To, 15th July, 2020

Reserve Bank of India
16th floor, Central Office Building
Shahid Bhagat Singh Marg
Mumbai - 400 001
Via email to: dpcg@rbi.org.in

Sub: Discussion paper on Governance in Commercial Banks in India

At the outset, we, at Indian Association of Investment Professionals (IAIP), a member society of the CFA Institute, appreciate the opportunity to submit our comments to the **DISCUSSION PAPER ON GOVERNANCE IN COMMERCIAL BANKS IN INDIA.**

IAIP is an association of over 2000 local investment professionals who are CFA charterholders and about 4000+ professionals who have cleared exams, eligible and awaiting charter. The Association consists of valuation professionals, portfolio managers, security analysts, investment advisors, and other financial professionals that promote ethical and professional standards within the investment industry, facilitate the exchange of information and opinions among people within the local investment community and beyond, and work to further the public's understanding of the CFA designation and investment industry.

CFA Institute is a global non-profit association of investment professionals with over 164,000 members in over 165 countries. In India, the community of CFA charterholders is represented by the Indian Association of Investment Professionals (CFA Society India).

Through our global research and outreach efforts, CFA Societies around the world endeavour to provide resources for policy makers, financial services professionals and their customers in order to align their interests. Our members engage with regulators in all major markets.

The recommendations put forth in the discussion paper on Governance in commercial banks if implemented will have a far reaching impact on improving the governance of banks in India. We support the RBI’s effort to improve the governance in commercial banks and the objective of the discussion paper is to align the current regulatory framework with global best practices while being mindful of the context of domestic financial system. With regards to the above-mentioned discussion paper report, we would like to add a few suggestions consistent with our objective to promote fair and transparent global capital markets and to advocate for stakeholder protection, which is the ultimate beneficiary in this case.

We would be happy to hear and discuss the merits / demerits of suggestions proposed by other practitioners and request to be included in the deliberation process.

A. Details of our Organisation:

1. **Name:** Indian Association of Investment Professionals (CFA Society India)
2. **Contact number:** +91 98196 30042
3. **Email address:** advocacy@iaipirc.org
4. **Postal address:** 702, 7th Floor, A Wing, One BKC Tower, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051

B. Key Contributors:

Abhishek Bhuwalka, CFA	Naveen B Sharma, CFA	Rashmi Modi, CFA	Shamit Chokshi, CFA
Sivananth Ramachandran, CFA	Vidhu Shekhar, CFA	Ashwini Damani, CFA	
Om Jha, CFA	Soham Das, CFA	Shwetabh Sameer, CFA	Kshitiz Jain, CFA

C. Suggestions / Comments:

Name of Entity/Person: Indian Association of Investment Professionals (CFA Society India)
Contact Number & Email Address: +91 9819630042(Rajendra Kalur, CFA) ; advocacy@iaipirc.org

Sr. No.	Recommendation in the Report to which the comment pertains	Suggestion/Comments	Rationale
1.	**2.1 – Applicability** (ii) State Bank of India, Nationalised Banks and Regional Rural Banks, except in so far as what is prescribed is not inconsistent with provisions of specific statutes applicable to them or in case where the major shareholder/promoter viz., Government of India retains its instructions.	RBI should consider applying the governance rules to all types of banks uniformly to create a level playing field and plug any loop holes.	Currently, the rules are applicable to nationalized banks where government is the promotor/major shareholder only if government of India retains its existing provision, so any instructions from government can override any of the provisions in this regulation. As nationalized banks are a major section of India's banking industry, this can lead to differential regulations and dilution of bank corporate governance standards.
2.	**7.2.Selection/Appointment** 6. To build a robust culture of sound governance practice, professional management of banks and to adopt the principle of separating ownership from management, it is desirable to limit the tenure of the WTDs or CEOs. Therefore, it is felt that 10 years is an adequate time limit for a promoter / major shareholder of a bank as WTD or CEO of the bank to stabilise it's operations and to transition the managerial leadership to a professional management. This will not only help in achieving the separation of ownership from management but also reinforce a culture of professional	In principle, the best way to improve corporate governance would be to ensure that boards are fully independent and empowered. But, we understand and support that in practice there is a need to put an upper cap on CEO tenure for banks as banks also have a fiduciary responsibility. The discussion paper does a great work in empowering the boards and increasing responsibility of independent directors. These measures are the right steps in the direction	We understand that there is a case of application of CEO allegiance hypothesis which suggests that with greater tenure and familiarity with the CEO, relationships will favor the CEO versus shareholder interest. We agree that, the limits on CEO tenure and the practice of giving a 3 year gap for being eligible for re-appointment ensures reduction in incidents of bank CEOs becoming more powerful than the boards and relationships with CEOs. The tenure caps for bank CEOs is also a common practice in Japanese banking industry. In the essay "Why Not a CEO Term Limit? " (Boston University Law Review, 2011), it has been argued in

	management. Further, in the overall interest of good governance, a management functionary who is not a promoter / major shareholder can be a WTD or CEO of a bank for 15 consecutive years. Thereafter, the individual shall be eligible for re-appointment as WTD or CEO only after the expiration of three years. During this three-year period the individual shall not be appointed or associated with the bank in any capacity, either directly or indirectly, advisory or otherwise. On the date of issuance of the guideline/directions on the matter by the Reserve Bank (basis this discussion paper), banks with WTDs or CEO who have completed 10 or 15 years shall have two years or upto the expiry of the current tenure, whichever is later, to identify and appoint a successor.	of improving corporate governance in banks. We would also suggest that empowering the nomination committee and making sure that it is entirely independent of the CEO, executive management and insiders is the best way to achieve this objective.	favor of CEO term limits and says that as director tenures continue to shorten, longer-term CEOs may begin to use their relative longevity to their own personal advantage, potentially at shareholder expense. Equalizing terms in office may be necessary simply to level the playing field. The costs of doing so can be prohibitive – and, at this stage, those costs are difficult to ascertain. Nevertheless, as perceptions of the corporation continue to evolve, the benefits of a CEO term limit – or other regulation that minimizes the costs of tenure – may increasingly favor a new approach. But, we are also concerned that CEO term limits may actually lead to short term focus from the CEOs instead of putting the focus on long term objectives and tasks. Also, we were not able to find any research suggesting a particular tenure limits which is appropriate for banks so our concern is that fixing one limit for all banks may be a one size fits all solution to the problem.
3	**6.1 Board Members' Qualification** **2.** At least half the number of members of the board of a banking company shall consist of persons, who: - **(ii)** have special knowledge or practical experience in respect of one or more of the following matters namely accountancy, agriculture and rural economy, banking, co- operation, economics, finance, law, small scale industry, information technology, payment and settlement systems, human resources, risk management,	We welcome the move to enhance and ensure the diversity in bank boards. We agree and respect the views of RBI, that by bringing in people from diverse backgrounds, boards will be more equipped to handle the Banking operations, more efficiently. Gender diversity has already been a part of the SEBI rules for listed companies and The Companies' Act, also prescribes the appointment of one women director on board.	The diversity in qualifications of Board members' enhances their functional abilities, and brings privileged economic resources to banks. The benefits of a diverse team may also include better access to capital, creating value for shareholders. A diverse team may also improve corporate performance for an organization. The research paper "The value of board diversity in banking: evidence from the market for corporate control, published by Jens Hagendorff & Kevin Keasey, 2008, also finds that board diversity

	business management, any other matter in the opinion of the Reserve Bank, be useful to the banking company: of which, at least one director shall represent agriculture and/or rural economy, and another shall represent cooperation and/or small-scale industry (*this proviso shall not apply to a banking company which has been granted license for carrying on payments bank business)*		creates shareholder value in the market for corporate control. Market investors place high levels of trust in the strategic decision-making capabilities of diverse boards. Specifically, job-related forms of diversity as well as age and tenure diversity create value for bidding bank shareholders. But, our concern is that board members from diverse occupational backgrounds may not necessarily understand each other's area of expertise or appreciate the different perspectives on a particular situation, which may result in a conflict.
4.	**7. Senior Management**	We see that the discussion paper goes into details of the functioning of various departments. Though, in principle we agree with the details and functions, we are concerned that this may actually lead to dilution in power of executives and also, we see too many positions being mandated which may actually lead to overlapping of roles and disrupt the functioning of banks.	RBI may look to simplify some of the functions and not make some of the roles mandatory, as some of the functions may have overlapping responsibilities creating disruptions and also, many senior positions may not be suitable for smaller banks.

Thank you again for the opportunity to comment on this important regulatory framework. If you or your staff have questions or seek further clarification, please do not hesitate to contact Mr. Rajendra Kalur, CFA at +91 98196 30042 or at advocacy@iaipirc.org.

Sincerely yours,
Rajendra Kalur, CFA
Director - Research and Advocacy Committee
Indian Association of Investment Professionals, Member Society of CFA Institute