

**Half Yearly Report on Management of
Foreign Exchange Reserves**

April - September 2009

**Reserve Bank of India
Department of External Investments and Operations
Central Office
Mumbai**

Report on Management of Foreign Exchange Reserves

Contents

Part-I: Objectives, Statutory Provisions and Movement of Reserves

- I.1 Introduction
- I.2 Objectives of Reserves Management
- I.3 Legal Framework and Policies
- I.4 Movement of Reserves
 - I.4.1 Review of Growth of Reserves since 1991
 - I.4.2 Sources of Accretion to the Reserves
- I.5 External Liabilities vis-à-vis Foreign Exchange Reserves
- I.6 Adequacy of Reserves
- I.7 Management of Gold Reserves
- I.8 Investment Pattern and Earnings of the Foreign Currency Assets
- I.9 Other Related Aspects
 - I.9.1 Pre-payment
 - I.9.2 Financial Transaction Plan (FTP) of the IMF

Part-II: Risk Management

- II.1 Risk Management
 - II.1.1 Credit Risk
 - II.1.2 Market Risk
 - II.1.2.1 Currency Risk
 - II.1.2.2 Interest Rate Risk
 - II.1.3 Liquidity Risk
 - II.1.4 Operational Risk and Control System
 - II.1.5 ISO Certification

Part-III: Transparency and Disclosures

Part I: Objectives, Statutory Provisions and Movement of Reserves

I.1 Introduction

Based on a review undertaken in 2003 of the policy and operational matters relating to the management of the reserves, the Reserve Bank of India had decided to compile and make public half-yearly reports on management of foreign exchange reserves for bringing about more transparency and enhancing the level of disclosure. The first such report with reference to the position as on September 30, 2003 was placed in the public domain on February 3, 2004. These reports are now being prepared half yearly with reference to the position as of 31st March and 30th September each year with a time lag of about three months. The present report is the 13th in the series with reference to the position as on September 30, 2009. The report is divided into three parts: Part I gives the objectives of reserves management, statutory provisions, movement of reserves and information on the external liabilities *vis-à-vis* the foreign exchange reserves, prepayment / repayment of external debt, Financial Transaction Plan (FTP) of the IMF, adequacy of reserves, *etc.* An overview of the risk management practices followed by the Reserve Bank of India in relation to reserves management is covered in Part II. Part III of the report provides information on transparency and disclosure practices followed by the RBI with regard to the reserves management.

I.2 Objectives of the Reserves Management

The guiding objectives of foreign exchange reserves management in India are similar to those of many central banks in the world. The demands placed on the foreign exchange reserves may vary widely depending upon a variety of factors including the exchange rate regime adopted by the country, the extent of

openness of the economy, the size of the external sector in a country's GDP and the nature of markets operating in the country. Even within this divergent framework most countries have adopted the primary objective of reserve management as preservation of the long-term value of the reserves in terms of purchasing power and the need to minimise risk and volatility in returns. India is not an exception in this regard. While safety and liquidity constitute the twin objectives of reserve management in India, return optimisation becomes an embedded strategy within this framework.

I.3 Legal Framework and Policies

The Reserve Bank of India Act, 1934 provides the overarching legal framework for deployment of the foreign currency assets (FCA) and gold defining the broad parameters in respect of currencies, instruments, issuers and counterparties. The essential legal framework for reserves management is provided in sub-sections 17 (6A), 17(12), 17(12A), 17(13) and 33 (6) of the above Act. In brief, the law broadly permits the following investment categories:

- (i) deposits with other central banks and the Bank for International Settlements (BIS);
- (ii) deposits with foreign commercial banks;
- (iii) debt instruments representing sovereign/sovereign-guaranteed liability with residual maturity for the debt papers not exceeding 10 years;
- (iv) other instruments / institutions as approved by the Central Board of the Reserve Bank in accordance with the provisions of the Act; and
- (v) dealing in certain types of derivatives.

RBI has framed appropriate guidelines stipulating stringent criteria for issuers / counterparties / investments with a view to enhancing the safety and liquidity aspects of the reserves.

I.4 Movement of Reserves

I.4.1 Review of Growth of Reserves since 1991

India's foreign exchange reserves have grown significantly since 1991. The reserves, which stood at US\$ 5.8 billion at end-March 1991 increased gradually to US\$ 25.2 billion by end-March 1995. The growth continued in the second half of the 1990s with the reserves touching the level of US\$ 38.0 billion by end-March 2000. Subsequently, the reserves rose to US\$ 113.0 billion by end-March 2004, US\$ 309.7 billion by end-March 2008. Thereafter, the reserves declined to US\$ 252.0 billion by end March 2009. The reserves increased to US \$ 281.3 billion by end-September 2009 (**Table 1 & Chart 1**).

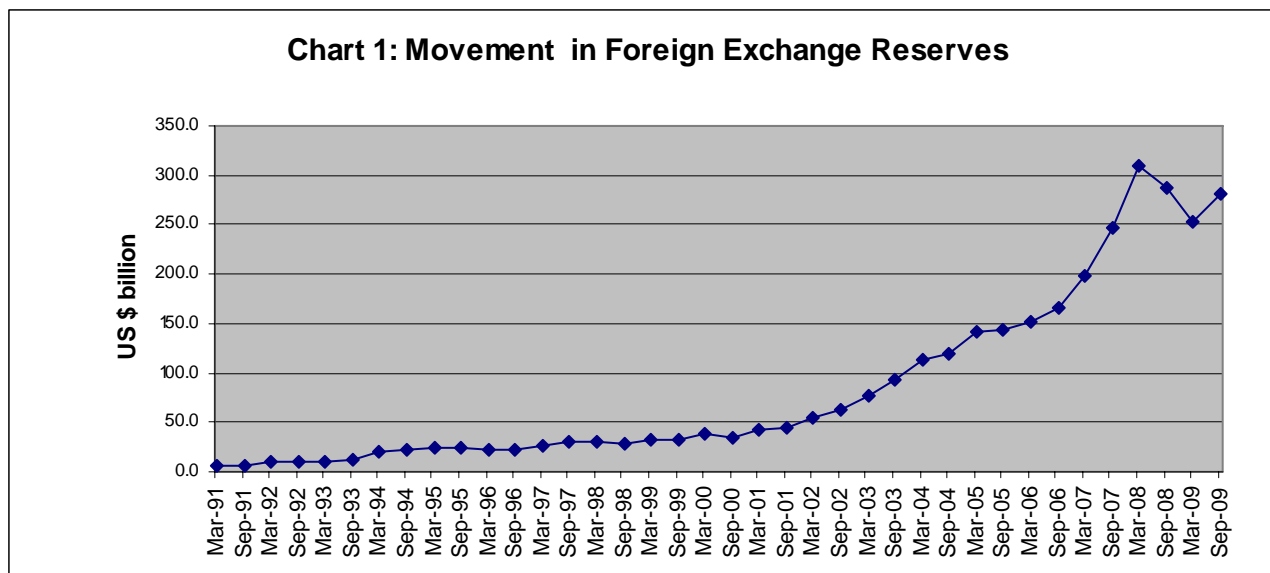
Although both US dollar and Euro are intervention currencies and the FCA are maintained in major currencies like US Dollar, Euro, Pound Sterling, Japanese Yen etc., the foreign exchange reserves are denominated and expressed in US Dollar only. The foreign exchange reserve data prior to 2002-03 do not include the Reserve Tranche Position (RTP) in the International Monetary Fund (IMF). Movements in the FCA occur mainly on account of purchases and sales of foreign exchange by RBI in the foreign exchange market in India. In addition, income arising out of the deployment of foreign exchange reserves is also held in the portfolio of the reserves. External aid receipts of the Central Government also flow into the reserves. The movement of the US dollar against other currencies in which FCA are held also impact the level of reserves in US dollar terms.

Table 1: Movement in Foreign Exchange Reserves

(US \$ million)

| Date | FCA | SDR | Gold | RTP | Forex Reserves |
|-----------|---------|--------------|--------|------|----------------|
| 31-Mar-06 | 145,108 | 3 (2) | 5,755 | 756 | 151,622 |
| 30-Sep-06 | 158,340 | 1 (1) | 6,202 | 762 | 165,305 |
| 31-Mar-07 | 191,924 | 2 (1) | 6,784 | 469 | 199,179 |
| 30-Sep-07 | 239,954 | 2 (1) | 7,367 | 438 | 247,761 |
| 31-Mar-08 | 299,230 | 18 (11) | 10,039 | 436 | 309,723 |
| 30-Sep-08 | 277,300 | 4 (2) | 8,565 | 467 | 286,336 |
| 31-Mar-09 | 241,426 | 1 (1) | 9,577 | 981 | 251,985 |
| 30-Sep-09 | 264,373 | 5224 (3297)@ | 10,316 | 1365 | 281,278 |

- Notes:**
1. FCA (Foreign Currency Assets): FCAs are maintained as a multi-currency portfolio comprising major currencies, such as, US dollar, Euro, Pound sterling, Japanese yen, etc. and is valued in terms of US dollars.
 2. FCA excludes US \$ 250.0 million invested in foreign currency denominated bonds issued by IIFC (UK) since March 20, 2009.
 3. SDR (Special Drawing Rights): Values in SDR have been indicated in parentheses.
 4. Gold: Physical stock has remained unchanged at approximately 357.75 tonnes as at end September 2009.
 5. RTP refers to the Reserve Tranche Position in the IMF.
- @ Includes SDRs 3082.5 million (equivalent to US \$ 4883 million) allocated under general allocation and SDRs 214.6 million (equivalent to US \$ 340 million) allocated under special allocation by the IMF on August 28, 2009 and September 9, 2009, respectively.



I.4.2. Sources of Accretion to the Reserves

Table 2 details the major sources of accretion to foreign exchange reserves during the period from March 1991 to end-September 2009.

Table 2: Sources of Accretion to Foreign Exchange Reserves since 1991

| | | | (US\$ billion) |
|---------------|-----------|--|--|
| Items | | | 1991-92 to 2009-10 (up to end September 2009) |
| A | | Reserves as at end-March 1991 | 5.8 |
| B.I. | | Current Account Balance | -97.9 |
| B.II. | | Capital Account (net) (a to e) | 357.5 |
| | a. | Foreign Investment | 185.7 |
| | | Of which: | |
| | | (i) FDI | 90.4 |
| | | (ii) FII | 66.9 |
| | b. | NRI Deposits | 36.9 |
| | c. | External Assistance | 19.2 |
| | d. | External Commercial Borrowings | 68.7 |
| | e. | Other items in Capital Account* | 47.0 |
| B.III. | | Valuation Change | 15.8 |
| | | Reserves as at end-September 2009 (A+BI+BII+BIII) | 281.2 |

* : Include errors and omissions.

Table 3 provides details of sources of variation in foreign exchange reserves during 2009 (April-September) vis-à-vis the corresponding period of the previous year. On balance of payments basis (*i.e.*, excluding valuation effects), the foreign exchange reserves increased by US\$ 9,533 million during April-September 2009 as against a decline of US\$ 2,499 million during April-September 2008. The valuation gain, reflecting the depreciation of the US dollar against the major currencies, accounted for US\$ 19,760 million during April-September 2009 as compared with a valuation loss of US\$ 20,888 million during April-September 2008. Accordingly, valuation gain during April-September 2009 accounts for 67.5 per cent of the total increase in foreign exchange reserves. Besides the valuation gain, inflows under foreign investments and Non-Resident Indian deposits and SDR allocations by the IMF have contributed to the increase in foreign exchange reserves during April-September 2009. During the half year under review, the IMF allocated SDR 3,082.5 million (equivalent to US \$ 4,883 million) under general allocation on August 28, 2009 and SDR 214.6 million (equivalent to US \$ 340 million) under special allocation on September 9, 2009. The allocations were made by the IMF as a part of the Fund's efforts to provide liquidity to the global economic system by supplementing the Fund's member countries' foreign exchange reserves.

| Table 3: Sources of Variation in Foreign Exchange Reserves | | | | |
|--|----|---------------------------------------|-----------------------------|-----------------------------|
| (US \$ billion) | | | | |
| Items | | | April-September 2008 | April-September 2009 |
| I. | | Current Account Balance | (-)15.8 | (-) 18.6 |
| II. | | Capital Account (net) (a to f) | 13.4 | 28.2 |
| | a. | Foreign Investment (i+ii) | 8.3 | 32.1 |
| | | <i>(i) Foreign Direct Investment</i> | 13.9 | 14.1 |
| | | <i>(ii) Portfolio Investment</i> | (-)5.5 | 18.0 |
| | | <i>Of which:</i> | | |
| | | <i>FII's</i> | (-)6.6 | 15.3 |
| | | <i>ADRs/GDRs</i> | 1.1 | 2.7 |
| | b. | External Commercial Borrowings | 3.2 | 0.7 |
| | c. | Banking Capital | 5.0 | 1.1 |
| | | <i>of which: NRI Deposits</i> | 1.1 | 2.9 |
| | d. | Short-Term Trade Credit | 4.9 | (-) 0.6 |
| | e. | External Assistance | 0.9 | 0.6 |
| | f. | Other items in capital account | (-) 8.9 | (-) 5.7 |
| III. | | Valuation Change | (-) 20.9 | 19.8 |
| | | Total (I+II+III) | (-) 23.4 | 29.3 |
| Notes: (i) 'Other items in capital account' apart from 'Errors and Omissions', include SDR allocations, leads and lags in exports, funds held abroad, advances received pending issue of shares under FDI and transactions of capital receipts not included elsewhere. | | | | |
| (ii) Increase in reserves (+) / Decrease in reserves (-). | | | | |

An analysis of the sources of reserves accretion during the entire reform period from 1991 onwards reveals that the increase in foreign exchange reserves has been facilitated by an increase in net foreign direct investment (FDI) from US \$ 129 million in 1991-92 to US\$ 14.1 billion in 2009-10 (April-September). FII investments in the Indian capital market, which commenced in January 1993, have shown significant increase over the subsequent years. Cumulative net FII investments

increased from US\$ 1 million at end-March 1993 to US\$ 66.9 billion at end-September 2009. The net inflows of US\$ 15.3 billion by FIIs led to an increase in cumulative portfolio stock to US\$ 95.3 billion at end-September 2009 from US\$ 77.3 billion at end-March 2009. Outstanding NRI deposits increased from US\$ 14.0 billion at end-March 1991 to US\$ 41.6 billion as at end-March 2009. As at end-September 2009, the outstanding NRI deposit stood at US\$ 46.0 billion.

On the current account, India's exports, which were US\$ 18.3 billion during 1991-92 increased to US\$ 189.0 billion in 2008-09. During 2009-10 (April-September), India's exports amounted to US\$ 81.1 billion as compared with US\$ 111.1 billion during 2008-09 (April-September). India's imports which were US\$ 24.1 billion in 1991-92 increased to US \$ 307.7 billion in 2008-09. During 2009-10 (April-September), India's imports amounted to US\$ 139.4 billion as against US\$ 175.5 billion during 2008-09 (April-September). Invisibles, in particular, private remittances have contributed significantly to the current account. Net invisibles inflows, comprising mainly of private transfer remittances and services increased from US\$ 1.6 billion in 1991-92 to US\$ 89.9 billion in 2008-09. During 2009-10 (April-September), the net invisible inflows stood at US\$ 40.0 billion as against US\$ 48.5 billion during 2008-09 (April-September). India's current account balance which was in deficit at 3.0 per cent of GDP in 1990-91 turned into a surplus of 0.7 per cent in 2001-02 and further to a surplus of 1.2 per cent in 2002-03. A surplus of US \$ 14.1 billion was posted in the current account during the financial year 2003-04, driven mainly by the surplus in the invisibles account. The current account deficit increased to US\$ 28.7 billion or 2.5 per cent of GDP led by high import payments in 2008-09. The current account deficit during 2009-10 (April-September) amounted to US\$ 18.6 billion as against US\$ 15.8 billion during 2008-09 (April-September).

I.5 External Liabilities vis-à-vis Foreign Exchange Reserves

The accretion of foreign exchange reserves needs to be seen in the light of total external liabilities of the country. India's International Investment Position (IIP), which is a summary record of the stock of country's external financial assets and liabilities, is available as of end September 2009 (Table 4).

Table 4: International Investment Position of India
(US \$ billion)

| Item | September 2009 (P) |
|------------------------------------|---------------------------|
| A Total Foreign Assets | 378.6 |
| 1. Direct Investment Abroad | 74.1 |
| 2. Portfolio Investment | 0.8 |
| 3. Other Investments | 22.4 |
| 4. Foreign Exchange Reserves | 281.3 |
| B Total Foreign Liabilities | 476.4 |
| 1. Direct Investment in India | 153.8 |
| 2. Portfolio Investment | 106.0 |
| 3. Other Investments | 216.6 |
| Net IIP (A-B) | (-) 97.8 |

P: Provisional

I.6 Adequacy of Reserves

Adequacy of reserves has emerged as an important parameter in gauging the ability to absorb external shocks. With the changing profile of capital flows, the traditional approach of assessing reserve adequacy in terms of import cover has been broadened to include a number of parameters which take into account the size, composition and risk profiles of various types of capital flows as well as the types of external shocks

to which the economy is vulnerable. The High Level Committee on Balance of Payments, which was chaired by Dr. C. Rangarajan, erstwhile Governor of the Reserve Bank of India, had suggested that, while determining the adequacy of reserves, due attention should be paid to payment obligations, in addition to the traditional measure of import cover of 3 to 4 months. In 1997, the Report of Committee on Capital Account Convertibility under the chairmanship of Shri S.S.Tarapore, erstwhile Deputy Governor of the Reserve Bank of India suggested alternative measures of adequacy of reserves which, in addition to trade-based indicators, also included money-based and debt-based indicators. Similar views have been held by the Committee on Fuller Capital Account Convertibility (Chairman: Shri S.S.Tarapore, July 2006). In the recent period, assessment of reserve adequacy has been influenced by the introduction of new measures. One such measure requires that the usable foreign exchange reserves should exceed scheduled amortisation of foreign currency debts (assuming no rollovers) during the following year. The other one is based on a 'Liquidity at Risk' rule that takes into account the foreseeable risks that a country could face. This approach requires that a country's foreign exchange liquidity position could be calculated under a range of possible outcomes for relevant financial variables, such as, exchange rates, commodity prices, credit spreads etc. Reserve Bank of India has been undertaking exercises based on intuition and risk models to estimate 'Liquidity at Risk (LAR) of the reserves.

The traditional trade-based indicator of reserve adequacy, *viz*, import cover of reserves, which fell to a low of three weeks of imports at end-December 1990, rose to 11.5 months of imports at end-March 2002 and increased further to 14.2 months of imports or about five years of debt servicing at end-March 2003. At end-March 2004, the import cover of reserves was 16.9 months, which came down to 9.8 months as at end-March 2009. However, the import cover increased to 12.4 months as at end-

September 2009. The ratio of short-term debt¹ to the foreign exchange reserves declined from 146.5 per cent at end-March 1991 to 12.5 per cent as at end-March 2005, but increased slightly to 12.9 per cent as at end-March 2006. With expansion in the coverage of short-term debt, the ratio further increased to 14.1 per cent at end-March 2007, to 14.8 per cent at end-March 2008 and then to 17.2 per cent at end-March 2009. The ratio of short-term debt to foreign exchange reserves worked out to 15.1 per cent as at end-September 2009. The ratio of volatile capital flows (defined to include cumulative portfolio inflows and short-term debt) to the reserves declined from 146.6 per cent as at end-March 1991 to 35.0 per cent at end-March 2004. This ratio increased to 48.9 per cent as at end-September 2009 from 47.9 per cent in March 2009.

I.7. Management of Gold Reserves

The Reserve Bank held about 357.75 tonnes² of gold forming about 3.7 per cent of the total foreign exchange reserves in value terms as at the end of September 2009. Of these, 65.49 tonnes are being held abroad since 1991 in deposits / safe custody with the Bank of England and the Bank for International Settlements.

In November 2009, the Reserve Bank concluded the purchase of 200 metric tonnes of gold from the International Monetary Fund (IMF), under the IMF's limited gold sales programme. The purchase was an official sector transaction

¹ Redefined from 2005-06 by including suppliers' credit up to 180 days and FII investments in the Government of India Treasury Bills and other instruments and further in March 2007 by including external debt liabilities of the banking system and the investments in the Government Securities by the foreign central banks and the international institutions.

² There is no material change in the gold holdings as on September 30, 2009 as compared to March 31, 2009. However, in this Report, the gold holdings are indicated in two decimals.

and was executed over a two week period during October 19-30, 2009 at market-based prices. As a result of this purchase, the Reserve Bank's gold holdings have increased from 357.75 tonnes to 557.75 tonnes.

I.8 Investment Pattern and Earnings of the Foreign Currency Assets

The foreign currency assets are invested in multi-currency, multi-asset portfolios as per the existing norms which are similar to the best international practices followed in this regard. As at end-September 2009, out of the total foreign currency assets of US\$ 264.4 billion, US\$ 148.0 billion was invested in securities, US \$ 111.3 billion was deposited with other central banks, BIS and the IMF and US\$ 5.1 billion was in the form of deposits with foreign commercial banks / funds placed with the External Asset Managers (EAMs) (Table 5). A small portion of the reserves has been assigned to the EAMs with the main objective of gaining access to and deriving benefits from their expertise and market research.

Table 5: Deployment Pattern of Foreign Currency Assets

(US \$ Million)

| | As on September 30, 2009 | As on March 31, 2009 |
|---|---------------------------------|-----------------------------|
| Foreign Currency Assets | 264,373 | 241,426 |
| (a) Securities | 148,012 | 134,792 |
| (b) Deposits with other central banks, BIS & IMF | 111,250 | 101,906 |
| (c) Deposits with foreign commercial banks / funds placed with EAMs | 5,111 | 4,728 |

The rate of earnings on foreign currency assets and gold, after accounting for depreciation, decreased from 4.82 per cent in July 2007 - June 2008 to 4.16 per cent in July 2008 - June 2009.

I.9 Other Related Aspects

I.9.1 Pre-payment

The significant increase in forex reserves enabled prepayment of certain high-cost foreign currency loans of the Government of India from the Asian Development Bank (ADB) and the International Bank for Reconstruction and Development (IBRD) / World Bank amounting to US\$ 3.03 billion during February 2003. During 2003-04, prepayment of certain high cost loans to the IBRD and the ADB amounting to US\$ 2.6 billion was made by the Government. Additionally, prepayment of bilateral loans amounting to US\$ 1.1 million was also made. Thus, the total quantum of prepayments was of the order of US\$ 3.7 billion during 2003-04. During 2004-05, prepayment of bilateral loans to the tune of US\$ 30.3 million was made. During 2006-07, there was only one prepayment of US\$ 58.7 million in the month of April 2006. There was no prepayment of any debt thereafter till September 30, 2009.

I.9.2 Financial Transaction Plan (FTP) of the IMF

International Monetary Fund (IMF) designated India as a creditor under its Financial Transaction Plan (FTP) in February 2003. In terms of this arrangement, India participated in the IMF's financial support to Burundi in March-May 2003 with a contribution of SDR 5 million and to Brazil in June-September 2003 with

SDR 350 million. In December 2003, SDR 43 million was made available to Indonesia under the FTP. During 2004-05, SDR 61 million was made available under the FTP to countries like Uruguay, Haiti, Dominican Republic and Sri Lanka. During May-June 2005, SDR 34 million was made available to Turkey and Uruguay. During 2008-09, SDR 403 million was made available to Bangladesh, Turkey, Pakistan and Georgia. Further, during April-September 2009, SDR 130 million was made available to Romania and SDR 50 million to Sri Lanka. Thus, the total purchase transactions amounted to SDR 1076 million as at the end September 2009. India was included in repurchase transactions of the FTP since November 2005. There were 21 repurchase transactions during the period from November 2005 to September 2009 totalling SDR 772 million received from 7 countries, viz., Turkey, Algeria, Brazil, Indonesia, Uruguay, Ukraine and Moldova.

Part II: Risk Management

II.1. Risk Management

Sound risk management is an integral part of efficient foreign exchange reserves management. The strategy for reserves management places emphasis on managing and controlling the exposure to financial and operational risks associated with deployment of reserves. The broad strategy for reserve management including currency composition and investment policy is decided in consultation with the Government of India. The risk management functions are aimed at ensuring development of sound governance structure in line with the best international practices, improved accountability, a culture of risk awareness across all operations and efficient allocation of resources for development of

in-house skills and expertise. The risks attendant on deployment of reserves, *viz.*, credit risk, market risk, liquidity risk and operational risk and the systems employed to manage these risks are detailed in the following paragraphs.

II.1.1 Credit Risk

Credit risk is defined as the potential that a borrower or counterparty will fail to meet its obligation in accordance with agreed terms. The Reserve Bank has been extremely sensitive to the credit risk it faces on the investment of foreign exchange reserves in the international markets. Investments in bonds/treasury bills, which represent debt obligations of highly rated sovereigns and supranational entities, do not give rise to any substantial credit risk. Placement of deposit with BIS and other central banks is also considered credit risk-free. However, placement of deposits with commercial banks as also transactions in foreign exchange and bonds/treasury bills with commercial banks/investment banks and other securities firms give rise to credit risk.

Credit risk has been in focus since the onset of the credit crisis in the US financial markets and its contagion effect on other economies leading to global financial crisis during the second half of 2008 and during 2009. The Reserve Bank continues to apply stringent credit criteria for selection of counterparties. Credit exposure *vis-a-vis* sanctioned limit in respect of approved counterparties is monitored continuously. Besides, the financial strength of counterparties is constantly under watch. The basic objective of such an on-going exercise is to assess whether counterparty's credit quality is under potential threat.

II.1.2 Market Risk

Market risk arises on account of exchange rate and interest rate movements. These are detailed as under:

II.1.2.1 Currency Risk: Currency risk arises due to uncertainty in exchange rates. Decisions are taken regarding the long-term exposure on different currencies depending on the likely movements in its exchange rate and other considerations in the medium and long-term (eg., maintenance of major portion of reserves in the intervention currency, the approximate currency profile of the reserves in line with the changing external trade profile of the country, benefit of diversification, etc.). The decision making procedure is supported by reviews of the strategy on a regular basis.

II.1.2.2 Interest Rate Risk: The crucial aspect of the management of interest rate risk is to protect the value of the investments as much as possible from the adverse impact of the interest rate movements. The interest rate sensitivity of the reserves portfolio is identified in terms of benchmark duration and the permitted deviation from the benchmark. The focus of the investment strategy revolves around the overwhelming need to keep the interest rate risk of the portfolio reasonably low with a view to minimising losses arising out of adverse interest rate movements, if any. This approach is warranted as reserves are viewed as a market stabilising force in an uncertain environment.

II.1.3 Liquidity Risk

Liquidity risk involves the risk of not being able to sell an instrument or close a position when required without facing significant costs. The reserves need to

maintain a high level of liquidity at all times in order to be able to meet any unforeseen and emergency needs. Any adverse development has to be met with reserves and, hence, the need for a highly liquid portfolio is a necessary constraint in the investment strategy. The choice of instruments determines the liquidity of the portfolio. For example, in some markets, treasury securities could be liquidated in large volumes without much distortion to the price in the market and, thus, can be considered as liquid. In fact, excepting fixed deposits with the foreign commercial banks and the central banks and securities issued by supranationals, almost all other types of investments are in highly liquid instruments which could be converted into cash at short notice. The Reserve Bank closely monitors the portion of the reserves which could be converted into cash at a very short notice to meet any unforeseen / emergent needs.

II.1.4 Operational Risk and Control System

In tune with the global trend, considerable attention is paid to strengthen the operational risk control arrangements. Key operational procedures are documented. Internally, there is total separation of the front office and back office functions and the internal control systems ensure several checks at the stages of deal capture, deal processing and settlement. There is a separate set-up responsible for risk measurement and monitoring, performance evaluation and concurrent audit. The deal processing and settlement system is also subject to internal control guidelines based on the principle of one point data entry and powers are delegated to officers at various levels for generation of payment instructions. There is a system of concurrent audit for monitoring compliance in respect of all the internal control guidelines. Further, reconciliation of accounts is done regularly. In addition to annual inspection by the internal machinery of the Reserve Bank for this purpose and statutory audit of accounts by external

auditors, there is a system of appointing special external auditors to audit the dealing room transactions. The main objective of the special audit is to ensure that risk management systems and internal control guidelines are adhered to. There is a comprehensive reporting mechanism covering significant areas of activity / operations relating to reserve management. These are being provided to the senior management periodically, *viz.*, on daily, weekly, monthly, quarterly, half-yearly and yearly intervals, depending on the type and sensitivity of information. The Reserve Bank uses SWIFT as the messaging platform to settle its trades and send financial messages to its counterparties, banks with whom nostro accounts are maintained, custodians of securities and other business partners.

II.1.5 ISO Certification

The Information Security Management Systems (ISMS) of the Department of External Investments and Operations of the Bank, is compliant with the provisions of ISO 27001 Standards.

Part III: Transparency and Disclosures

The Reserve Bank has been making available in the public domain data relating to foreign exchange reserves, its operations in foreign exchange market, position of the country's external assets and liabilities and earnings from deployment of foreign currency assets and gold through periodic press releases of its Weekly Statistical Supplements, monthly Bulletins, Annual Reports, etc. The Reserve Bank's approach with regard to transparency and disclosure closely follows international best practices in this regard. The Reserve Bank is among the 66 central banks across the globe which has adopted the Special Data Dissemination

Standards (SDDS) template of the IMF for publication of the detailed data on foreign exchange reserves. Such data are made available on monthly basis on the Reserve Bank's website.
