.)
- b. Break-up of public deposits by instrument type - unsecured debentures, party secured debentures, and other public deposits

Apart from the above disclosures, applicable NBFCs are also required to disclose information on concentration of deposits covering the following:

- a. Total deposits of twenty large depositors and % of these to total deposits

Dimension	Assessment	Summary
Comprehensiveness	The disclosures cover broad metrics which are important to understand the liability profile of a NBFC. These include - carrying values at each balance sheet date, including overdue interest payments, and type of instrument through which funds have been raised.	Adequate
Relevance and Timeliness	RBI disclosure requirements provide sufficient granularity in the information presented. The risks arising from varying maturity patterns from these liabilities are covered through disclosures under risk management which have been assessed under a separate section. These disclosures are annual in nature. While this frequency is adequate to understand the liability profile, a higher frequency for information on defaults, if any, would be useful to understand the ability of the applicable NBFCs to make repayments and their overall financial position.	Inadequate
Reliability	Information required to be presented as part of this disclosure is historical in nature and the need for estimation of future events and accordingly related disclosures on methodology and assumptions is nil. The disclosure is hence reliable.	Adequate
Comparability	These disclosure requirements apply to all NBFCs-D and NBFCs-ND-SI. Additionally, there have been no changes in the definitions or measurement concepts used to arrive at the information. The disclosures are hence comparable.	Adequate
Materiality	In addition to understanding how the applicable NBFCs are managing their funding requirements, it is also crucial to understand their ability to make repayments on time. While liquidity risk (covered in subsequent sections) does cover this, it does not provide information on defaults, whether they be on principal or interest repayments, which have already occurred during the period being reported.	Inadequate

1.4. Securitisation

Under this section of disclosures, applicable NBFCs are required to present information on the following four categories of transactions.

- a. Details of outstanding amount of securitised assets, both own and third party
- b. Details of assignment transactions undertaken by the NBFC

- c. Details of financial assets sold to securitisation/ reconstruction company for asset reconstruction
- d. Details of non-performing financial assets purchased/ sold

Additionally, applicable NBFCs are also required to disclose the names of off-balance sheet SPVs sponsored both domestic and overseas.

Dimension	Assessment	Summary
Comprehensiveness	The disclosures required to be made are only quantitative in nature covering exposure of NBFCs to securitisation transactions in various forms. In addition to quantitative information, a qualitative discussion around some of the regulatory norms on securitisation transactions would help provide context to the numbers required to be presented. Additionally, on all securitisation exposures, own (through SPV route and direct assignments) and third party, quantitative information can include certain data points on an aggregate level - categorisation by loan type/ sector (personal loan, vehicle loan, etc.), securitisation product (nature and tenor) and ratings of the securitisation structures.	Inadequate
Relevance and Timeliness	The various data points required to be disclosed on securitisation and other NPA sale/ purchase transactions are captured at a sufficiently granular level and convey the required information. These disclosures are required to be made on an annual basis as part of Notes to Accounts. Given that these transactions give rise to balance sheet items which are mostly in the form of investments or off-balance sheet items and do not necessarily occur frequently, the annual nature of the disclosures is adequate.	Adequate
Reliability	The information to be disclosed under this requirement is to an extent historical in nature and are based on contractual obligations, the values of which are already known to the NBFCs. Hence, the use of estimates to measure future values is nil. The disclosures are hence reliable in their present form without the need for any additional information on the assumption or methodology used in calculating the figures.	Adequate
Comparability	These disclosure requirements apply to all NBFCs-D and NBFCs-ND-SI. Additionally, there have been no changes in the definitions or measurement concepts used to arrive at the information. The disclosures are hence comparable to the past values without the need for any further information.	Adequate
Materiality	The disclosures mandated for securitisation created through the route of SPVs are only restricted to exposures of NBFCs. An additional data point that might be useful for the users of this information would be a disclosure of the amount of gain/ loss made by NBFCs through these transactions. Similarly, gain/ loss arising out of the sale of financial assets/ NPAs to securitisation/ asset reconstruction companies or others (c. and d. above) would also be useful. Applicable NBFCs are also required to conduct regular stress tests on their securitisation positions and on the portfolio of loans purchased by them using various scenarios/ factors. Making the results of these tests public is critical to understanding the ability of these asset portfolios to perform under varying economic conditions.	Inadequate

2. Risk Exposure and Risk Management Practices

Guidance Note on 'Accounting for Derivative Contracts' issued by the ICAI⁸⁵ requires applicable NBFCs to make the following broad disclosures on financial risks:

⁸⁵See *Accounting Standards (AS): Disclosure Checklist*, February 2020, The Institute of Chartered Accountants of India. Accessible at <https://resource.cdn.icai.org/58286asb47542as.pdf>

- a. Overall financial risk management objectives
- b. Approach towards managing financial risks

The above disclosures are expected to explain the following:

- a. What are the financial risks?
- b. How does the entity manage these risks?
- c. Why does the entity enter various derivative contracts in order to hedge the risks?

Additionally, disclosures on risk management policies including the hedging strategies used to mitigate financial risks are required to be disclosed. However, the Guidance Note provides an indicative list of what *may* be included, as mentioned below:

- a. How specific financial risks are identified, monitored, and measured
- b. What specific types of hedging instruments are entered into and how these instruments modify or eliminate risk
- c. Details of the extent of transactions that are hedged

2.1. Credit Risk/ Asset Quality

2.1.1. Concentration of Advances & Exposures and Non-performing Assets

The Master Direction requires every applicable NBFC to disclose in their balance sheets the provisions made against NPAs. These directions require all the applicable NBFCs to disclose the following:

- a. Provisions recognised without netting them from the value of assets and to be distinctly indicated under separate heads of accounts under the title 'Provision for bad and doubtful debts' (Balance Sheet disclosure)
- b. Concentration of NPAs determined by exposure to top four NPA accounts & different sectors of the economy (Notes to Accounts disclosure)
- c. Movement of NPAs and provisioning for NPAs (Notes to Accounts disclosure)
- d. Gross and Net NPAs showing the amounts pertaining to related parties and other separately (Schedule to the Balance Sheet)
- e. Break-up of loans and advances as secured/ unsecured (Schedule to the Balance Sheet)

With respect to concentration of exposures, the following additional disclosures have been prescribed for the applicable NBFCs:

- a. The total made up by top twenty in each category
- b. Percentage of the top twenty to overall total in each category

Additionally, applicable NBFCs are also required to disclose information on loans extended against security of gold jewellery (being the single product) and details of the auction of such security, if any.

Dimension	Assessment	Summary
Comprehensiveness	The disclosures cover various key metrics related to credit risk exposure of applicable NBFCs. These include information on total advances (NPA and non-NPA), gross NPA, NPA loss allowances, and concentration of risks.	Adequate
Relevance and Timeliness	<p>The key metrics mentioned under 'Comprehensiveness' were further assessed for relevance along exposure to NPA categories, top accounts, and economic sectors and were found to be lacking with respect to the disclosure of the following information:</p> <p><u>Total advances/ exposures:</u> Information on total advances/ exposures extended by the NBFC by economic sector is not available. This would be useful to understand the exposure of the NBFC to different sectors of the economy and the possible credit risk arising from such an exposure pattern. The same information would also be useful under the disclosure of concentration of NPA by economic sector. Here, only the % of the NPA in the sector to overall advances in the sector is required to be disclosed. However, the weight of each sector in the overall loan portfolio of the NBFC is not available which would make this information more relevant.</p> <p>Currently there are no disclosures required on standard assets. Information on movement within the standard asset category can help keep the users updated on emerging NPA situation, if any. RBI already prescribes applicable NBFCs to identify incipient stress in accounts before they turn into NPA by creating sub-asset category, i.e., 'Special Mention Accounts' (SMA). This information can be included in public disclosures. <u>Gross NPA:</u> Only one figure indicating Gross NPA is available. No information is available on the composition of NPA by asset quality (doubtful, sub-standard, and loss assets), economic sectors and borrower profiles from where these NPAs are arising from.</p> <p>Value of exposures to top 4 NPA accounts are required to be disclosed. It would be more relevant if, in addition to this, the value of these exposures is given as a % of total NPAs and as % of total advances.</p> <p><u>Provisioning for NPA:</u> The disclosures require applicable NBFCs to provide information only an overall figure on the provision for bad and doubtful debts. No information is available on the break-down of these provisions provided for assets at different quality levels (standard, sub-standard, doubtful, etc.).</p> <p>All the disclosures under this section are required to be made on an annual basis. The frequency is not adequate given that exposure to credit risk continuously evolves for a NBFC given that it lends throughout the year. This has repercussions on both the quality of its loan book as well as the strength of its financial position.</p>	Inadequate
Reliability	The Guidance Note on 'Accounting for Derivative Contracts' requires applicable NBFCs to disclose the financial risks faced by them along with how they manage such risks. However, information on how they identify, measure, and monitor credit risk, along with the methodology and assumptions used, if any (e.g., for SMA accounts), is not available. "May include a discussion" is the language used in the Guidance Note, indicating that there is scope for potential non-disclosure and hence, non-reliability of the information disclosed.	Inadequate

Comparability	The disclosures required under RBI's directions are to be made only for values outstanding at the end of the reporting year. This is excluding the information on movement of NPAs and provisioning for NPAs for which both the previous year and reporting year figures are required to be disclosed. More relevant and appropriate comparison would be facilitated if all the disclosures show a comparison to the previous quarter/ year. Additionally, as discussed under reliability, the lack of explicit requirement around disclosure of credit risk management practices renders disclosures, if any, non-comparable along an applicable NBFC's timeline and across its peers.	Inadequate
Materiality	The disclosures discussed under 'Relevance and Timeliness' such as exposure to credit risk from different economic sectors, information on movement in the quality of standard assets, and composition of both Gross NPA and provisioning by NPA asset quality are also material to understanding the credit risk faced by the applicable NBFCs. These are, however, currently not required to be disclosed.	Inadequate

2.1.2. Restructuring of Advances

The Master Direction contains guidelines on restructuring of advances by applicable NBFCs. As stated in the guidelines, the basic objective of restructuring is to preserve the economic value of units, and not ever-greening of problem accounts. The guidelines go on to state that this should be achieved by the NBFCs and borrowers through careful assessment of the viability, quick detection of weaknesses in accounts, and a time-bound implementation of restructuring packages.

NBFCs are required to disclose information with respect to restructured advances in their annual Balance Sheets under Notes to Accounts. The prescribed format for disclosure includes:

- a. Details of accounts restructured on a cumulative basis excluding the standard restructured accounts which cease to attract higher provision and risk weight (if applicable)
- b. Provisions made on restructured accounts under various categories
- c. Details of movement of restructured accounts.

Applicable NBFCs are required to disclose the total amount of outstanding in all the accounts/ facilities of borrowers whose accounts have been restructured and not just the restructured facility.

Dimension	Assessment	Summary
Comprehensiveness	The disclosure requirements apply to all forms of restructuring including those under Corporate Debt Restructuring Mechanism (CDR) and Small and Medium Enterprise (SME) Restructuring and all categories of advances. Additionally, the disclosure also provides information on movement of restructured advances between different asset classifications (standard, sub-standard, doubtful, and loss) based on their quality. Apart from these, specific information on loans that have been referred to IBC (restructured/ otherwise) for resolution can help indicate the action taken by NBFCs towards recovery. Such information can include the total value of such loans, the value of such loans as a percentage of the loan book and as a percentage of NPAs, and the status of such cases.	Inadequate
Relevance and Timeliness	While the disclosure exhaustively covers important information related to restructured advances, certain granular details within what is already mandated to be disclosed are necessary to provide more clarity. 1) The values, both number of accounts and the amounts involved, relating to all the facilities/ accounts outstanding against a particular borrower involved in a restructuring transaction and <i>not just</i> the restructured facility is required to be disclosed. While this information is important to assess the overall value of assets which might be at risk, a separate disclosure on restructured and non-restructured advances at the beginning and the end of the year would help assess the magnitude of deterioration in the quality of assets against overall outstanding balances with respect to a borrower. 2) It is not clear if the provisions to be disclosed refers to the diminution in the fair value of assets involved in the transaction, provisioning based on asset quality category, or both combined. It would be useful if these two provisions are disclosed separately. Information on regular provisioning based on asset quality would help users in understanding the impact of such restructured assets on the financial position of the NBFC, particularly in cases where the asset quality deteriorates post restructuring. The provision for diminution in fair value on the other hand would provide the loss incurred by NBFCs upon restructuring of advances. These disclosures are to be made by NBFCs on an annual basis under Notes to Accounts. Restructuring arrangements can be entered into by NBFCs at any point during a financial year. Depending on the loss/ sacrifice taken on by the NBFCs, they can result in the erosion of its capital. This is in addition to loss provisioning on account of deterioration in the quality of assets post restructuring. Hence, quarterly disclosures would be more appropriate.	Inadequate
Reliability	The information to be disclosed is ex-post in nature. However, there is an element of estimation involved in computing the diminution in the fair value of the advances which have been restructured. While quantitative information is disclosed on the provision made for such diminution in value, there is no qualitative discussion around how the same is computed. While such information cannot help the users to reconstruct the diminution in values, it can help provide a better context to how the numbers have been arrived at. Hence, a discussion on the methodology and the base lending rate used for computing the diminution in value can be useful. Additionally, given that the NBFCs are required to re-compute the diminution in the fair value at each balance sheet date, information on changes in the base lending rate along with the value of reversals in/ additional provisioning would be useful.	Inadequate
Comparability	These disclosure requirements apply to all NBFCs-D and NBFCs-ND-SI. Additionally, there have been no changes in the definitions or measurement concepts used to arrive at the information. The disclosures are hence comparable to the past values without the need for any further information.	Adequate

Materiality	Investors and creditors would be the main stakeholders who would be interested in this disclosure. Restructuring of advances can result in arrangements where in order to preserve the economic value of the asset under consideration, as stated in the guidelines, some loss would have to be taken on by the NBFC. This has the effect of altering the future cash flows of the NBFC which can have an impact on both its financial performance and its profitability. Additionally, no material information has been omitted from the disclosure.	Adequate
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2.2. Liquidity Risk

Liquidity indicates a NBFC's ability to meet its obligations as they become due and any unmanaged risk arising from its asset/ liability portfolio can pose a threat to its functioning and financial stability. Hence, information on liquidity risk is crucial to understanding the level of risk present on the financials of the NBFC and the characteristics of such risks. Accordingly, three sets of disclosures have been prescribed by RBI through this Master Direction.

- a. Disclosures under Guidelines on Liquidity Risk Management Framework
- b. Disclosure on Asset Liability Maturity Pattern as part of Notes to Accounts
- c. Disclosures under Guidelines on Liquidity Coverage Ratio (LCR)

2.2.1. Liquidity Risk Exposure

Here, we evaluate the quantitative information to be disclosed by NBFCs to enable market participants to make an informed judgement about their liquidity position.

Applicable NBFCs are required to adhere to the Guidelines on Liquidity Risk Management Framework. Apart from various aspects of liquidity management, the guidelines also specify the information to be publicly disclosed by the NBFCs to enable market participants to make an informed judgement about the soundness of its liquidity risk management framework and liquidity position. These include:

- a. Funding concentration based on significant counterparty (both deposits and borrowings - value, % of total deposits, % of total liabilities)
- b. Top 20 large deposits (amount and % of total deposits)
- c. Top 10 borrowers (amount and % of total borrowings)
- d. Funding Concentration based on significant instrument/product
- e. Stock ratios of commercial papers, non-convertible debentures, and other short-term liabilities (% of total public funds, liabilities, and total assets)

Applicable NBFCs are also required to disclose information in their Notes to Accounts on ALM maturity pattern of certain items of assets and liabilities under specified time buckets.

Guidelines on Liquidity Coverage Ratio (LCR) contained in this Master Direction are applicable to all NBFCs-D irrespective of their asset size. These NBFCs are required to maintain prescribed levels of LCR with effect from December 1, 2020. LCR is computed as a ratio of Stock of High-Quality Liquid Assets to Total Net Cash Outflows over the next 30 days. The objective of this requirement is to promote the resilience of NBFCs to potential liquidity disruptions by ensuring that they have enough HQLA to survive any acute liquidity stress scenario lasting for 30 days. Disclosures on LCR are required to be presented as per the format specified in the guidelines. Additionally, the NBFCs are required to provide sufficient qualitative discussion around LCR to facilitate understanding of the results and the data provided.

AS-3 on 'Cash Flow Statements' encourages (non-mandatory) disclosure of additional information that can help users in understanding financial position and liquidity of the applicable NBFCs⁸⁶. Such disclosure may include information on undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, while also indicating any restriction in usage.

Dimension	Assessment	Summary
Comprehensiveness	Together, the disclosure requirements under liquidity risk management framework (covering funding concentration and stock ratios), ALM maturity pattern, and LCR cover key information required to understand the liquidity position of NBFCs and the associated liquidity risk.	Adequate
Relevance and Timeliness	Information on significant shortcomings in liquidity observed by a NBFC <i>during</i> the quarter/ year is unavailable as the LCR figures presented on a quarterly/ yearly basis are an <i>average</i> of monthly/ daily observations. Hence, a disclosure to this effect where the NBFC was unable to meet the LCR requirements <i>during</i> the reported period along with reasons and the remedial measures taken would be relevant. For this purpose, a threshold limit in terms of shortfall can be prescribed. While the disclosures under the liquidity risk management framework are required to be made both on a quarterly and on an annual basis, information on asset-liability maturity pattern is required only on an annual basis. Hence, at present, except information on asset liability maturity pattern, all disclosures including liquidity risk management strategies and practices and LCR are made both on a quarterly and an annual basis. Therefore, making ALM maturity pattern disclosures quarterly would help provide a holistic picture of liquidity position on a more consistent and frequent periodicity.	Inadequate

⁸⁶See *Accounting Standards (AS): Disclosure Checklist*, February 2020, The Institute of Chartered Accountants of India. Accessible at <https://resource.cdn.icai.org/58286asb47542as.pdf>

Reliability	<p>The information to be disclosed under LCR guidelines has both data based on known facts (such as value of HQLAs owned by the NBFCs) as well as estimates of data based on an assessment of future events. Specifically, LCR computation requires the NBFCs to apply haircuts to HQLAs depending upon the risk involved. The haircuts specified by the guidelines are only the minimum required and the NBFCs can provide for a higher number based on their judgement of the liquidity of the HQLAs. Components of HQLA with information on the haircuts applied to each of them along with qualitative information on the assumptions that went into arriving at the haircuts would help facilitate better understanding for the users.</p> <p>The qualitative information required to be disclosed on LCR is only indicative in nature and does not provide an exhaustive list and it depends on the judgement of the NBFCs as to what constitutes relevant information. The disclosures can be more reliable if there is consistency in what is reported from one period to the other and to an extent, this can be ensured by making the requirements explicit in the guidelines.</p>	Inadequate
Comparability	<p>The guidelines do not propose a change in the definitions and the measurement concepts which go into constructing the information to be disclosed and there are no differences in the requirements across the applicable NBFCs and other NBFCs-D and NBFCs-ND-SI. However, as stated earlier, the qualitative disclosures are open-ended in nature, leaving it up to the judgement of the NBFCs to determine what information is relevant. This can reduce the comparability of information across different NBFCs. Hence, making the disclosure requirements explicit might be useful.</p>	Inadequate
Materiality	<p>As discussed under the relevance section, information on liquidity risk is critical to understanding the operations and finances of NBFCs.</p> <p>RBI's Liquidity Risk Management Framework requires NBFCs to which the framework is applicable, to conduct stress tests on a regular basis for various short-term/ protracted stress scenarios. However, there is no requirement for the NBFCs to make the results of such tests public.</p>	Inadequate

2.2.2. Liquidity Risk Management Practices

As per RBI's Guidelines on Liquidity Risk Management Framework, applicable NBFCs are also required to disclose information on institutional set-up for liquidity risk management which can enable the market participants to make an informed judgement about the soundness of their risk management framework.

Dimension	Assessment	Summary
Comprehensiveness	<p>RBI's disclosure requirement restricts itself to institutional set-up for liquidity risk management and does not go into other processes and methods adopted by NBFCs for liquidity risk management. The Guidance Note on 'Accounting for Derivative Contracts' requires the NBFCs to disclose the financial risks faced by them along with how they manage such risks. However, here again, information on how they identify, measure, and monitor liquidity risk, along with the methodology and assumptions used, if any, are not available. "May include a discussion" is the language used in the Guidance Note. This is inadequate and can lead to non-reporting of key information/ inconsistencies in information reported across different entities.</p>	Inadequate

Relevance and Timeliness	This disclosure facilitates understanding of policies and internal processes put in place by the applicable NBFCs for liquidity risk management and can help provide context for the quantitative information presented on liquidity risk. Additionally, it also informs the users of this information of the extent of adherence by NBFCs to RBI's guidelines on liquidity risk management framework. RBI's guidelines require disclosures to be made both on a quarterly (on NBFCs' websites) and an annual basis. Given that the disclosures are intended at discussing the broad framework and policies for managing liquidity risk which are not expected to change frequently once set-up, the frequency of dissemination of this information is adequate.	Adequate
Reliability	Given that the information is qualitative in nature and is a statement of policies adopted by NBFCs, the disclosures are reliable. However, while such risk management policies might not be subject to frequent changes, there is no explicit provision in RBI's directions or Indian GAAP requiring NBFCs to disclose changes, if any, in the approach adopted by them on the various aspects listed above, along with an explanation for the same. Such disclosures can help account for any variation in how NBFCs perceive liquidity risks.	Inadequate
Comparability	As discussed under comprehensiveness, the lack of guidelines from RBI and the language used in Indian GAAP on the disclosures related to liquidity risk management practices of the applicable NBFCs leaves scope for non-reporting or inconsistencies in the information reported along an applicable NBFCs timeline and across its peers. This can render the disclosures non-comparable.	Inadequate
Materiality	The information discussed as lacking under comprehensiveness section are also material in nature.	Inadequate

2.3. Market Risks

Specific to foreign risk, AS-11 on 'The Effects of Changes in Foreign Exchange Rates' encourages disclosure on foreign currency risk management policy⁸⁷. However, this is not mandatory in nature.

2.3.1. Exposures to Sectors and Specific Borrower/ Advance Type

As part of Notes to Accounts in their balance sheets, applicable NBFCs are required to disclose information on the value of exposure to market risk and credit risk arising from various lending and investing activities. The following are the sectors/ activities in relation to which NBFCs are required to make the disclosures:

- i. Exposure to real estate
- ii. Exposure to capital market
- iii. Details of financing of parent company products
- iv. Details of Single Borrower Limit (SGL)/ Group Borrower Limit (GBL) exceeded by the applicable NBFC (not applicable to NBFC MFIs with asset size of Rs. 500 crore and above)

⁸⁷See *Accounting Standards (AS): Disclosure Checklist*, February 2020, The Institute of Chartered Accountants of India. Accessible at <https://resource.cdn.icaai.org/58286asb47542as.pdf>

v. Unsecured advances

Dimension	Assessment	Summary
Comprehensiveness	The disclosures require NBFCs to provide information on exposure to credit risks and market risks arising from direct investments made in the real-estate sector and capital markets and those arising from mortgages and securities secured for loans extended. However, real estate is only one of the many real economic sectors through which a NBFC might be exposed to such risks. Hence, a more comprehensive disclosure covering all sectors of the economy to which the NBFC is exposed to/ sectors to which the exposure is considered as material (beyond a specified threshold of, for example, 10% of the total exposure) would provide a complete picture of the risk profile of the NBFC.	Inadequate
Relevance and Timeliness	Disaggregation covering all the sectors aside, it would be useful to understand the risk levels arising from investments that have been made by the NBFC. To address this gap, applicable NBFCs can investments by credit rating categories and movements, if any, from the previous period. Given that these disclosures are to be made on an annual basis, they fall short in comparison to the frequency at which market and credit risk from exposure to different economic sectors can materialise. Hence, a more frequent disclosure, i.e., on a quarterly basis would be useful.	Inadequate
Reliability	The information to be disclosed under this requirement is to an extent historical in nature and are based on contractual obligations, the values of which are already known to the NBFCs. Hence, the use of estimates to measure future values is nil. The disclosures are hence reliable in their present form without the need for any additional information on the assumption or methodology used in calculating the figures.	Adequate
Comparability	The guidelines do not propose a change in the definitions and the measurement concepts which go into constructing the information to be disclosed and there are no differences in the requirements across the applicable NBFCs and other NBFCs-D and NBFCs-ND-SI.	Adequate
Materiality	With respect to exposures to capital markets and real estate, the RBI's directions as indicated earlier require only the value of exposure at the end of the reporting period. However, the following crucial information related to associated market risks are missing. These, however, can be extended for exposures in other sectors as well (i.e., entire investment book and other indirect exposures): 1. Expected impact on financial assets/ liabilities from credit ratings downgrade, volatility in market risks such as interest rates (e.g., modified duration), foreign exchange rates, and prices are missing. On the latter, information can also be provided on trends in such impact over a period of time. Without these, the users of this information might be unable to understand the implications of exposures to capital markets and real estate on the financial position of the applicable NBFCs. 2. Additionally, to make such additional disclosures more reliable, the models and assumptions used to estimate such expected impact along with reasons for changes, if any, from previous period would be required. Within the buckets under which the disclosures are required to be made, the risk arising from the concentration of such exposures to specific sectors/ geographies/ others is important.	Inadequate

2.3.2. Risk Exposure in Derivatives

With respect to risk exposure in derivatives, applicable NBFCs are required to make quantitative disclosures on the following:

- i. Forward Rate Agreement / Interest Rate Swap

- ii. Exchange Traded Interest Rate (IR) Derivatives
- iii. Currency Derivatives
- iv. Credit Default Swaps (CDS)

Specifically, on derivatives contracts, 'Guidance Note on Accounting for Derivative Contracts' issued by the ICAI requires the following disclosures⁸⁸:

- i. Derivatives recognised at fair value as current and non-current assets/liabilities on the balance sheet
- ii. Methodology used to arrive at fair value of derivative contracts
- iii. Extent of fair value gains/ losses

Dimension	Assessment	Summary
Comprehensiveness	While the information required to be disclosed for the above listed derivative contracts vary, they cover all types of derivatives contract a NBFC might enter to manage its market risks/ credit risks.	Adequate
Relevance and Timeliness	An assessment of whether the disclosures cover relevant elements of risk exposure reveals that each of them has a few components missing. For all the above listed derivative instruments, it would be appropriate if the disclosures are categorised by derivative instrument type, and against each of them, notional value and any collateral/ margin money involved in the contract are disclosed. Specifically, with respect to CDS, in addition to the above, it would be useful if categories of debt issuers whose default risk is sought to be covered with a CDS and materiality threshold, if any, are disclosed. The regulations currently require NBFCs to disclose information related to their derivate exposures on an annual basis as part of their Notes to Accounts. However, since NBFCs can potentially enter derivative contracts throughout any given year (for risk mitigation/ trading) exposing them to risks, annual disclosure might be inadequate. Hence, a more frequent disclosure, i.e., on a quarterly basis would be relevant and useful.	Inadequate
Reliability	Quantification of risk exposure in derivatives contract involves assessment of future events which are subject to market conditions. To the extent possible, without compromising on the confidentiality of its risk management practices, the information disclosed would be more reliable if the model used to compute these figures and the assumptions underlying the computation are disclosed.	Inadequate
Comparability	The guidelines do not propose a change in the definitions and the measurement concepts which go into constructing the information to be disclosed and there are no differences in the requirements across the applicable NBFCs and other NBFCs-D and NBFCs-ND-SI.	Adequate
Materiality	As stated earlier, the disclosure requirements for each of the derivative exposures vary. From a materiality perspective, there are certain data points that are material to the understanding of the risk exposure but are entirely missing in the requirements. These include the value of the underlying exposure being hedged. With respect to the derivatives contract itself, tenure of the contract, risk arising from the derivatives contract, probability of such risks materialising, and the expected volatility in such risks. Additionally, information on counterparty credit risk, a by-product of the derivatives contracts, and concentration of such risks are also important.	Inadequate

⁸⁸See *Accounting Standards (AS): Disclosure Checklist*, February 2020, The Institute of Chartered Accountants of India. Accessible at <https://resource.cdn.icaai.org/58286asb47542as.pdf>

2.3.3. Market Risk Management Practices

RBI disclosure requirements prescribe qualitative discussion specifically on risk management practices pertaining to derivatives. Applicable NBFCs are required to disclose the following information:

- i. The structure and organization for management of risk in derivatives trading,
- ii. The scope and nature of risk measurement, risk reporting and risk monitoring systems,
- iii. Policies for hedging and / or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges / mitigants, and
- iv. Accounting policy for recording hedge and non-hedge transactions; recognition of income, premiums and discounts; valuation of outstanding contracts; provisioning, collateral and credit risk mitigation.

In addition to these, there are disclosures required under Guidance Note on 'Accounting for Derivatives Contracts' as indicated at the beginning of Section 2.

Dimension	Assessment	Summary
Comprehensiveness	The qualitative disclosures required under this section cover overall market risk management practices as well as those specifically related to derivative contracts entered by a NBFC without any exceptions. With respect to overall market risk exposures, the Guidance Note on 'Accounting for Derivative Contracts' requires applicable NBFCs to disclose the financial risks faced by them along with how they manage such risks. However, information on how they identify, measure, and monitor market risk, along with the methodology and assumptions used, if any, are not available. "May include a discussion" is the language used in the Guidance Note indicating that there is scope for potential non-disclosure and inconsistency in the information reported across applicable NBFCs.	Inadequate
Relevance and Timeliness	Information on risk management practices can help users understand the approach (systematic or otherwise) adopted by a NBFC in managing market risks and if adequate and appropriate mechanisms have been put in place. NBFCs are required to disclose information on their risk management practices to market risks in general and specifically on derivatives too. The latter cover details such as policies, associated risks, and the business purposes served by the derivatives. Given that these are institutional mechanisms which are not subject to frequent changes, the annual frequency of these disclosures is adequate.	Adequate
Reliability	Given that the information is qualitative in nature and is a statement of policies adopted by NBFCs, the disclosures are reliable. However, while such risk management policies might not be subject to frequent changes, there is no explicit provision in RBI's directions or Indian GAAP requiring NBFCs to disclose changes, if any, in the approach adopted by them on the various aspects listed above, along with an explanation for the same. Such disclosures can help account for any variation in how NBFCs perceive overall market risks and those arising from derivative contracts.	Inadequate

Comparability	As discussed under comprehensiveness, the lack of guidelines from RBI and the language used in Indian GAAP on the disclosures related to overall market risk management practices of the applicable NBFCs leaves scope for non-reporting or inconsistencies in the information reported along an applicable NBFCs timeline and across its peers. This can render the disclosures non-comparable.	Inadequate
Materiality	The information discussed as lacking under the comprehensiveness section are also material in nature.	Inadequate

Appendix 3. Urban Co-operative Banks

UCBs/Primary Co-operative Banks are primarily registered as co-operative societies under the State Co-operative Societies Act of the state where the bank is located or under Multi-State Co-operative Societies Act, 2002, depending on the spread of the bank's operations. Until the Banking Regulation (Amendment) Act, 2020⁸⁹, the UCBs came under dual regulation wherein the Reserve Bank of India (RBI) regulated the banking-related functions, and the central/state government regulated the management-related functions. With the Act, UCBs come under the ambit of the Banking Regulation Act, 1949, and are subject to greater supervision by the RBI.

As of March 2019, there are 1544 UCBs, with 54 of them being scheduled UCBs and the rest non-scheduled. Despite their large number, UCBs account for only about Rs. 3 lakh crores of advances⁹⁰, which forms around three percent of the size of SCBs' advances.

Regulation - Balance Sheet of Banks - Disclosure of Information⁹¹

Background

This circular consolidates all the disclosure norms required of UCBs. The information is required to be disclosed in the 'Notes to Accounts' of their balance sheets. In the analysis below, the disclosure items pertaining to financial position, risk exposures, and risk management have been further categorized as:

- i. Risk Exposures
 - a. Asset Quality
 - b. Market Risk
- ii. Financial Position
 - a. Exposures
 - b. Capital
 - c. Provisions

1. Risk Exposures

a. Notes to Accounts: Asset Quality related Disclosures

Credit risk is an important element of risk exposures of a bank, more so in the case of UCBs which have historically had higher values of NPAs than other

⁸⁹See *The Banking Regulation (Amendment) Act, 2020*, Sep 2020, The Gazette of India. Accessible at: <http://egazette.nic.in/WriteReadData/2020/222114.pdf>

⁹⁰Source *Report on trend and progress of banking in India 2018-19*, Reserve Bank of India

⁹¹See *Balance Sheet of Banks — Disclosure of Information*, March 25, 2014, Reserve Bank of India. Accessible at: <https://www.rbi.org.in/scripts/NotificationUser.aspx?Mode=0&Id=8786>

bank groups⁹², and also because they are subject to very little of other types of risk exposures. Therefore, the disclosures regarding non-performing assets are of considerable importance in evaluating the extent of risk exposures of the bank. The specific items covered in his subsection are:

- i) NPAs:
 - a) Gross NPAs
 - b) Net NPAs
- ii) Movement in NPAs
- iii) Non-performing non-SLR investments
- iv) Restructured Accounts

Dimension	Assessment	Summary
Comprehensiveness	This disclosure on NPAs covers all advances and investments. Additionally, in contrast to the rural co-operatives, the structure of UCBs is single-tiered and there are no other related entities involved. Therefore, these disclosures may be considered adequately comprehensive.	Adequate
Relevance and Timeliness	<p>The relevant audience for this disclosure is the members of the co-operative whose deposits are the primary source of lending, and any provision or loss against these loans is taken out of the share capital which often is required to be contributed by the members⁹³. Further, the reduction in shareholder value and profit is a gain experienced by the members themselves who receive a share in the profits inform of dividends. This information is therefore relevant to the members who would want to track the quality of the deployed funds. Based on the performance of the bank, the members can choose to either retain their deposits with the bank or move them out.</p> <p>Regarding the relevance of the disclosure on NPAs, just the reporting of absolute amounts of gross and net NPAs and the movement of the same is not sufficient to get a clear picture of the change in the NPA picture. For this, some more detail such as the quantum of additions and reductions across the NPA categories -substandard and doubtful- also needs to be disclosed. Further, the NPA details of investments (opening balance, addition/reduction during the period, closing balance, and provisions held) are provided at an aggregate level, and not based on the above categories.</p> <p>In the case of restructured accounts' disclosure format, the particulars are categorised into only 'Housing Loans' and 'SME Debt Restructuring' and the rest as 'Others'. Neither do these categories encompass the totality of the restructuring schemes (notable exclusion being the Corporate Debt Restructuring scheme) nor do they form the majority of the restructured amounts. The choice of the categories required to be reported can be made less arbitrary by including those categories which a) form a major part of the restructured amounts; b) come under any restructuring scheme; or c) receive any special regulatory treatment. As some of these categories are bound to change with time, the format for disclosure too must be updated regularly.</p>	Inadequate

⁹²Chart V.12: Non-performing assets: UCBs versus SCBs, *Report on trend and progress of banking in India 2019-20*, Reserve Bank of India. Accessible from: https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/0RTP2020_F3D078985540A4179B62B7734C7B445C9.PDF

⁹³See 3. Share linking to borrowings, *Prudential norms on capital adequacy — Master circular — UCBs*, July 1, 2009, Reserve Bank of India. Accessible at: https://m.rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?Id=5155&Mode=0

Relevance and Timeliness	The current periodicity of this regulation is annual as the disclosure is made in the audited balance sheet. This frequency may be deemed inadequate considering how standard advances and investments can become NPAs within a quarter. Thus, the stock of NPAs can change much quicker than the periodicity of reporting.	Inadequate
Reliability	<p>The information on the non-performing assets and investments is historical in nature. As UCBs are not required to disclose any divergences from the earlier stated NPA amounts, the reliability of the disclosures is reduced.</p> <p>In the case of restructured advances, while the details on the number of borrowers and amount outstanding of the restructured accounts are historical in nature, there is an element of estimation in the calculation of the sacrifice/diminution in the fair value. The sacrifice amount is calculated as the reduction in fair value of the restructured account calculated at the point of restructuring using a discount rate which includes the Benchmark Prime Lending Rate (BPLR) and term and credit risk premiums which are specific to the borrower/borrower type. This value of sacrifice that is disclosed does not include any further information provided on whether it has been recalculated since restructuring due to changes in BPLR or borrower's credit risk, therefore reducing the reliability of the disclosed figure.</p>	Inadequate
Comparability	A historical comparison within the co-operative banks regarding asset classification can be done as the disclosure format and definitions have not changed since 2002. As similar items are present in the disclosures of other bank groups, these disclosures are adequately comparable.	Adequate
Materiality	<p>While the amount and movement of NPAs indicate the extent of credit risk exposure of a bank, several other material elements of information need to get a full picture of the risk exposures of the bank are not disclosed. For instance, amounts and movement of NPAs of exposures to specific sectors are not disclosed. These disclosures are important in assessing the nature of risk exposures of the bank, particularly when there is risk specifically arising from the underperformance/troubles of one particular sector or counterparty. Additionally, there are no disclosures on the amount (or percentage of total) NPAs of individual borrowers/entities with high NPA amounts which are required to assess the extent of risk exposure to a single (or a few multiple) entities.</p> <p>Certain other items such as the number/amounts of repeatedly restructured accounts (i.e., those accounts that have been restructured two or more times) are not required to be disclosed. This is an omission of material information, especially considering the ubiquitous problem of ever-greening of loans.</p>	Inadequate

b. Notes to Accounts: Market Risk related Disclosures

Information regarding market risk, which arises from due to uncertainty in market prices, is used to evaluate the market risk exposures of the institution. In the case of co-operative banks, market disclosures are only applicable for those co-operative banks with AD Category 1 licenses.

The required disclosures for market risk are as follows:⁹⁴

- i) Qualitative disclosures - The general qualitative disclosure requirement for market risk including the portfolios covered by the standardized approach.
- ii) Quantitative disclosures: The capital requirements for:
 - a) Interest rate risk
 - b) Equity position risk
 - c) Foreign exchange risk

Dimension	Assessment	Summary
Comprehensiveness	These disclosures are prescribed only for those UCBs with AD Category 1 license. This may be inadequate as it does not cover all the Tier II ⁹⁵ UCBs that are large in size, systemically important, and which face interest rate risk, if not foreign exchange risk.	Inadequate
Relevance and Timeliness	The relevant audience for these disclosures would be the members of the UCB who can use this information to judge the resilience of the bank against market risk. The frequency of these disclosures is yearly. While changes in the trading book occur far more frequently than on a yearly basis and an annual record of changes might be not very relevant, there are only a few instruments which are allowed to be invested by the co-operative banks. Further, UCBs are not authorized to take equity positions except in other co-operative banks and financial market infrastructure companies such as CCIL, NPCI, and SWIFT, thereby limiting this risk as well. Therefore, considering the minimal risk involved, a more frequent disclosure schedule might prove costlier compared to the potential benefits.	Adequate
Reliability	The information provided in these disclosures is historical in nature. Given that the calculation of capital charge for market risk is calculated as per the specific capital risk charges specified in the guidelines for each type of instrument/position, the disclosed values may be considered reliable.	Adequate

⁹⁴See *Prudential Guidelines on Capital Charge for Market Risks*, February 8, 2010, Reserve Bank of India. Accessible at: <https://www.rbi.org.in/scripts/NotificationUser.aspx?Mode=0&Id=5495>

⁹⁵Tier II UCBs are those which are not Tier I UCBs. Tier I UCBs are categorised as under:
 - Banks having deposits below Rs.100 crore operating in a single district
 - Banks with deposits below Rs.100 crore operating in more than one district will be treated as Tier I provided the branches are in contiguous districts and deposits and advances of branches in one district separately constitute at least 95% of the total deposits and advances respectively of the bank and
 - Banks with deposits below Rs.100 crore, whose branches were originally in a single district but subsequently, became multi-district due to reorganization of the district.

Comparability	Comparison with commercial banks is not appropriate given that a similar disclosure is not required of them and also that there is a considerable regulatory difference in the activities that each type of bank is allowed. However, the information is not comparable within even UCBs as the requirement of market risk disclosures is not applicable to all UCBs.	Inadequate
Materiality	The quantitative disclosures are material as they give information on capital required for the different risks. The qualitative disclosures give only limited information - portfolios covered under the standardized approach for the computation of capital charge. Although these limited disclosures may be considered commensurate to the level of exposure undertaken by the UCB, there are other material items that are not included such as qualitative disclosures on where the risk is arising from given the limited scope of exposure, and the effectiveness of any hedging procedure employed.	Inadequate

1. Financial Position

a. Notes to Accounts: Exposures related Disclosures

The exposures of a UCB comprise of loans and advances given out to various individuals/entities belonging to different sectors, as well as investments in different type of securities. The breakdown of these exposures provides the user with information on the financial position of the bank. Therefore, sufficient disclosures - both quantitative and qualitative - should be made available by the bank on aspects such as magnitude and nature of these exposures.

The specific items covered here are:

- i) Advances against real estate, construction business, housing
- ii) Advances against shares and debentures
- iii) Advances to directors, their relatives, companies/firms in which they are interested:
 - a) Fund-based
 - b) Non-fund based (Guarantees, L/C, etc)
- iv) Details of securities sold/purchased under repo/reverse repo transactions
- v) Issuer type-wise composition of non-SLR investments
- vi) Classification of investments in Balance sheet into the categories of i) Government securities ii) Other approved securities iii) Shares iv) Bonds of PSU and v) Others.

Dimension	Assessment	Summary
Comprehensiveness	<p>In the case of advances, the sector-wise disclosures are limited to only that of real estate. As exposures to other potentially risky sectors are not given, the disclosures do not provide a comprehensive picture of the risks undertaken by the bank.</p> <p>In the case of investments too, the disclosures fall short of providing comprehensive information as major categories under non-SLR investments such as those of NBFCs and non-financial corporates are not separately listed as categories (currently include only PSUs, FIs, mutual funds, and PSBs). These categories must be separately identified as they are some of the major participants of the funds market and also have been subjected to liquidity crises in the past.</p>	Inadequate
Relevance and Timeliness	<p>The relevant audience for this disclosure is the members of the co-operative bank, whose deposits are the primary source of funds for lending and are also the ones who face potential withdrawal restrictions in case of a deterioration of asset quality. The information on exposures is required for the members who use it to assess the financial position of the bank based on the deployment of their funds. However, in the case of non-SLR investments, the disclosures are not sufficiently granular as they have details of only issuer-wise amounts of 'below investment grade securities', 'unrated securities', and 'unlisted securities'. In the case of both above and below investment grade, there are several more gradations of ratings which could indicate vastly different credit quality of the securities. Therefore, this particular is not very relevant as this granularity of information is not available in the current categorisation. The current frequency for disclosure is annual with the information present in the Notes to Accounts of balance sheets published in annual reports. Considering the cost of increasing the frequency of disclosures and that likelihood of material changes to the exposure amounts taking place within this period is low, an annual periodicity for advances related disclosure may be considered sufficient. In the case of investments too, the periodicity is adequate considering that the amount of non-SLR investments, whose value is marked to market, is capped to 10% of the total deposits, and the instruments too are limited (such as only A or higher rated CPs, debentures and bonds are allowed to be purchased). Therefore, the portion of the investment book whose value can change significantly within the periodicity of reporting is not very large and hence the disclosures can be considered timely.</p>	Inadequate
Reliability	<p>All the disclosures related to advances, including on restructured advances, are ex-post disclosures, i.e., they are based on past information. Changes due to divergences (if any) to the values of these figures are not reported. However, as the previous year's figures are published, users of the disclosures can compare these figures with those of the current year to get a sense of the reliability of the numbers.</p>	Adequate
Comparability	<p>These disclosures can be compared across time as the disclosure format has remained the same. Comparison with other bank groups can also be done in most cases except few items such as advances to directors, and classification of investments which are not required of SCBs.</p>	Adequate
Materiality	<p>The disclosure items regarding advances and investments are material in that they are used to evaluate the financial position of the bank.</p>	Adequate

b. Notes to Accounts: Capital related Disclosures

The amount of capital funds act as a buffer against potential losses that may arise in case of frauds and NPAs. The ratio of capital funds to risk-weighted assets

is an important measure for the depositors of a co-operative bank to assess the financial health of the bank. Sufficiency of capital as a strategy must be employed in tandem with other measures such as good risk management strategies and strict enforcement of credit risk exposures regulations. The specific items covered in this subsection of those required to be disclosed in the balance sheet of banks:

- i) Capital to Risk-Weighted Assets Ratio (CRAR)
- ii) Movement of CRAR i.e., CRAR as on Balance Sheet date for the current year vis-a-vis previous year

Dimension	Assessment	Summary
Comprehensiveness	The calculation for the CRAR covers both on-balance sheet and off-balance sheet items, and the market risk component. Additionally, as UCBs operate in a single-tiered structure (unlike rural co-operatives), this disclosure may be considered comprehensive.	Adequate
Relevance and Timeliness	The intended audience for this regulation is the members of the co-operative bank, particularly the depositors who seek confidence that there is sufficient capital to act as a buffer and that their deposits are not at risk in times of crises. Even the members who are borrowers seek to safeguard their contribution of share capital effective due to the traditionally enforced share linking norm while borrowing ⁹⁶ . The disclosures require only the CRAR ratio to be disclosed and not the amounts of capital funds and risk-weighted assets (RWA) that form the ratio. The omission of disclosure of amounts/percentages of specific restricted items such as Perpetual Non-Cumulative Preference Shares (PNCPS) and Perpetual Debt Instruments (PDIs) is not very significant as these instruments are not commonly used among the UCBs. However, amounts of Tier I and Tier II capital, which are not required to be disclosed under the current disclosure framework, are relevant for assessing the quality of the capital funds. The current periodicity of disclosure is annual in the balance sheets of the banks. The state of NPAs and capital position are linked to each other and in the case of co-operative banks have been historically subject to fluctuations/trouble. Therefore, the desired frequency for disclosures regarding capital needs to be at a greater frequency than the existing one so as to afford the members a timelier picture of the bank's financial position.	Inadequate
Reliability	The information in these disclosures is historical in nature. As any changes in previously reported figures of capital due to divergences in NPAs is not required to be disclosed, the current disclosures are not reliable.	Inadequate
Comparability	Although the underlying instruments for capital funds and the risk weights applicable to UCBs may be different to other institution types, the CRAR being a ratio may be used to compare capital position across institutions and over time within UCBs too.	Adequate
Materiality	The information here can be considered material for the members of the bank to assess its financial position of their bank. However, material information such as results of the bank's stress test needs to be published so as for the user to get a picture of the sufficiency of the capital in cases of high NPAs.	Inadequate

⁹⁶See 3. Share linkings to borrowings, *Prudential norms on capital adequacy — Master circular — UCBs*, July 1, 2009, Reserve Bank of India. Accessible at: https://m.rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?Id=5155&Mode=0

c. Notes to Accounts: Provisions related Disclosures

Provisions form an important aspect of the financial position of a bank as the amount and adequacy of these provisions indicates the bank's ability to weather future losses. Therefore, quality disclosures regarding provisions enable the market participant to accurately assess the financial position of the institution. The specific items covered in this subsection of those required to be disclosed in the balance sheet of banks:

- i) Provisions made towards NPAs, depreciation in investments, standard assets
- ii) Movement in provisions:
 - a) Towards NPAs
 - b) Towards depreciation on investments
 - c) Towards standard assets

Dimension	Assessment	Summary
Comprehensiveness	In contrast to the rural co-operatives, the structure of UCBs is single-tiered and there are no other related entities involved. The information made available through these disclosures covers both advances and investments. Therefore, these disclosures may be considered adequately comprehensive.	Adequate
Relevance and Timeliness	The relevant audience for these disclosures is the members of the co-operative whose deposits are the primary source of lending, and any provision or loss against advances comes from the reduction of the share capital which again is contributed by the members. The reduction in profit too is experienced by the members themselves who receive a share in the profits in terms of dividends. This information is therefore relevant to the members who would want to track how their funds are being deployed, and as a response to the performance of the bank, choose whether to retain their deposits with the bank or move them out. However, the current disclosures do not provide any way for the members to determine if their bank is performing better than is required or not. That is, provisions made in excess of the regulatory requirement (additional or floating provisions) are not indicated for the members to make a graduated assessment of the bank. Further, only the absolute amounts of provisions and the movement of the same is included in the disclosure, which is not sufficient to get a clear picture of changes in NPAs. For this, details such as the quantum of additions and reductions of the provision amounts must also be disclosed to assess the change in the financial position of the bank. The current periodicity of this regulation is annual as the disclosure is made in the balance sheet. This periodicity is not sufficient as the NPA amounts change within a quarter and so would the provisions need to change along with it. Therefore, the disclosures need to be made at least every quarter to afford the members a timelier picture of the bank's financial position.	Inadequate
Reliability	The information in these disclosures is historical in nature. However, the information may not be very reliable as divergences of NPAs and consequently of provisions against these NPAs is not required to be disclosed.	Inadequate
Comparability	The information on provisions can be compared across time within the UCBs as the format has remained the same. However, comparison with other bank groups is not easily enabled as the disclosure is in absolute terms instead of a ratio. Measures that indicate the adequacy of the provisions, such as the provision coverage ratio (ratio of provisions to gross NPAs) should be included in the disclosures for the sake of adequate evaluation and comparability.	Inadequate

Materiality	The information from these disclosures is material, without which a member would be unable to assess the state of their bank's resilience and financial position. However, other material items such as amount and adequacy of provisions against diminution of fair value of restructured accounts, which measure the resilience against such problems are not separately specified.	Inadequate
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Appendix 4. Regional Rural Banks

RRBs function under the Regional Rural Bank Act of 1976, and are sponsored by the central government, respective state government, and a sponsor bank under a shareholding of 50%, 15%, and 35% respectively. After a process of amalgamation, there are currently 45 RRBs in the country with a consolidated balance sheet size of close to Rs.5.6 lakh crore.

The provisions of the Banking Regulation Act 1949 are not wholly applicable to the RRBs which are set up under their own act, with the RBI responsible for the regulation and the National Bank for Agriculture and Rural Development (NABARD) for the supervision of the RRBs.

The relevance and timeliness of the RRB's disclosures require to be assessed bearing in mind the intended audience of these disclosures. Currently, none of the RRBs are listed, therefore there are no public investors who would need the disclosures to assess the performance of the bank. However, this might change soon in the future, with NABARD's proposal to have initial public offerings (IPOs) for a few of the better performing RRBs. Apart from the depositors of the RRBs, the audience for these disclosures would be the general public at large, due to the public shareholding, due to partial government ownership, structure of the RRBs which have also been subject to recapitalizations in the past⁹⁷.

The information contained in the disclosures is classified under the categories of a) financial position or b) risk exposures. The disclosure of the bank's risk management strategies and practices too are important for the market participants to judge the bank's effectiveness in address risk. However, the current set of disclosures do not require any such qualitative information to be disclosed.

1. Regulation - Disclosure in Financial Statements by RRBs - Notes to Accounts⁹⁸

This circular consolidates all the disclosure norms required of RRBs. The information is required to be disclosed in the 'Notes to Accounts' of their balance sheets. In the analysis below, the disclosure items pertaining to financial position, risk exposures, and risk management have been categorized as follows:

⁹⁷*Recapitalization of Regional Rural Banks (RRBs)*, Union Budget of India 2019-20. Retrieved from: <https://openbudgetsindia.org/dataset/70cbfddf-ed18-4a59-b741-36eebe35bd85/resource/8e4cc984-43b0-40af-9d6b-f8e00613d50d/download/departments-of-financial-services.pdf>;

"Cabinet approves recapitalisation of regional rural banks to improve their capital to risk weighted assets ratio", March, 2020. *Press Information Bureau*. Retrieved from: <https://pib.gov.in/Pressreleaseshare.aspx?PRID=1608097>

⁹⁸*Disclosures in Financial Statements by RRBs — Notes to Accounts*, March 22, 2016, NABARD. Accessible at: <https://www.nabard.org/demo/auth/writereaddata/tender/0109160342Disclosure%20in%20Financial%20Statements%20by%20RRBs%20%E2%80%93%20Notes%20on%20Accounts.pdf>

- i. Risk Exposures
 - a. Asset Quality
 - b. Asset Liability Management
- ii. Financial Position
 - a. Exposures
 - b. Capital
 - c. Provisions

i. **Risk Exposures**

a. **Notes to Accounts: Asset Quality related Disclosures**

Credit risk forms one of the significant portions of risk exposure faced by an RRB given that it is not subject to many other types of risk exposures. In such a case, information on the asset quality of the loan and investment portfolios is of great importance in assessing the risk exposure of the bank. Information regarding asset quality is required to be disclosed by RRBs in the 'Notes to Accounts' to the financial statements. Following are the relevant disclosures:

- i) Net NPAs to Net Advances (%)
- ii) Movement of NPAs (Gross)
- iii) Movement of Net NPAs
- iv) Non-performing non-SLR Investments
- v) Details of non-performing Financial Assets purchased
 - a. No. of accounts purchased during the year
 - b. Aggregate Outstanding
 - c. Of these, number of accounts restructured during the year
 - d. Aggregate Outstanding
- vi) Sector-wise NPAs
- vii) Concentration of Deposits, Advances, Exposures, and NPAs
- viii) Details of Loan Assets subject to restructuring
 - a. Total amount of loan assets subject to restructuring, rescheduling, renegotiation
 - b. The amount of standard assets subject to restructuring, rescheduling, renegotiation
 - c. The amount of sub-standard assets subject to restructuring, rescheduling, renegotiation

d. The amount of doubtful assets subject to restructuring, rescheduling, renegotiation

The above disclosures are made for both the current year and the previous year.

Dimension	Assessment	Summary
Comprehensiveness	The information from these set of disclosures on the asset quality of loans and investments can be considered adequate as it covers all advances and in the case of investments, non-SLR investments too.	Adequate
Relevance and Timeliness	The information contained within these set of disclosures is important for assessing the credit risk exposure of the bank. Further, the disclosures are required at adequately disaggregated levels - sector-wise and concentration amounts, for the information to be relevant. In the case of restructured accounts, the disclosure provides details on the amount of loan assets categorised by their asset class. However, there are no details of amounts under specific restructuring schemes. This categorisation is of relevance as, for instance, in the case of the MSME restructuring scheme, there is no downgrade required of the asset class, unlike in other restructuring schemes. The current periodicity is annual, with the disclosures being part of the Notes to Accounts. This periodicity is not sufficient as the changes in the asset quality of both advances and investments, especially those of short-term nature, can change significantly in a short period. Thus, this information needs to be disclosed at least at a quarterly frequency.	Inadequate
Reliability	While all the disclosures in this set provide information, which is historical in nature, it cannot be considered entirely reliable as divergences in the NPA amounts, material or otherwise, are not disclosed.	Inadequate
Comparability	Most of the items in this set of disclosures are comparable across time due to the disclosure format remaining the same for more than a decade, except for sector-wise NPAs which had been included only in 2016. They may also be compared to other bank types due to the similarly structured format of the disclosures.	Adequate
Materiality	The items contained in these disclosures, in conjunction with those on gross exposures as seen in the previous section, are of material importance in assessing the state of the credit risk exposures of the bank. However, items of material importance such as details of assets with incipient stress (those which are of lower quality than standard assets but not yet NPAs) such as their quantum and movement are not disclosed. Another item of material importance that needs to be disclosed is the bank's stress test result which would provide a view of the bank's potential performance in terms of changes in NPA amounts in times of stress.	Inadequate

b. Notes to Accounts: Asset Liability Management related Disclosures

Another source of risk for banks is whether or not they have the funds available to meet their commitments. For the user of disclosures, information on available liquid assets and the liabilities in the corresponding period is important to assess the liquidity risk exposure of the bank. The disclosures related to ALM help the users in building an understanding of the bank's liquidity risk profile. Information regarding ALM and maturity pattern of certain assets and liabilities is required to be disclosed by RRBs in the 'Notes to Accounts' to the financial statements. The particulars for which the disclosures are made are deposits, advances, investments, borrowings, foreign currency assets, foreign currency liabilities.

Dimension	Assessment	Summary
Comprehensiveness	The disclosure of the maturity pattern of assets and liabilities can be considered comprehensive as all the major items - deposits, advances, investments, borrowings, foreign currency assets, foreign currency liabilities - are included.	Adequate
Relevance and Timeliness	The maturity pattern is used to understand the bank's liquidity risk exposure, by comparing the maturing amount of assets with that of liabilities in a maturity bucket. The current granularity of both the time period buckets and the categories of assets and liabilities is sufficient to get a sense of the liquidity risk profile. The disclosures elsewhere on the concentration of depositors too help assess the bank's liquidity. The current annual periodicity of these disclosures is quite insufficient as changes in the liquidity position are volatile, especially in the buckets of up to 90 days due to items in several categories being updated quite frequently, such as those investments which are marked to market, amounts of money market borrowings and demand deposits which are liable for withdrawal. The periodicity of the disclosures needs to be at least on a quarterly basis to sufficiently capture a picture of the volatility and yet to not overburden the bank with undue compliance costs.	Inadequate
Reliability	At the point of drawing up the maturity pattern table, the inputs are estimates, which may be considered reliable to the extent that their residual maturities are used. In the case of demand deposits and term deposits, the portion of the deposit amounts which is expected to be volatile (likely subject to withdrawal) is prescribed as a benchmark in the asset-liability guidelines ¹⁰¹ . However, those banks which are better equipped to predict behaviour may choose to assign different portions to the short-term buckets. In cases of such deviances from the benchmarked guidelines, the inputs in the maturity pattern table cannot be verified. If and when the bank chooses to employ its own estimate, the choice needs to be qualitatively disclosed.	Inadequate
Comparability	The information present here can be compared across time and among other RRBs as the format has been the same since the point of introduction. It can also be compared to other banks as the items of assets and liabilities are the same. Although banks have greater granularity in the < 14 days' time period, the remaining buckets remain comparable.	Adequate
Materiality	The maturity pattern disclosed here is important in assessing the liquidity risk position of the bank. However, several other material items important for a complete assessment are not included such as the extent of liquidity available (as may be given by the amount of HQLA), amount and reason for mismatches (if any) in the maturity buckets, especially in the shorter-term ones, and other qualitative disclosures such as details on the risk policies and procedures employed.	Inadequate

2. Financial Position

a. Notes to Accounts: Exposures related Disclosures

Information on the breakdown of assets and liabilities is essential for the user looking to assess the financial position of the bank. In this set of disclosures, information on exposure amounts is provided. This information regarding assets and investments is required to be disclosed by RRBs in the 'Notes to Accounts' of the financial statements. Following are the relevant disclosures:

1. Exposures - Exposure to Real Estate sector

a. Direct Exposure

- i. Residential Mortgages
- ii. Commercial Real Estate
- iii. Investments in Mortgage-Backed Securities and other Securitized Exposures (Residential, Commercial Real Estate)
- b. Indirect Exposure
- 2. Details of Single Borrower and Group Borrower limits exceeded by Bank
- 3. Value of Investments
 - a. Gross value of Investments
 - b. Net value of Investments
- 4. Non-SLR Investment Portfolio
 - a. Issuer-wise composition of non-SLR investments

The above disclosures are made for both the current year and the previous year.

Dimension	Assessment	Summary
Comprehensiveness	<p>The disclosures on borrower limits are comprehensive as they cover all activities undertaken by the bank. Whereas the disclosures on the sector-wise exposures of both investments and advances are not comprehensive as only exposures to the real sector are required to be disclosed.</p> <p>In the case of non-SLR investments too, the disclosures fall short of providing comprehensive information as major categories under non-SLR investments such as those in NBFCs and PSBs are not listed separately. These categories must be separately identified as they are some of the major participants of the funds market and also subject to liquidity crises in the past.</p>	Inadequate
Relevance and Timeliness	<p>In the case of borrower limits, there is no specific format given for the disclosures. The risk exposures of the bank can be adequately evaluated if details on the extent of and reason for the breach of borrower limit is given.</p> <p>In the case of investments, the information provided through these disclosures is not very relevant as they do not help in adequately evaluating the nature of risk exposures in investments. For instance, for an overall assessment of investment performance, the market value of the investments needs to be provided, and not just the book value as is the case here. Additionally, information on the trading book portion of the investment portfolio such as categorisation of investments into AFS/HFT is not given. As these categories can undergo significant change in value, against which capital too needs to be maintained, disclosures on these categories need to be provided. The current periodicity of the disclosures is annual, with the disclosure items required to be published in the Notes to Accounts. The values of these disclosure items are bound to change much more frequently, more so in the case of short-term securities, than on an annual basis which is the current periodicity of these disclosures. Considering the trade-off between costs of more frequent disclosures, say on a monthly basis, and the value derived by the user of having timely information, a quarterly periodicity can be adequate to assess the financial position of the bank.</p>	Inadequate
Reliability	<p>All the disclosures related to exposures are historical in nature. Changes due to divergences (if any) to the values of these figures are not reported. However, as the previous year's figures are published, users of the disclosures can compare these figures with those of the current year to get a sense of the reliability of the numbers.</p>	Adequate

Comparability	The disclosure formats and definitions for exposure-related items have remained the same for more than a decade, hence comparison across time can be done. Comparison with other banks may not be easily enabled because in certain cases such as exposure limits, the norms for RRBs is different from those of SCBs.	Inadequate
Materiality	The disclosures here provide information on the breakdown of assets and liabilities of the bank which is needed to assess the financial position of the bank. However, there are some items of material importance that are excluded from this set of disclosures. In the case of non-SLR investments, the disclosures have details of only issuer-wise amounts of 'below investment grade securities', 'unrated securities', and 'unlisted securities'. In the case of both above and below investment grade, there are several more gradations of ratings which could indicate vastly different credit quality of the securities. Therefore, changes to the portfolio quality due to ratings migration is not available. However, as this information is more relevant in assessing the risk exposure of the bank than its financial position, the current set of disclosures may be considered adequately material.	Adequate

b. Notes to Accounts: Capital related Disclosures

Information on capital, such as the capital adequacy ratio (CRAR), components of capital — Tier I and Tier II, is important in assessing the financial position of the bank as it indicates the cushion available to the bank to protect itself from future potential losses, as well as to use as a base for future growth. Information regarding capital is required to be disclosed by RRBs in the 'Notes to Accounts' to the financial statements under the following:

- i) CRAR (%)
- ii) CRAR - Tier I Capital (%)
- iii) CRAR - Tier II Capital (%)
- iv) Percentage shareholding of the
 - a. Government of India
 - b. State Government
 - c. Sponsor Bank

The above disclosures are made for both the current year and the previous year.

Dimension	Assessment	Summary
Comprehensiveness	The information contained in these disclosures can be considered comprehensive as the ratios for both Tier 1 and Tier 2 capital are disclosed in addition to CRAR. Further making it comprehensive is the inclusion of market risk in the calculation of risk-weighted assets.	Adequate

Relevance and Timeliness	This information on capital, disaggregated by tiers, helps analyse the financial position of the bank. It also relevant as any changes in position can be assessed by comparing the values of the current year with those of the previous year. Further, the quality of the capital and the adherence to the limits on Tier I and Tier II too can be assessed due to the disaggregated disclosures on Tier I and Tier II ratios. However, more granularity within Tier I and Tier II capital is needed, such as the amounts of capital held in different instruments within each type of capital. Additionally, without the information on the amount of risk-weighted assets, the value of the CRAR ratios and their movements cannot be meaningfully interpreted. Required to be included in the Notes to Accounts, the current periodicity of these disclosures is annual. This periodicity is not sufficient as changes to both the numerator and the denominator of the CRAR ratio may happen more frequently, due to changes in NPAs, and the amounts of short-term investment securities/advances.	Inadequate
Reliability	The disclosures contain information which is historical in nature. As no revised position of capital due to divergence in NPA classification is required to be disclosed, the reliability of the capital ratios is reduced.	Inadequate
Comparability	The disclosures regarding capital are comparable in time within the same bank as well as with other banks as it is in the form of a ratio.	Adequate
Materiality	Information on regulatory capital and its components is material for assessing the financial position of the bank. Other material information such as amount received under recapitalisation schemes and change in ratios due to them are not required to be disclosed.	Inadequate

c. Notes to Accounts: Provisions related Disclosures

Information on provisions is also an important aspect in assessing the financial position of the bank, as it gives the user insight into the bank's ability to withstand losses due to deterioration in asset quality. Information regarding provisions is required to be disclosed by RRBs in the 'Notes to Accounts' to the financial statements. The provisions against different categories, such as for assets and investments, are required to be disclosed separately under the respective categories. To assess provisions as an indicator of the financial position of the bank, the different items have been put together.

1. Investments:

- a. Provisions for Depreciation
- b. Movement of Provisions held towards Depreciation on Investments

2. Non-SLR Investment Portfolio

- a. Provisions held towards Depreciation
- b. Non-performing Non-SLR Investments
 - i. Total Provisions held

3. Non-performing Asset

- a. Movement of Provisions for NPAs (excluding provisions on standard assets)

4. Provisions on Standard Assets

5. Provisions and Contingencies

All the above disclosures are made for both the current year and the previous year.

Dimension	Assessment	Summary
Comprehensiveness	The information made available through the disclosures on provisions covers both advances and investments. It separately covers both the standard and non-performing assets. Therefore, these disclosures may be considered adequately comprehensive.	Adequate
Relevance and Timeliness	Information on provisions is needed to assess the ability of the bank to withstand losses. However, given an annual periodicity, the information is not very relevant considering that the changes to the asset quality occur at a much greater frequency, as an asset classification can change from standard to NPA in only 90 days. Further, the extent of coverage of the provisions, typically represented by the provision coverage ratio, is also not required to be disclosed, thus making this set of disclosures not very relevant to the audience.	Inadequate
Reliability	The information in these disclosures is historical in nature. However, the information may not be very reliable as divergences of NPAs and consequently of provisions against these NPAs is not required to be disclosed.	Inadequate
Comparability	The disclosures on provisions are comparable within the bank, as well as with other bank types due to the similarity in format and definitions.	Adequate
Materiality	All the items in this set of disclosures on provisions are material for assessing the financial position of the bank.	Adequate

Appendix 5: Rubric to evaluate the level of transparency of regulatory circulars/directions

- a. **Comprehensiveness** - the information disclosed should be aggregated and consolidated across a number of entities and activities so as to enable market participants to get a complete picture of the risks involved. It needs to be noted here that this dimension could have some overlap with the materiality dimension.

Testing Comprehensiveness - 1. Whether the particular regulation should apply to verticals/associate companies/subsidiaries/conglomerates/sectors/geographies of the entity directly being referred is checked. 2. If it should apply, whether the language in the circular conveys this is assessed. 3. Whether the metrics/measures mandated to be disclosed in the regulation exhaustively cover the object of the disclosure is checked.

- b. **Relevance and Timeliness** - the information disclosed should be relevant to the decision-making needs of the market participants who use it. For instance, information on the total capital market exposure of a bank might be more relevant to a swap counterparty of the bank than information on a particular credit portfolio.

Testing Relevance and Timeliness - 1. The intended audience of the disclosure is identified; 2. Whether the periodicity of the disclosure would enable the intended audience to make a reasonably accurate decision about the entity disclosing the information (this can be highly subjective) is assessed; 3. With regard to relevance, whether the information being presented is at a sufficiently granular level is assessed.

- c. **Reliability** - the information disclosed should faithfully represent that which it purports to represent and must reflect the economic substance of events and transactions. However, it has to be recognised that there is a trade-off between relevance and reliability. For instance, estimates of expected NPA slippages might be very relevant but not so reliable.

Testing Reliability - 1. Whether the disclosure is ex-post or ex-ante is identified i.e., whether it discloses information about events that have happened already or is it an estimation of future events; 2. For disclosures about historical data, whether the regulation has any mandate on disclosing information on errors/divergences/discrepancies observed in past data is identified. 3. For disclosures about future estimates, whether the regulations require the disclosure of the methodology and assumptions that led to the estimates is identified; 4. Whether the disclosures on methodology and assumptions are sufficient for the intended audience to recreate the estimates (it should be noted here that there could be cases where the calculation of estimates uses confidential data.) is assessed.

- d. Comparability** - the definitions and measurement concepts used to construct information should be comparable both along an entity's history and between the entity and its peers.

Testing Comparability - 1. Whether the regulation seeks to introduce a change in the metrics or measurement concepts of the information being disclosed is identified; 2. If yes, whether the regulation has information on methodology to reconcile the past and new values is checked; 3. The peers of the entities who need to disclose information under the regulation are identified; 4. Whether the current regulation enables or reduces the comparability of the information when compared with peers (peer would ordinarily be a domestic entity doing a similar function.) is assessed.

Materiality - a particular piece of information is considered material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information

- e. Testing Materiality** - 1. Given that there is a regulation mandating disclosure of some information, it stands to reason that the regulator considers this material information. So, we take this as our presumption in general. 2. In addition, suggest material information that should have been included but left out. It is to be noted here that this is different from the relevance point mentioned above. The difference here is that relevance mainly deals with assessing if the level of granularity at which information is presented is adequate. However, materiality deals with the omission of material information.