## Appendix I

### List of Sample Companies

<table>
<thead>
<tr>
<th>No.</th>
<th>Company Name</th>
<th>No.</th>
<th>Company Name</th>
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<tbody>
<tr>
<td>1</td>
<td>A C C Ltd.</td>
<td>25</td>
<td>Infosys Ltd.</td>
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<tr>
<td>2</td>
<td>Ambuja Cements Ltd.</td>
<td>26</td>
<td>Jindal Steel &amp; Power Ltd.</td>
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<tr>
<td>3</td>
<td>Asian Paints Ltd.</td>
<td>27</td>
<td>Kotak Mahindra Bank Ltd.</td>
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<tr>
<td>4</td>
<td>Axis Bank Ltd.</td>
<td>28</td>
<td>Larsen &amp; Toubro Ltd.</td>
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<tr>
<td>5</td>
<td>Bank Of Baroda</td>
<td>29</td>
<td>Lupin Ltd.</td>
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<td>6</td>
<td>Bharat Heavy Electricals Ltd.</td>
<td>30</td>
<td>Mahindra &amp; Mahindra Ltd.</td>
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<td>7</td>
<td>Bharat Petroleum Corpn. Ltd.</td>
<td>31</td>
<td>Maruti Suzuki India Ltd.</td>
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<tr>
<td>8</td>
<td>Bharti Airtel Ltd.</td>
<td>32</td>
<td>N M D C Ltd.</td>
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<td>9</td>
<td>Cipla Ltd.</td>
<td>33</td>
<td>N T P C Ltd.</td>
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<tr>
<td>10</td>
<td>Coal India Ltd.</td>
<td>34</td>
<td>Oil &amp; Natural Gas Corpn. Ltd.</td>
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<tr>
<td>11</td>
<td>D L F Ltd.</td>
<td>35</td>
<td>Power Grid Corpn. Of India Ltd.</td>
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<tr>
<td>12</td>
<td>Dr. Reddy'S Laboratories Ltd.</td>
<td>36</td>
<td>Punjab National Bank</td>
</tr>
<tr>
<td>13</td>
<td>G A I L (India) Ltd.</td>
<td>37</td>
<td>Reliance Industries Ltd.</td>
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<td>14</td>
<td>Grasim Industries Ltd.</td>
<td>38</td>
<td>Sesa Sterlite Ltd.</td>
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<td>15</td>
<td>H C L Technologies Ltd.</td>
<td>39</td>
<td>State Bank Of India</td>
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<td>16</td>
<td>H D F C Bank Ltd.</td>
<td>40</td>
<td>Sun Pharmaceutical Inds. Ltd.</td>
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<td>17</td>
<td>Hero Motocorp Ltd.</td>
<td>41</td>
<td>Tata Consultancy Services Ltd.</td>
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<td>18</td>
<td>Hindalco Industries Ltd.</td>
<td>42</td>
<td>Tata Motors Ltd.</td>
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<td>19</td>
<td>Hindustan Unilever Ltd.</td>
<td>43</td>
<td>Tata Power Co. Ltd.</td>
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<td>20</td>
<td>Housing Development Finance Corpn. Ltd.</td>
<td>44</td>
<td>Tata Steel Ltd.</td>
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<tr>
<td>21</td>
<td>I C I C I Bank Ltd.</td>
<td>45</td>
<td>Tech Mahindra Ltd.</td>
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<tr>
<td>22</td>
<td>I D F C Ltd.</td>
<td>46</td>
<td>Wipro Ltd.</td>
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<tr>
<td>23</td>
<td>I T C Ltd.</td>
<td>47</td>
<td>Zee Entertainment Enterprises Ltd.</td>
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<tr>
<td>24</td>
<td>Indusind Bank Ltd.</td>
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1. nseindia.com
Appendix II

Narasimham Committee Report 1991

The main recommendations of Narasimham Committee (1991) on the Financial (Banking) System are as follows:

(i) Statutory Liquidity Ratio (SLR) is brought down in a phased manner to 25 percent (the minimum prescribed under the law) over a period of about five years to give banks more funds to carry business and to curtail easy and captive finance.

(ii) The RBI should reduce Cash Reserve Ratio (CRR) from its present high level.

(iii) Directed Credit Programme i.e., credit allocation under government direction, not by commercial judgement of banks under a free market competitive system, should be phased out. The priority sector should be scaled down from present high level of 40 percent of aggregate credit to 10 percent. Also the priority sector should be redefined.

(iv) Interest rates to be deregulated to reflect emerging market conditions.

(v) Banks whose operations have been profitable is given permission to raise fresh capital from the public through the capital market.

(vi) Balance sheets of banks and financial institutions are made more transparent.

(vii) Set up special tribunals to help banks recover their debt speedily.

(viii) Changes be introduced in the bank structure 3-4 large banks with international character, 8-10 national banks with branches throughout the country, local banks confined to specific region of the country, rural banks confined to rural areas.

(ix) Greater emphasis is laid on internal audit and internal inspection in the banks.

(x) Government should indicate that there would be no further nationalisation of banks, the new banks in the private sector should be welcome subject to normal requirements of the RBI, branch licensing should be abolished and policy towards foreign banks should be more liberal.

(xi) Quality of control over the banking system by the RBI and the Banking Division or the Ministry of Finance should be ended and the RBI should be made primary agency for regulation of banking system.

(xii) A new financial institution called the Assets Reconstruction Fund (ARF). Should be established which would take over from banks and financial institutions a portion of their bad and doubtful debts at a discount (based on realisable value of assets), and subsequently follow up on the recovery of the dues owed to them from the primary borrowers.

**Narasimham Committee Report 2, 1998**

1) Capital adequacy requirements should take into account market risks in addition to the credit risks.

2) In the next three years the entire portfolio of government securities should be marked to market and the schedule for the same announced at the earliest (since announced in the monetary and credit policy for the first half of 1998-99); government and other approved securities which are now subject to a zero risk weight, should have a 5 per cent weight for market risk.

3) Risk weight on a government guaranteed advance should be the same as for other advances. This should be made prospective from the time the new prescription is put in place.

4) Foreign exchange open credit limit risks should be integrated into the calculation of risk weighted assets and should carry a 100% risk weight.
5) An alternative approach could be to enable the banks in difficulty to issue bonds which could form part of Tier II capital, backed by government guarantee to make these instruments eligible for SLR investment by banks and approved instruments by LIC, GIC and Provident Funds.

6) Public Sector Banks in a position to access the capital market at home or abroad be encouraged, as subscription to bank capital funds cannot be regarded as a priority claim on budgetary resources.

7) An asset to be classified as doubtful if it is in the substandard category for 18 months in the first instance and eventually for 12 months and loss if it has been identified but not written off. These norms should be regarded as the minimum and brought into force in a phased manner.

8) For banks with a high NPA portfolio, two alternative approaches could be adopted. One approach can be that, all loan assets in the doubtful and loss categories should be identified and their realisable value determined. These assets could be transferred to an Assets Reconstruction Company (ARC) which would issue NPA Swap Bonds.

9) The interest subsidy element in credit for the priority sector should be totally eliminated and interest rate on loans under Rs.2 lakhs should be deregulated for scheduled commercial banks as has been done in the case of Regional Rural Banks and cooperative credit institutions.

10) Introduction of a general provision of 1 per cent on standard assets in a phased manner be considered by RBI.

11) For evaluating the quality of assets portfolio, advances covered by Government guarantees, which have turned sticky, be treated as NPAs. Exclusion of such advances should be separately shown to facilitate fuller disclosure and greater transparency of operations.

12) Public sector banks should be given flexibility to determined managerial remuneration levels taking into account market trends.

13) Mergers of Public Sector Banks should emanate from the management of the banks with the Government as the common shareholder playing a
supportive role. Merger should not be seen as a means of bailing out weak banks. Mergers between strong banks/FIs would make for greater economic and commercial sense.
Appendix III

Guidelines for Licensing of new banks by RBI:

Key features of these guidelines are:

1. **Eligible Promoters**: A private sector/public sector/NBFC’s/entity/group eligible to set up a bank through a wholly owned ‘Non-Operative Financial Holding Company (NOFHC)’.

2. **Fit and Proper criteria**: A past record of sound credentials, integrity and sound financial background with a successful track record of 10 years will be required.

3. **Corporate restructuring of NOFHC**: The NOFHC to be wholly owned by the promoter/promoter group which shall hold the bank as well as all the other financial service entities of the group.

4. **Minimum voting equity capital requirement for banks and shareholding of NOFHC**: The initial minimum paid up equity capital for a bank shall be Rs. 5 billion. The NOFHC shall initially hold a minimum of 40% of the paid up voting equity capital of the bank which shall be locked in for a period of five years and which shall be brought down to 15% within 12 years. Banks’ shares to be listed on the stock exchanges within three years of the business commencement.

5. **Regulatory Framework**: The bank to be regulated by the relevant Acts/Statutes/Directives issued by the RBI and other regulators. This NOFHC shall be registered as an NBFC with the RBI and will be governed by a separate set of directions issued by the RBI.

6. **Foreign shareholding in the banks**: Foreign shareholding up to 49% for the first 5 years after which it will be as per the extant policy.
7. **Corporate governance of NOFHC**: At least 50% of the Directors of the NOFHC should be independent directors. The corporate structure should not impede effective supervision of the bank and the NOFHC by RBI.

8. **Prudential norms of the NOHFC**: The prudential norms will be applied to the NOFHC in similar lines as that of the bank.

9. **Exposure Norms**: The bank/NOFHC allowed no exposure to the Promoter Group-the bank shall not invest in the equity/debt capital market instruments of any financial entities held by the NOFHC.

10. **Business plan for the bank**: The business plan should be realistic and viable and should address how the bank proposes to achieve financial inclusion.

11. **Additional conditions for NBFCs promoting/convert ing into a bank**: Existing NBFCs, if considered eligible, may be permitted to promote a new bank or convert themselves into banks.

12. **Other conditions include**:

   a) To open at least 25% of its branches in un-banked rural centres (with population of up to 9999 as per the latest census).

   b) To comply with the priority sector lending targets applicable to the existing domestic banks.

   c) Banks promoted by groups having 40 per cent or more assets/income from non-financial business will require RBI’s prior approval for raising paid up voting equity capital beyond Rs. 10 billion.

   d) Any non-compliance of terms and conditions will attract penal measures including cancellation of license of the bank.
Appendix IV

The Draft Indian Financial Code

- The draft Code is a non-sectoral, principles-based law bringing together laws governing different sectors of the financial system. It addresses nine components, which the FSLRC believes any financial legal framework should address:

  - Consumer protection: Regulators should ensure that financial firms are doing enough for consumer protection. The draft Code establishes certain basic rights for all financial consumers and creates a single unified Financial Redressal Agency (FRA) to serve any aggrieved consumer across sectors. In addition, the FSLRC considers competition an important aspect of consumer protection and envisages a detailed mechanism for cooperation between regulators and the Competition Commission.


  - Resolution: In cases of financial failure, firms should be swiftly and sufficiently wound up with the interests of small customers. A unified resolution corporation, dealing with various financial firms, should be created to intervene when a firm is close to failure. The resolution corporation would charge a fee to all firms based on the probability of failure.


3 FSLRC Report; PRS. www.prsindia.org
• **Capital controls:** While the FSLRC does not hold a view on the sequencing and timing of capital account liberalisation, any capital controls should be implemented on sound footing with regards to public administration and law. The FSLRC sees the Ministry of Finance creating the ‘rules’ for inbound capital flows and the RBI creating the ‘regulations’ for outbound capital flows. All capital controls would be implemented by the RBI.

• **Systemic risk:** Regulators should undertake interventions to reduce the systemic risk for the entire financial system. The FSLRC envisages establishing the Financial Stability and Development Council (FSDC) as a statutory agency taking a leadership role in minimizing systemic risk.

• **Development and redistribution:** Developing market infrastructure and process would be the responsibility of the regulator while redistribution policies would be under the purview of the Ministry of Finance.

• **Monetary policy:** The law should establish accountability mechanisms for monetary policy. The Ministry of Finance would define a quantitative target that can be monitored while the RBI will be empowered with various tools to pursue this target. An executive Monetary Policy Committee (MPC) would be established to decide on how to exercise the RBI’s powers.

• **Public debt management:** The draft Code establishes a specialised framework for public debt management with a strategy for long run low-cost financing. The FSLRC proposes a single agency to manage government debt.

• **Contracts, trading and market abuse:** The draft Code establishes the legal foundations for contracts, property and securities markets.

**Regulators**

• With respect to regulators, the FSLRC stresses the need for both independence and accountability. The draft Code adopts ownership
neutrality whereby the regulatory and supervisory treatment of a financial firm is the same whether it is a private or public company. The draft Code seeks to move away from the current sector-wise regulation to a system where the RBI regulates the banking and payments system and a Unified Financial Agency subsumes existing regulators like SEBI, IRDA, PFRDA and FMC, to regulate the rest of the financial markets.

- Regulators will have an empowered board with a precise selection-cum-search process for appointment of members. The members of a regulatory board can be divided into four categories: the chairperson, executive members, non-executive members and Government nominees. In addition, there is a general framework for establishing advisory councils to support the board. All regulatory agencies will be funded completely by fees charged to the financial system. Finally, the FSLRC envisages a unified Financial Sector Appellate Tribunal (FSAT), subsuming the existing Securities Appellate Tribunal (SAT), to hear all appeals in finance.

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