39

STANDING COMMITTEE ON FINANCE
(2016-17)

SIXTEENTH LOK SABHA

MINISTRY OF FINANCE (DEPARTMENT OF FINANCIAL SERVICES)

[Action taken by the Government on the recommendations contained in the Twenty-Seventh Report of the Standing Committee on Finance on "Non-performing assets of financial institutions"]

THIRTY-NINTH REPORT

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

December, 2016 / Agrahayana, 1938 (Saka)

THIRTY-NINTH REPORT

STANDING COMMITTEE ON FINANCE
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[Action taken by the Government on the recommendations contained in the Twenty-Seventh Report of the Standing Committee on Finance on "Non-performing assets of financial institutions"]

Presented to Lok Sabha on 07 December, 2016

Laid in Rajya Sabha on 07 December, 2016

LOK SABHA SECRETARIAT
NEW DELHI

December, 2016 /Agrahayana, 1938 (Saka)

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** Not appended in the cyclostyled copy*

COMPOSITION OF STANDING COMMITTEE ON FINANCE – 2016-17

Dr. Veerappa Moily - Chairman

MEMBERS

LOK SABHA

2. Shri Venkatesh Babu T.G.
3. Shri Gopalakrishnan Chinnaraj
4. Shri Nishikant Dubey
5. Shri P.C. Gaddigoudar
6. Shri Shyama Charan Gupta
7. Prof. Sanwar Lal Jat
8. Shri Rattan Lal Kataria
9. Shri Chandrakant B. Khaire
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11. Shri Prem Das Rai
12. Shri Rayapati Sambasiva Rao
13. Prof. Saugata Roy
14. Shri Jyotiraditya M. Scindia
15. Shri Gajendra Singh Sekhawat
16. Shri Gopal Chinayya Shetty
17. Shri Anil Shirole
18. Dr. Kiritbhai Solanki
19. Dr. Kirit Somaiya
20. Shri Dinesh Trivedi
21. Shri Shivkumar Udasi

RAJYA SABHA

22. Shri Naresh Agrawal
23. Shri Naresh Gujral
24. Shri Satish Chandra Misra
25. Shri A. Navaneethakrishnan
26. Dr. Mahendra Prasad
27. Shri C.M. Ramesh
28. Shri T.K. Rangarajan
29. Shri Ajay Sancheti
30. Shri Digvijaya Singh
31. Dr. Manmohan Singh

SECRETARIAT

1. Smt. Abha Singh Yaduvanshi - Joint Secretary
2. Shri P.C. Tripathy - Director
3. Shri Ramkumar Suryanarayanan - Additional Director
4. Shri Preetam Prabhakar - Sr. Committee Assistant

INTRODUCTION

I, the Chairperson of the Standing Committee on Finance, having been authorized by the Committee, present this Thirty-Ninth Report on action taken by Government on the Observations / Recommendations contained in the Twenty-Seventh Report of the Committee (Sixteenth Lok Sabha) on "Non Performing Assets of Financial Institutions".

2. The Twenty-Seventh Report was presented to Lok Sabha / laid on the table of Rajya Sabha on 24 February, 2016. The Action Taken Notes on the Recommendations were received from the Government *vide* their communication dated 23 August, 2016.

3. The Committee considered and adopted this Report at their sitting held on 30 November, 2016.

4. An analysis of the action taken by the Government on the recommendations contained in the Twenty-Seventh Report of the Committee is given in the Appendix.

5. For facility of reference, the observations / recommendations of the Committee have been printed in bold in the body of the Report.

NEW DELHI
<u>01 December, 2016</u>
10 Agrahayana, 1938 (Saka)

DR. M. VEERAPPA MOILY,
Chairperson,
Standing Committee on Finance.

REPORT

CHAPTER-I

This Report of the Standing Committee on Finance (Sixteenth Lok Sabha) deals with action taken by the Government on the recommendations/observations contained in their Twenty-Seventh Report on the subject 'Non-Performing Assets of Financial Institutions' which was presented to Lok Sabha / Laid in Rajya Sabha on 24th February, 2016.

2. Action taken notes have been received from the Government in respect of all the 14 recommendations/observations contained in the Report. These have been analyzed and categorized as follows:

(i) Recommendations/Observations that have been accepted by the Government:

Recommendation Nos. 1, 4, 5, 6, 9, 10, 11, 12, 13 and 14.

(Total 10)
(Chapter- II)

(ii) Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies:

Recommendation Nos. NIL

(Total : NIL)
(Chapter- III)

(iii) Recommendations/Observations in respect of which replies of Government have not been accepted by the Committee:

Recommendation Nos. 2, 3, and 8

(Total 03)
(Chapter -IV)

(iv) Recommendations/Observations in respect of which final replies by the Government are still awaited:

Recommendation No. 7

(Total 01)
(Chapter- V)

3. The Committee desire that the replies to the observations / recommendations contained in Chapter-I and Chapter-V may be furnished to them expeditiously.

4. The Committee will now deal with the action taken by the Government on some of their recommendations.

Recommendation (Sl. No. 1)

5. The Committee note with deep concern that inspite of various measures taken by the Government and Reserve Bank of India (RBI) from time to time, the NPA problem confronting the financial sector and threatening the stability of the banking system seems far from over. Instead of declining, the cumulative net volume of NPAs of all banks and financial institutions are only increasing every year. The total credit off-take of Public Sector Banks (December, 2014) stood at Rs.60,60,699 Crores. As on September 2015, the Net NPAs of Public Sector Banks stood at Rs.2,05,024 Crores and the Gross NPAs during the corresponding period stood at Rs.3,69,990 Crores. Such high incidence of NPAs obviously raises serious questions on the credibility of the mechanisms to deal with NPAs and stressed loans as such, even as certain estimates indicate that gross NPAs may touch Rs. 4 lakh crore by the end of this fiscal year. The stressed assets ratio (gross NPAs plus restructured standard advances to gross advances) for the system as a whole exceeded 11% at the end March, 2015 compared to 10% in March last year. This figure is expected to be even higher this fiscal, as there is apprehension that the number of failures of restructured advances would increase. As on September 2015, it is alarming that nearly Rs.6.8 lakh crore worth of bank loans were in the 'stressed' category, compared with Rs.5.91 lakh crore the previous year. Bank balance sheets continue to remain under pressure and recent quarterly results of banks are a grim reminder of the situation that banks find themselves in, with most of them reporting sharp dip in profits, with NPAs and provision for write offs ballooning. On the one hand, the country's economy is growing fast and competing with economic superpowers and on the other hand, the rising trend of NPAs has the potential to damage this growth story. The Committee are thus not happy with the management of the problem, on both fronts *viz* at the level of the RBI and at the level of the banks. The banks have evidently failed to notice the early signs of stress on the loans disbursed by

them. The Committee believe that banks should have intervened at the right time, when signs of stress were visible in its loans including restructured assets. Early and timely intervention and consequential remedial measures are necessary to stem the rising trend of NPAs. Considering the effect bad loans have in eroding not only the overall image but also the capital and liquidity of banks as also their ability to raise capital in the future, there is an urgent need for banks to reduce their stressed assets and clean up their balance sheets, lest they become a drag on the economy.

6. The Ministry in their action taken reply stated as under :-

"Asset quality management depends on the adequacy of banks “credit risk management” systems and processes. This involves quality of pre sanction/disbursement appraisal, careful post-disbursement monitoring of the financial health of the borrower, his compliance with all the loan covenants, and prompt corrective action by the bank at the first sign that there is some difficulty in the loan account. Reserve Bank of India has issued various guidelines on credit risk management and especially on NPA management, to facilitate banks to take corrective measures to address the asset quality concerns. Some of the recent measures are detailed in the following paragraphs.

In September 2012, Reserve Bank advised banks to put in place robust mechanism for early detection of signs of distress and to use such early warning signal to put in place an effective preventive asset quality management framework, including a transparent restructuring mechanism in case of viable accounts for preserving the economic value of such accounts. Banks were also advised to have a proper system-generated segment-wise data on non-performing assets and restructured assets.

In response to the growing asset quality stress in the Indian banking system due to various internal and external factors, a comprehensive “Framework for Revitalising Distressed Assets in the Economy" was introduced in February 2014. The Framework envisages early identification of problem cases and swift implementation of an appropriate corrective action plan (CAP) by the lenders. Depending on the circumstances of each case, the CAP would involve either rectification primarily involving timely corrective action by promoters, or restructuring of the account in cases considered to be viable, or prompt steps by banks for recovery of their dues in the case of unviable accounts. In addition, to address the issue of information asymmetry as also to identify the problems early, a Central Repository of Information on Large Credits (CRILC) beyond a particular threshold, to collect, store, and disseminate credit data to lenders, was set up.

Under this arrangement, banks will be in a position to identify, in a holistic manner, accounts of their borrowers with other banks and financial institutions which are showing signs of incipient stress and collectively take early and coordinated action.

The Asset Quality Review (AQR) exercise by Reserve Bank of India (RBI) was a special exercise to ensure that banks were taking proactive steps to clean up their balance sheets. Loans that are of concern as well as those loans that have potential weaknesses were identified by working with banks. Banks are attempting to regularize those loans that can be put back on track while those loans that cannot have been provided for in accordance with the degree of stress present in the loan. Provisions have also been made for weak loans.

In those accounts where the restructuring has been determined to have failed due to performance issues within the specified period or non-fulfilment of restructuring conditions, prudential provisioning will have to be made before March 2017."

7. The Committee have noted that the RBI has issued various guidelines on credit risk management and especially on NPA management, to facilitate banks to take corrective measures to address the asset quality concerns. Nonetheless, the NPA issue has remained a festering problem and has been threatening the stability of the banking system itself. The Committee firmly believe that banks ought to have intervened at the right time when signs of stress were visible in their loans. It is ironical that on the one hand the country's economy is competing with economic superpowers and on the other hand, the ballooning NPAs have been eroding the capital and liquidity of banks as also their ability to raise capital

in the future. The Committee would, therefore, reiterate that there is an urgent need for the banks to reduce their stressed assets and clean up their balance sheets, lest they become a drag on the economy.

Recommendation (Sl. No. 2)

8. The Committee would like to underscore that one of the fundamental issues that hampers NPA management is the inadequacy in the credit appraisal capability of banks, more specifically on project appraisal. There is thus an urgent need now for bolstering the technical capabilities of banks to undertake proper evaluation of projects, post sanction monitoring etc. The banks should be extremely careful in evaluation of the projects and be vigilant about the requisite clearances and not being subjudice. In this regard, the Committee would expect the RBI to take the initiative and organise capacity building programmes for banks which would help them do better project appraisal. In this context, the Committee would also recommend that specially empowered Committees at all the three levels, namely, RBI, Banks and the borrower should be set up to continually monitor the status / progress of large loan portfolios. Such a mechanism will help strengthen the existing governance structure to manage large loan accounts. These specially tasked Committees may be mandated to submit periodical reports to Government and Parliament on their findings. The Committee hope that this exercise would result in better governance standards and professionalism in the top bank management in the coming days. Accountability of nominee Directors of RBI / Ministry on the Bank Boards as well as the CMDs / MDs of banks should also be fixed in the matter..

9. The Ministry in their Action Taken Reply stated as under :-

" ***Project Loan Appraisal Capability***

Reserve Bank through the Centre for Advanced Financial Research and Learning (CAFRAL) has taken initiatives to organise capacity building program for bankers. CAFRAL has already conducted training programmes on assessment of project loans for the benefit of commercial banks by inviting experts in the field of project finance. CAFRAL would continue to organise such programmes on periodic basis.

In addition, premier management institutes like Indian Institute of Management, Ahmedabad, etc. are also conducting training programmes on project financing which are attended by Banks.

Loan Monitoring:-

Credit related matters, including the appraisal and follow up aspects, have mostly been delegated to banks and they are required to have their own Board approved policies, within the overall prudential regulatory requirements. Reserve Bank's guidelines require that banks should put in place proper loan review mechanism for large value loans with following objectives:

- to identify promptly loans which develop credit weaknesses and initiate timely corrective action;
- to evaluate portfolio quality and isolate potential problem areas;
- to provide information for determining adequacy of loan loss provision;
- to assess the adequacy of and adherence to, loan policies and procedures, and to monitor compliance with relevant laws and regulations; and
- to provide top management with information on credit administration, including credit sanction process

Banks have to put in place a robust credit risk management system which is sensitive and responsive to various factors affecting credit risk. Banks should establish a credit audit mechanism with following objectives:

- Improvement in the quality of credit portfolio
- Review sanction process and compliance status of large loans
- Feedback on regulatory compliance
- Independent review of Credit Risk Assessment
- Pick-up early warning signals and suggest remedial measures
- Recommend corrective action to improve credit quality, credit administration and credit skills of staff, etc.

Banks are required to put in place proactive credit risk management practices like annual/half-yearly industry studies and individuals/obligor reviews, credit audit which entails periodic credit calls that are documented, periodic visits of plant and business site, and at least quarterly management reviews of troubled exposures/weak credits. Credit Audit is required to review the sanction process and status of post sanction processes/procedures (not just restricted to large accounts)

- all fresh proposals and proposals for renewal of limits (within 3 - 6 months from date of sanction)
- all existing accounts with sanction limits equal to or above a cut off depending upon the size of activity
- randomly selected (say 5-10%) proposals from the rest of the portfolio
- accounts of sister concerns/group/associate concerns of above accounts, even if limit is less than the cut off.

Further, credit audit mechanism is required to:

- Verify compliance of bank's laid down policies and regulatory compliance with regard to sanction
- Examine adequacy of documentation
- Conduct the credit risk assessment
- Examine the conduct of account and follow up looked at by line functionaries
- Oversee action taken by line functionaries in respect of serious irregularities
- Detect early warning signals and suggest remedial measures thereof

RBI circular dated September 12, 2002 on ‘Preventing Slippage of NPA Accounts’ banks should put in place an ‘Early Alert System’ that captures early warning signals in respect of accounts showing first signs of weakness.

Reserve Bank further strengthened the instructions, vide circular dated September 14, 2012, on NPA Management – Requirement of an Effective

Mechanism and Granular Data, in terms of which banks should review their existing information technology and management information system (MIS) framework and put in place a robust MIS mechanism for early detection of signs of distress at individual account level as well as at segment level (asset class, industry, geographic, size, etc.).

In addition, all public sector banks have a well-established vigilance mechanism headed by a Chief Vigilance Officer (CVO) appointed by the Government of India. CVOs of the banks are expected to keep a close watch on the various aspects of functioning of the bank.

Nominee Director :-

As regards Nominee Directors from RBI, in terms of Clause 13(2)(D) of the Nationalised Banks (Management & Miscellaneous Provisions) Scheme 1970/1980, RBI Nominee Director is a part of the Management committee. RBI has already advised its Nominee Directors on “Monitoring of Non Performing Assets (NPAs) and Restructuring of Advances” dated May 8, 2013.

The presence of the RBI’s Nominee Director helps in better regulatory compliance as a member on the Management Committee who has sufficient knowledge/ experience in accounting/ financial reporting/ analysis enables better scrutiny of the credit proposals.

Taking into account the difficult financial position of some of the Public Sector Banks (PSBs), it may not an opportune time to exclude the RBI nominee Director from the composition of the Management Committee."

10. The Committee have noted that despite the efforts undertaken by the RBI vis-a-vis the credit appraisal capability of banks, there still lies lacunae in the technical capabilities of banks for undertaking proper evaluation of projects. The Committee would, therefore, reiterate that specially empowered Committees at all the three levels, namely, RBI, Banks and the borrower should be set up for continuous monitoring of the status / progress of large loan portfolios. These specially tasked Committees may be mandated to submit periodical reports to the Government and the Parliament on their findings. This would augment better

governance standards and professionalism in the top bank management in the days to come. The Committee further reiterate that the accountability of nominee Directors of RBI / Ministry on the Bank Boards as well as the CMDs / MDs of banks should also be fixed in the matter.

Recommendation (Sl. No. 3)

11. Keeping in view the fact that diversion of funds by promoters to unrelated businesses and poor pre-sanction due diligence have been cited as key reasons for bank loans turning toxic, the Committee are of the opinion that forensic audit should be made mandatory for specific class of borrowers. Since it is also widely believed that the current internal audit practices in banks are not effective enough to prevent diversion of funds by borrowers, the Committee would like to once again emphasise that 'due diligence' processes before banks disburse large loans (beyond a certain threshold) require urgent attention. In this context, the Committee desire that the decisions taken to sanction loans in violation of norms/guidelines should also be enquired into, responsibility fixed, adequate penal action taken and the Committee apprised accordingly.

12. The Ministry in their Action Taken Reply stated as under :-

"In terms of Reserve Bank’s extant guidelines on Framework for Dealing with Loan Frauds, once a bank classifies an account as a “red flagged account” (a red flagged account is one where a suspicion of fraudulent activity is thrown up by the presence of one or more early warning signals), the bank which has red flagged the account or detected the fraud would ask the consortium leader or the largest lender under Multiple Banking Arrangement (MBA) to convene a meeting of the Joint Lender’s Forum (JLF) to discuss the issue. In case there is a broad agreement, the account would be classified as a fraud; else based on the majority rule of agreement amongst banks with at least 60% share in the total lending, the account would be red flagged by all the banks and subjected to a forensic audit commissioned or initiated by the consortium leader or the largest lender under MBA. Based on the forensic audit report, the JLF may decide to classify an account as “red flagged account" or fraud account with all banks in the consortium and lodge a complaint with CBI.

Due Diligence Requirements

Under the Framework for Revitalising Distressed Assets in the Economy dated February 26, 2014, banks are required to report credit information, including classification of an account as special mention account (SMA) to Central Repository of Information on Large Credits (CRILC) on all their borrowers having aggregate fund-based and non-fund based exposure of Rs. 5 crore and above with them. Banks are advised that as soon as an account is reported by any of the lenders to CRILC as SMA-2 (i.e. overdue is for more than 60 days), they should mandatorily form a committee to be called “Joint Lenders Forum” (JLF) if the aggregate exposure of lenders in that account is Rs 100 crore and above. Lenders also have the option of forming a JLF even when the aggregate exposure in an account is less than Rs.100 crore. The JLF may explore various options to resolve the stress in the account which may include rectification, restructuring and recovery. If the JLF decides to restructure an account, the JLF should carry out the detailed Techno-Economic Viability (TEV) study, and if found viable, finalise the restructuring package within a stipulated time period from the date of signing off the final Corrective Action Plan (CAP) For accounts with aggregate exposure of Rs.500 crore and above, the above-mentioned TEV study and restructuring package will have to be subjected to an evaluation by an Independent Evaluation Committee (IEC) of experts fulfilling certain eligibility conditions. The IEC will look into the viability aspects after ensuring that the terms of restructuring are fair to the lenders. The IEC will be required to give their recommendation in these cases to the JLF within a stipulated time period. The entire process is needed to be completed within a given time period. As may be appreciated, this framework is having an in built mechanism for due diligence based on which corrective actions are taken by banks and there is an independent evaluation mechanism through IEC beyond a threshold in case of restructuring.

Staff Accountability

All public sector banks have a well-established vigilance mechanism headed by a Chief Vigilance Officer (CVO) appointed by the Government of India. CVOs of the banks are expected to keep a close watch on the various aspects of functioning of the bank.

Further, RBI has issued various guidelines, applicable to all categories of banks, on examining staff accountability under various circumstances.

Additionally, RBI, vide circular DOS.No.PP.BC.20/6.03.026/96-97 dated November 01, 1996, on "Report of the Working Group to Review the Internal Control and Inspection/Audit System in Banks – Implementation of the Recommendations", advised the banks that "with a view to keep the incidence of corruption and malpractice under check, there is a need for fixing staff accountability aspect of irregularities, malpractices etc., at all levels, at the appropriate time". RBI circular, vide DBOD.No.BP.BC.81/21.01.040 /95 dated July 28, 1995 on "Compromise or Negotiated Settlements of Non-Performing Assets advised the banks that staff accountability has to be examined expeditiously. RBI Master Circular on IRAC norms contains a clause (paragraph 7.5 (viii)) for examining staff accountability at the time of selling non-performing assets (NPAs) to other banks/FIs/NBFCs

Internal Audit

The effectiveness of the Internal Audit system is reviewed periodically by the Audit Committee of Board and the same is also examined by RBI during on site examination on a sample basis."

13. The Committee had recommended that the decisions taken to sanction loans in violation of laid down guidelines be enquired into, responsibility fixed and suitable penal action taken. They are unhappy that the recommendation of the Committee has not been acted upon by the Government. The reply of the Government only mentions the guidelines issued by RBI on the issue. While expressing their displeasure, the Committee reiterate that the decisions taken to

sanction loans in contravention to norms / guidelines should be enquired into, responsibility fixed, adequate penal action taken and the Committee be apprised, accordingly. The committee particularly desire that details of cases, where debt to equity norms have been specifically violated should be identified and made available to the Committee.

Recommendation (Sl. No. 8)

14. The Committee take note of the various guidelines issued by RBI from time to time to ensure effective management of NPAs and to enable speedy and prompt recovery. However, the Committee are constrained to observe that the RBI does not seem to have quite succeeded, as a regulator, in so far as implementation and enforcement in letter and spirit of its own guidelines, on stressed loans is concerned. Mere issuing of guidelines by RBI does not seem to have yielded the desired results. The Committee would, therefore, expect RBI to monitor and follow it up with the banks and financial institutions on a regular basis till concrete outcomes materialise. Such a pro-active action by RBI will also enable it to review the guidelines, whenever required and plug loopholes, if any. As the Committee would not like the RBI to be a passive regulator, when major lapses occur in banks, it would be in the fitness of things if RBI exercises its regulatory powers vis-a-vis banks to take punitive action in cases of default and to enforce their guidelines. The Committee also believe that RBI as a regulator should have its regulatory role well delineated and thus not have its Director in the Board(s) of the Banks as part of their management, as conflict of interest may lead to avoidable laxity.

15. The Ministry in their Action Taken Reply stated as under :-

"Regulatory and monitoring framework for bad loans-

Reserve Bank of India has issued various guidelines aimed at enabling banks in effective resolution of stressed assets. Certain recent measures such as distressed asset framework, flexible structuring of loans, change of management through Strategic Debt Restructuring etc. specifically aimed at to add to the effectiveness of extent resolution framework within the given ecosystem. In addition, the Central Repository of Information on Large Credits (CRILC) has been created to collect, store and disseminate data on all borrowers' credit exposures including Special Mention Accounts (SMA 0, 1 & 2) having aggregate fund-based and non-fund based exposure of Rs.50 million and above. The repository is able to assist supervisors in tracking and reviewing exposures/impairment of problem assets more effectively across banking institutions so that timely remedial measures can be taken.

Further, the Reserve Bank checks the implementation and enforcement of the guidelines on NPA management on a sample basis across all banks during the Annual Financial Inspection (AFI) and Risk Based Supervision (RBS). The non-compliances observed by the banks are communicated to the banks in AFI/Risk Assessment Report, and the banks are asked to comply with the guidelines making required provisions, putting in place requisite monitoring and control mechanisms to avoid such non-compliances in future. The impact of the divergence in asset quality is also reflected in the Supervisory Rating of the bank. The compliance of the banks to these observations are tracked through Monitorable Action Plan/Risk Mitigation Plan by the Reserve Bank. In addition, compliance to RBI instructions on income recognition, asset classification and provisioning norms are verified by banks internal audit, concurrent audit and statutory auditors also.

In this context, it may be submitted here that apart from the individual bank level inspection/assessments carried out every year, in 2015-16, RBI also conducted a system wide Asset Quality Review (AQR). The AQR exercise covered major banks (including all public sector banks and SBI associates) which constituted more than 80% of total funded outstanding of the banking system reported under CRILC and 5% in terms of the number of accounts reported under CRILC. The exercise validated the objective compliance of banks with applicable IRAC norms and exceptions were reported as divergence in asset classification / provisioning by the inspecting teams. Apart from the bank specific NPAs, this exercise brought out the cases where certain accounts were detected as NPA across the banks (System Level).

The banks compliance with instructions under AQR i.e, provision for accounts, banks are being monitored closely through account-specific comments and reviews by respective Principal Inspecting Officers and Senior Supervisory Managers.

In order to ensure that RBI exercises its regulatory power including taking punitive action against banks in cases of default, it has been decided to formalize a Supervisory Enforcement Framework by June 2016. A statement in this regard was also given in the First Bi-Monthly Monetary Policy Statement 2016-17 dated April 05, 2016; Para 32 which is reproduced ad-verbatim hereunder:

Supervisory Enforcement Framework: Changes in the domestic and international financial sector environment necessitate formalisation of an improved supervisory framework for taking enforcement action against scheduled commercial banks for non-compliance of instructions and guidelines issued by the Reserve Bank. The framework, which is intended to meet the principles of natural justice and global standards of transparency, predictability, standardisation, consistency, severity and timeliness of action, will be formalized by June 2016"

However, it may be appreciated that, directional change in the asset quality of banks is dependent upon various factors, including certain external factors like downturn/ slowdown of economy, various regulatory and other bottlenecks in project implementation etc. Any turnaround in banks asset quality usually takes time. Hence, although the concerns on the asset quality at this point of time is well appreciated, effectiveness of implementation of Reserve Bank's guidelines may need to be assessed over a period of time."

16. The Committee had recommended that RBI should have its regulatory role well delineated and thus, not have its Director in the Board(s) of the Banks as part of their management, as conflict of interest might lead to avoidable laxity. They are displeased to find that their recommendation has not been dealt with by the Government. The Committee, therefore, reiterate that RBI as a regulator should have its regulatory role well delineated and, thus, not have its Director in the Board(s) of the Banks as part of their management, as conflict of interest might lead to avoidable laxity.

Minutes of the Seventh sitting of the Standing Committee on Finance
The Committee sat on Wednesday, the 30 November, 2016 from 1500 hrs. to 1615 hrs. in Committee Room 'C', Parliament House Annexe, New Delhi.
PRESENT

Dr. M. Veerappa Moily - Chairperson

LOK SABHA

2. Shri T.G. Venkatesh Babu
3. Shri Gopalakrishnan Chinnaraj
4. Shri Nishikant Dubey
5. Shri P.C. Gaddigoudar
6. Prof. Sanwar Lal Jat
7. Shri Chandrakant B. Khaire
8. Shri Bhartruhari Mahtab
9. Shri Prem Das Rai
10. Shri Rayapati Sambasiva Rao
11. Shri Gajendra Singh Sekhawat
12. Shri Gopal Chinayya Shetty
13. Shri Anil Shirole
14. Dr. Kiritbhai Solanki
15. Dr. Kirit Somaiya
16. Shri Dinesh Trivedi
17. Shri Shivkumar Udasi

RAJYA SABHA

18. Shri Naresh Gujral
19. Shri A. Navaneethakrishnan
20. Dr. Mahendra Prasad
21. Shri T.K. Rangarajan
22. Shri Ajay Sancheti
23. Shri Digvijaya Singh

SECRETARIAT

1.	Smt. Abha Singh Yaduvanshi	-	Joint Secretary
2.	Shri P.C. Tripathy	-	Director
3.	Shri Ramkumar Suryanarayanan	-	Additional Director
4.	Shri Kulmohan Singh Arora	-	Deputy Secretary

WITNESSES

XX XX XX XX XX XX

2. XX XX XX XX XX XX.

3. Thereafter, the Committee took up the following draft reports for consideration and adoption:

(i) Draft Report on 'The Companies (Amendment) Bill, 2016

(ii) Draft Report on Action Taken by the Government on the Recommendations contained in the 20th Report (16th Lok Sabha) on "Planning Process - A Review "

(iii) Draft Report on Action Taken by the Government on the Recommendations contained in the 27th Report (16th Lok Sabha) on "Non - Performing Assets Of Financial Institutions "

(iv) Draft Report on Action Taken by the Government on the Recommendations contained in the 29th Report on Demands For Grants (2016-17) of the Ministry of Finance (Departments of Economics Affairs, Expenditure, Financial Services and Disinvestment.

(v) Draft Report on Action Taken by the Government on the Recommendations contained in the 30th Report on Demands For Grants (2016-17) of the Ministry of Finance (Department of Revenue).

(vi) Draft Report on Action Taken by the Government on the Recommendations contained in the 31st Report on Demands For Grants (2016-17) of the Ministry of Planning.

(vii) Draft Report on Action Taken by the Government on the Recommendations contained in the 33rd Report on Demands For Grants (2016-17) of the Ministry of Statistics and Programme Implementation.

After some deliberations, the Committee adopted the above draft Reports with minor modifications and authorised the Chairperson to finalise them and present these Reports to Parliament.

4. XX XX XX XX XX XX.

The Committee then adjourned.

APPENDIX

(Vide Para 4 of the Introduction)

ANALYSIS OF THE ACTION TAKEN BY THE GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE TWENTY-SEVENTH REPORT OF THE STANDING COMMITTEE ON FINANCE (SIXTEENTH LOK SABHA) ON NON-PERFORMING ASSETS OF FINANCIAL-INSTITUTIONS

		Total	% of total
(i)	Total number of Recommendations	14	
(ii)	Recommendations/Observations which have been accepted by the Government (vide Recommendations at Sl. Nos. 1,4,5,6,9,10,11,12,13&14)	10	71.43%
(iii)	Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies	Nil	-
(iv)	Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee (vide Recommendations at Sl. No. 2,3&8)	03	21.43%
(v)	Recommendations/Observations in respect of which final reply of the Government are still awaited (vide recommendations No. 7)	01	7.14%