

Legal Framework

01. There is an elaborate legal framework governing the functioning of banks in India. The principal enactments which govern the functioning of various types of banks are:

- Banking Regulation Act, 1949.
- State Bank of India Act, 1955.
- Companies Act, 2013¹.
- State Bank of India (Subsidiary Banks) Act, 1959.
- Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970.
- Regional Rural Banks Act, 1976.
- Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980.
- Information Technology Act, 2000².
- Prevention of Money Laundering Act, 2002³.
- Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.
- Credit Information Companies Regulation Act, 2005.
- Payment and Settlement Systems Act, 2007.

02. Besides, the above enactments, the provisions of the Reserve Bank of India Act, 1934, also affect the functioning of banks. The Act gives wide powers to the RBI to give directions to banks which also have considerable effect on the functioning of banks.

Salient Provisions of Banking Regulation Act, 1949*

03. Of the above, the Banking Regulation Act, 1949 (hereinafter referred to as “the Act”), is the most important as it affects the functioning of all institutions

¹ Companies (Amendment) Act, 2015.

² Information Technology (Amendment) Act, 2008

³ Prevention of Money Laundering (Amendment) Act, 2012

* RBI *vide* its Circular No. DBOD.NO.PSBD.BC.62/16.13.100/2013-14 on “Amendments to Banking Regulation Act, 1949 –Banking Laws (Amendment) Act, 2012- Applicability to private sector banks” dated October 23, 2013 advised that amendments by Banking Laws (Amendment) Act, 2012 are binding on banks notwithstanding any clauses to the contrary contained in the Memorandum of Association (MoA) and Articles of Association (AoA) of the banks. Banks are therefore, advised to make necessary amendments in the MoA and AoA.

carrying on banking business whereas the other enactments relate only to certain specific type(s) of banks. Some of the important provisions of the Act are briefly described below, since familiarity with them is essential for the performance of the duties of an auditor. It may, however, be emphasised that the ensuing discussion is not an exhaustive discussion on all the relevant provisions of the Act. It may also be noted that some of the provisions discussed hereunder are not applicable to certain types of banks in view of there being specific provisions with regard to the relevant matters in the respective principal statutes governing their functioning.

Sec 4: Power to Suspend Operation of the Act

04. On a representation made by the RBI in this behalf, the Central Government may suspend the operation of the Act or of any provision thereof for a period up to 60 days either generally or in relation to any specified banking company. In case of a special emergency, the Governor of the RBI or, in his absence, any authorised Deputy Governor may also, similarly, suspend such operation for a period up to 30 days. In either case, the Central Government has a power to extend the period of suspension, from time to time, but the said extension should not exceed a period of 60 days at any one time. The total period of suspension cannot, however, exceed one year.

Sec 5(b): Banking

05. 'Banking' is defined as "the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise".

Sec 5(c): Banking Companies

06. A *banking company* means "any company which transacts the business of banking in India". The term 'company' for this purpose covers companies registered in India as well as foreign companies. It has been clarified that any company which is engaged in the manufacturing of goods or carries on any trade, and which accepts deposits of money from the public merely for the purpose of financing its business as such manufacturer or trader, shall not be deemed to transact the business of banking [*Explanation* to section 5(c)].

Sec 6: Forms of Business

07. Section 6 of the Act permits a banking company to engage in certain forms of business in addition to the business of banking. Besides the forms of business specifically listed in clauses (a) of sub-section (1) of section 6, a banking company may do "all such other things as are incidental or conducive to the

promotion or advancement of the business of the company” [clause (n) of sub-section (1) of section 6]. Under clause (o), a banking company may engage in any other form of business (besides those covered by other clauses), which the Central Government may, by notification in the Official Gazette, specify as a form of business in which it is lawful for a banking company to engage.

08. Under sub-section (2) of section 6, a banking company is prohibited from entering into any form of business other than those covered by sub-section (1) of the said section. Section 8 specifically prohibits a banking company from buying, selling or bartering of goods except in connection with the realisation of a security held by it. It also prohibits a banking company from engaging in any trade of buying/selling or bartering of goods for others except in connection with collecting or negotiating bills of exchange or in connection with undertaking the administration of estates as executor, trustee or otherwise. However, the above prohibitions are not applicable to any business specified by the Central Government in pursuance of clause (o) of sub-section (1) of section 6.

Sec 11, 12 and 13: Requirements as to Minimum Paid-up Capital and Reserves and Regulation of Capital

09. Section 11 of the Act lays down the requirements as to minimum paid-up capital and reserves. Different limits have been laid down for banking companies incorporated outside India and other banking companies. Under section 12, the capital of a banking company can consist of ordinary (i.e., equity) shares only, except where preference shares have been issued prior to July 1, 1944 or where the banking company has been incorporated before January 15, 1937⁴. Section 13 restricts the pay out; either directly, or indirectly, of commission, brokerage, discount or remuneration in any form in respect of any shares issued by a banking company to two and one-half percent of the paid-up value of the said shares.

Sec 14 and 14A: Prohibition on Creation of Charge on Unpaid Capital

10. A banking company is prohibited from creating any charge on their un-paid shares. A banking company is also prohibited from creating floating charge on the undertaking or any property of the company or any part thereof unless the creation of such floating charge is certified in writing by the RBI as not being detrimental to the interest of the depositors of such company.

Sec 15: Restriction on Payment of Dividend

11. No banking company shall pay any dividend on its shares until all its

⁴ The attention of the members is also invited to RBI's circular no. DBOD.BP.BC.42/21.01.002/2007-08 of October 29, 2007 on "Guidelines for issuing preference shares as part of regulatory capital".

capitalised expenses (including preliminary expenses, organisation expenses, share-selling commission, brokerage, amount of losses incurred and any other item of expenditure not represented by tangible assets) have been completely written off. A banking company may, however, pay dividends on its shares without writing off:

- a. Depreciation, if any, in the value of Investments in approved securities where such depreciation has not been capitalised or otherwise accounted for as loss,
- b. Depreciation, if any, in the value of its investments in shares, debentures or bonds where adequate provision for such depreciation has been made to the satisfaction of the auditors,
- c. Bad debts, if any, where adequate provision for such bad debts has been made to the satisfaction of the auditors.

Sec 17: Reserve Fund

12. Every banking company incorporated in India is required to transfer out of the balance of profit of each year as disclosed in the Profit and Loss account to reserve fund, a sum equivalent to not less than 20% of its profit before declaration of dividend. Central Government may on recommendation of the RBI having regard to adequacy of its paid up capital and reserves declare in writing that the provisions of Section 17(1) shall not apply to the banking company. Where a banking company appropriates any sum or sums from the reserve fund or the share premium account, it shall report the fact to the RBI.

Sec 18: Cash Reserve

13. Every banking company, other than a schedule bank, is required to maintain in India a cash reserve with itself or by way of balance in a current account with the RBI, or by way of net balance in current accounts or in one or more of the aforesaid ways, a sum equivalent to at least three per cent of the total of its demand and time liabilities in India as on the last Friday of the second preceding fortnight.

14. Such companies are also required to submit to the RBI before the twentieth day of every month, a return showing the amount so held on alternate Fridays during a month with particulars of its demand and time liabilities in India on such Fridays or if any such Friday is a public holiday under the Negotiable Instruments Act, 1881 (26 of 1881), at the close of business on the preceding working day.

Sec 19: Restriction on Nature of Subsidiary Companies

15. A banking company is prohibited from forming a subsidiary company except for the following purposes:

- a. For undertaking any of the businesses which, under clauses (a) to (o) of Section 6(3), is permissible for a banking company,
- b. With the previous approval of RBI in writing for carrying on of the business of banking exclusively outside India,
- c. For undertaking of such other business, which RBI may, with the prior approval of the Central Government, consider conducive to the spreading of banking in India or to be otherwise useful or necessary in public interest.

16. A banking company shall not hold shares in any other company other than the subsidiary, whether as pledgee, mortgagee or absolute owner of an amount exceeding 30% of the paid up share capital of that company or 30% of its own paid up share capital and free reserves, whichever is less. No shares shall be held as pledgee, mortgagee or absolute owner in any company, other than a subsidiary company, in the management of which any managing director or manager of the banking company is in any manner concerned or interested.

Sec 20 and 21: Restriction on Loans and Advances

17. Section 20 of the Banking Regulation Act, 1949, (hereinafter referred to as 'the Act') lays down restrictions on loans and advances by banks. Apart from banking companies, nationalised banks, State Bank of India, its subsidiaries, and regional rural banks are also covered by this section. Accordingly, none of these banks can grant loans and advances in the following circumstances:

- (a) on the security of its own shares;
- (b) to or on behalf of any of its directors;
- (c) to any firm in which any of its directors is interested as a partner, manager, employee or guarantor;
- (d) any company of which, or of a subsidiary of the holding company of which, any of the directors of the bank is a director, manager, employee or guarantor or in which he holds substantial interest. This restriction, however, does not apply to the following companies:
 - (i) a subsidiary of the banking company;
 - (ii) a company registered under section 8 of the Companies Act, 2013; and
 - (iii) a government company.

- (e) any individual in respect of whom any of its directors is a partner or guarantor.

18. Under section 20(5) of the Act, the RBI has been empowered to clarify whether any transaction is a loan or advance for the purpose of this section and the decision of RBI thereon shall be final. In doing so, the RBI would consider the nature of the transaction, the period within which and the manner and the circumstances in which, any amount due on account of the transaction is likely to be realised, the interest of the depositors and other relevant considerations. In exercise of this power, the RBI has, vide its circulars DBOD.No.BC.415/08.95.005/98 dated September 29, 1998 and DBOD.No.BC.26/08.95.005/99 dated April 1, 1999 excluded certain loans to directors from the purview of section 20.

19. Under section 20A of the Act, a banking company is prohibited from remitting, wholly or partly, the debts due to it by certain persons without obtaining the prior approval of the RBI. Any such remission made without the prior approval of the RBI is void and ineffective. The persons specified in this behalf are:

- (a) any director of the banking company;
- (b) any firm or company in which any director is interested as director, partner, managing agent or guarantor; and
- (c) any individual if any director of the bank is his partner or guarantor.

The above prohibition also applies to nationalised banks, State Bank of India, its subsidiaries, and regional rural banks.

20. Under section 21 of the Act, the RBI has the power to determine the policy in relation to advances to be followed by banking companies generally, or by any banking company in particular. In particular, the RBI can give directions to banking companies regarding:

- (a) the purposes for which advances may or may not be made;
- (b) the margins to be maintained in respect of secured advances;
- (c) the maximum amount of advances or other financial accommodation which may be made by a banking company to any one company, firm, association of persons or individual;
- (d) the maximum amount up to which guarantees may be given by a banking company on behalf of any one company, firm, association of persons or individual; and

- (e) the rate of interest and other terms and conditions on which advances or other financial accommodation may be made or guarantees may be given.

21. Every banking company (as also a nationalised bank, State Bank of India, a subsidiary of State Bank of India, and a regional rural bank) is bound to comply with the policy determined, and directions given, by the RBI.

Sec 22: Licensing of Banking Companies

22. Section 22 of the Act prohibits a company from carrying on banking business in India unless it holds a license issued by the RBI. The licence may be a conditional licence. The licence may be cancelled if the company ceases to carry on banking business in India or fails to comply with the conditions imposed upon it under sub-section (1) of this section or fails to fulfil any other condition laid down in the section.

Sec 23: Restrictions on Opening and Transfer of Places of Business

23. Under section 23, prior permission of the RBI is required for opening of new, or transfer of existing, places of business in India. Similarly, prior permission from RBI is required by a banking company incorporated in India for opening a new, or transferring an existing, place of business outside India. The above restrictions, however, do not cover the change of location of an existing place of business within the same city, town or village. Further, opening of a temporary place of business for a period not exceeding one month is also exempted provided the conditions laid down in this behalf are satisfied. The term 'place of business' includes any sub-office, pay office, sub-pay office and any place of business at which deposits are received, cheques are encashed or monies are lent.

24. It may be noted that the RBI has permitted banks to open new places of business or transfer existing ones without obtaining specific permission from it provided certain conditions specified by the RBI in this behalf are satisfied.

Sec 24: Maintenance of a Percentage of Assets (SLR)

25. Section 24 mandates that a scheduled bank, in addition to the average daily balance required to be maintained under Section 42 of the Reserve Bank of India Act, 1934 every other banking company, in addition to the cash reserve required to be maintained under section 18, shall maintain in India, assets of the value which shall not be less than such percentage not exceeding forty percent of the total of its demand and time liabilities in India as on the last Friday of the second preceding fortnight, in such form and manner as the RBI may by notification in the Official Gazette, specify from time to time.

26. Section 25 requires that the assets in India of every banking company at the close of business on the last Friday of every quarter or if that day is a public holiday, at the close of the preceding working day, shall not be less than 75% of its demand and time liabilities in India.

Returns to be Submitted to the RBI

27. The Banking Regulation Act, 1949 requires banking companies, nationalised banks, State Bank of India, its subsidiaries, and regional rural banks to furnish the following returns to the RBI:

- (a) Monthly return of assets maintained in India in accordance with section 24 and demand and time liabilities in India at the close of business on each alternate Friday during the month. [Section 24]
- (b) Quarterly return of assets and liabilities in India at the close of business on the last Friday of every quarter. [Section 25]
- (c) Annual return of unclaimed accounts which have not been operated for 10 years. [Section 26]
- (d) Monthly return of assets and liabilities in India at the close of business on the last Friday of every month. [Section 27]

28. The above types of banks also have to furnish such other statements or information as may be required by the RBI under section 27 of the Act. In exercise of its powers under the aforesaid section, the RBI requires a large number of returns to be furnished to it. Some of the important returns required to be furnished to the RBI are as enumerated below, with their periodicity indicated in parentheses.

- (a) Report on Non-performing Advances (annual).
- (b) Statement showing the position of reconciliation of investment account (annual).
- (c) Statement on compromises and settlements involving write off (half-yearly).
- (d) Statement on bad debts written off (annual).
- (e) Details of Doubtful or Loss Assets and also Suit Filed accounts with outstandings aggregating Rs. one crore and above (half-yearly).
- (f) Details of remittance of profits/surplus retained in India (annual).
- (g) Particulars of provisions held on problem credits of overseas branches (half-yearly).
- (h) Inter-branch reconciliation (quarterly).
- (i) Reconciliation of outstanding inter-branch accounts (annual).
- (j) Reconciliation of clearing differences (annual).

- (k) Position of balancing of books (quarterly).
- (l) Returns relating to frauds, robbery, etc., including fraud involving Rs. one crore and above (quarterly).
- (m) Return of Capital Adequacy (quarterly).
- (n) Return on Asset Quality (quarterly).
- (o) Asset-liability management (monthly).
- (p) Return in respect of Statutory Liquidity Ratio (monthly).

Sec 29-33: Provisions Relating to Accounts and Audit

29. Section 29 of the Act lays down requirements as to profit and loss account and balance sheet. Section 30 deals with audit of profit and loss account and balance sheet prepared in accordance with section 29. Section 31 deals with publication of profit and loss account and balance sheet and their submission to RBI, whereas section 32 deals with submission of profit and loss account and balance sheet alongwith the auditor's report to the Registrar of Companies. Section 33 deals with display of audited balance sheet and profit and loss account by companies incorporated outside India and carrying on banking business in India. These provisions are discussed in detail in Chapter, '*Accounting and Auditing Framework*' given in CD of the Guidance Note. It may be noted that some of the above provisions are not applicable to nationalised banks, State Bank of India, subsidiaries of State Bank of India, regional rural banks, and co-operative banks (this aspect is discussed later in this Chapter).

Other Important Provisions of the Banking Regulation Act, 1949

30. Besides the above provisions, a number of other provisions of the Act are relevant to the work of the auditor. Some of the important provisions are as follows:

Section 9	Disposal of non-banking assets (Banks are prohibited to hold any immovable property other than assets for its own use and should dispose off the assets held in satisfaction of claim within 7 years or such extended period as RBI allows.)
Section 36A	Certain provisions of the Act do not apply to certain banking companies
Section 49A	Restriction on acceptance of deposits, withdrawable by cheque
Section 45Y	Power of Central Government to make rules for the preservation of records

31. Further, the provisions of the Banking Regulation Act, 1949, except as provided for in the said Act, will override anything to the contrary contained in the:

- memorandum or articles of the banking company or
- in any agreement executed by it or
- in any resolution passed by the banking company in a general meeting or its Board of Directors.

Reserve Bank of India Act, 1934

32. As per section 42, every bank included in the Second Schedule of the Reserve Bank of India Act shall maintain with the RBI an average daily balance of not less than 4% of its total demand and time liabilities. RBI has power to increase the said rate by issuing notification in the Gazette of India but the increased rate shall not exceed 20% of its total demand and time liabilities.

Inspection by the RBI

33. Wide powers have been given to the RBI under section 35 of the (Banking Regulation Act, 1949) for inspection of any banking company and its books and accounts. The Central Government can also direct the RBI to cause such an inspection. RBI has embarked on a transformatory journey towards Risk Based Supervision (RBS) approach from the earlier transaction-centric CAMELS (capital adequacy, asset quality, management, earnings, liquidity, and systems) and CALCS (capital adequacy, asset quality, liquidity, compliance and systems and controls) approaches. Significant improvements is being made in terms of the quality of data provided to RBI and understanding of the data requirements.

Power of the RBI to Give Directions

34. The RBI is empowered to issue such directions to banking companies generally or to any banking company in particular as it deems fit in public interest, or in the interest of banking policy, or to prevent the affairs of any banking company from being conducted in a manner detrimental to the interests of the depositors or in a manner prejudicial to the interests of the banking company, or to secure the proper management of any banking company generally (section 35A of the Banking Regulation Act, 1949). The RBI is also empowered to caution or prohibit banking companies generally or any particular banking company against entering into any particular transaction or class of transactions, and generally give advice to any banking company [Clause (a) of sub-section (1) of section 36 of the Banking Regulation Act, 1949].

Applicability of Various Enactments to Different Types of Banks

35. As mentioned in paragraph 01 above, a number of enactments govern the functioning of banks in India. While the Banking Regulation Act, 1949 is applicable to all types of banks (though some of its provisions may not be applicable to certain types of banks or may be applicable with certain modifications), the other enactments are relevant only to particular type(s) of banks. The enactments applicable to different types of banks are discussed below.

Nationalised Banks

36. Nationalised banks are governed by –

- (a) Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980; and
- (b) specified provisions of the Banking Regulation Act, 1949.

37. Fourteen banks were nationalised under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 while another six were nationalised under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980. The provisions of these two enactments are identical and deal, *inter alia*, with such matters as the following:

- Authorised and paid-up capital.
- Annual accounts.
- Qualifications, appointment, powers and duties of auditor (including contents of audit report).
- Disposal of profits.
- Special audit at the instance of the Central Government.
- Time and place of annual general meeting and business to be transacted thereat.
- Restrictions on payment of bonus to officers and other employees.
- Powers of the Board of Directors to make regulations in consultation with the RBI and with the previous sanction of the Central Government.

38. Apart from all the provisions of the aforesaid Act of 1970/1980, the following provisions of the Banking Regulation Act, 1949, also apply to nationalised banks by virtue of section 51 of the latter Act:

Section 10	Prohibition of employment of managing agents and restrictions on certain forms of employment
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Section 13	Restriction on commission, brokerage, discount, etc., on sale of shares
Section 14	Prohibition of charge on unpaid capital
Section 14A	Prohibition of floating charge on assets
Section 15	Restrictions as to payment of dividend
Section 17	Reserve Fund
Section 19	Restriction on nature of subsidiary companies
Section 20	Restrictions on loans and advances
Section 20A	Restriction on power to remit debts
Section 21	Power of Reserve Bank to control advances by banking companies
Section 21A	Rate of interest charged by banking companies not to be subject to scrutiny by Courts
Section 23	Restrictions on opening of new, and transfer of existing, places of business
Section 24	Maintenance of a percentage of assets
Section 25	Assets in India
Section 26	Return of unclaimed deposits
Section 27	Monthly returns and power to call for other returns and information
Section 28	Power to publish information
Section 29 [excluding sub-section (3)]	Accounts and balance sheet
Section 30 [excluding sub-sections (1B), (1C) and (2)]	Audit
Section 31	Submission of returns
Section 34	Accounting provisions of the Act not retrospective
Section 35	Inspection
Section 35A	Power of the Reserve Bank to give directions
Section 36	Further powers and functions of Reserve Bank

[excluding clause (a) of sub-section (1)]	
Section 45Y	Power of Central Government to make rules for the preservation of records
Section 45Z	Return of paid instruments to customers
Section 45ZA	Nomination for payment of depositors' money
Section 45ZB	Notice of claims of other persons regarding deposits not receivable
Section 45ZC	Nomination for return of articles kept in safe custody with banking company
Section 45ZD	Notice of claims of other persons regarding articles not receivable
Section 45ZE	Release of contents of safety lockers
Section 45ZF	Notice of claims of other persons regarding safety lockers not receivable
Section 46	Penalties
Section 46A	Chairman, director, etc., to be public servants for the purposes of Chapter IX of the Indian Penal Code
Section 47	Cognisance of offences
Section 47A	Power of Reserve Bank to impose penalty
Section 48	Application of fines
Section 50	Certain claims for compensation barred
Section 52	Power of Central Government to make rules
Section 53	Power to exempt in certain cases

State Bank of India and its Subsidiaries

39. State Bank of India and its subsidiaries are governed by –

- (a) State Bank of India Act, 1955/ State Bank of India (Subsidiary Banks) Act, 1959, as the case may be; and
- (b) specified provisions of the Banking Regulation Act, 1949.

40. The provisions of the Banking Regulation Act, 1949, applicable to State Bank of India and its subsidiaries are specified in section 51 of the said Act and are the same as those applicable to nationalised banks (described in paragraph 38 above).

Companies Act, 2013

41. Section 2 of the Banking Regulation Act, 1949, provides that the provisions of the Act shall be in addition to, and not, save as expressly provided there under, in derogation of the Companies Act, 2013, and any other law for the time being in force. Thus, banking companies attract the provisions of both the Banking Regulation Act, 1949, as well as the Companies Act, 2013. In case the provisions of these enactments are at variance, the provisions of the Banking Regulation Act, 1949, shall prevail.

Regional Rural Banks

42. Regional rural banks are governed by –

- (a) Regional Rural Banks Act, 1976; and
- (b) specified provisions of the Banking Regulation Act, 1949.

43. The provisions of the Banking Regulation Act, 1949, applicable to regional rural banks are specified in section 51 of the said Act and are the same as those applicable to nationalised banks (described in paragraph 38 above).

Co-operative Banks

44. Co-operative banks are governed by –

- (a) The Co-operative Societies Act, 1912, or the Co-operative Societies Act of the state concerned, as the case may be; and
- (b) Part V of the Banking Regulation Act, 1949.

45. Part V of the Banking Regulation Act, 1949, modifies certain provisions of the Act in their application to co-operative banks and omits certain others. The sections which have been significantly modified in their application to co-operative banks are sections 2, 5-A, 6, 7, 8, 9, 11, 18, 19, 20, 21, 22, 23, 24, 27, 29, 31, 35, 35A, 36, 36A, 49A, 52, 54 and 55. Besides, the First Schedule to the Act is not applicable to co-operative banks while the Third and the Fourth Schedules to the Act have been replaced by a schedule applicable only to co-operative banks.

Scheduled Banks

46. These are the banks included in the Second Schedule to the Reserve Bank of India Act, 1934. The RBI includes a bank in the said Schedule if it fulfils certain conditions.

47. The RBI gives certain facilities to scheduled banks including the following:

- (a) Purchase, sale and rediscounting of certain bills of exchange (including foreign bills of exchange) or promissory notes.
- (b) Purchase and sale of foreign exchange.
- (c) Making of loans and advances to scheduled banks.
- (d) Maintenance of the accounts of scheduled banks in its banking department and issue department.
- (e) Remittance of money between different branches of scheduled banks through the offices, branches or agencies of the RBI free of charge or at nominal charges.

Regulatory Directives

48. Section 35A of the Banking Regulation Act 1949 empowers the RBI to issue directions to banking companies generally or in particular, from time to time and such directions shall be binding on all the banking companies. Vested with such power, RBI has issued various circulars regarding banking supervision, banking operations, etc. The circulars issued by RBI deal with issues among other things, accounting, accounting standards, financial statement disclosures, etc. It is mandatory for every banking company to follow the RBI's directions and RBI closely monitors such compliances. The circulars issued by RBI cover every facet of banking business.

49. RBI issues Master Circulars every year by consolidating the earlier circulars on the subject and the latest circulars issued are updated. The master circulars and other circulars are hosted on RBI website (www.rbi.org.in) in respect of various matters concerning banking business, valuation of investments, revenue recognition, para-banking activities, capital adequacy, frauds classification and reporting, risk management, classification of advances, etc. Recently, RBI has started issuing Master Directions. Some of these master circulars/master Directions have been provided in the CD enclosed with this Guidance Note.