

## **ICAI asks independent directors to question high provisioning by banks**

Taking a tough stand against the practice among banks to make high provisioning that often leads to a steep fall in profits — especially the move by the State Bank of India after the change of guard this year — the Institute of Chartered Accountants of India (ICAI) has asked independent directors on the board of banks to bring good corporate governance practices in banks and ensure consistency in the provisioning policy.

In the January-March quarter of 2010-11, SBI — soon after OP Bhatt retired as chairman and Pratip Chaudhuri took over — had set aside Rs 6,059 crore as provisions towards pension liabilities, which is 82 per cent higher than the year-ago period. As a result, SBI's Q4 profits plunged by nearly 99 per cent to Rs 20.88-crore for the quarter against Rs 1,866.60-crore it had posted for the same period last year.

In a meeting of Professional Development Committee under the ICAI held recently, the institute asked the audit committees of banks to ensure consistency in provisioning policy and raise questions when a new chairperson joins and increases the provisioning of even the potentially good assets thereby impacting the profitability of the bank.

“The change in management should not impact the profitability of the bank and the policy of provisioning should be consistent as inconsistency adversely impacts the investors sentiments,” the ICAI has asked all its members. The meeting was attended by 32 independent directors from around 19 private and public sector banks.

RBI Deputy Governor K C Chakrabarty had also recently questioned the practice of banks reporting a fall in profits after a change of guard. ICAI had written to SBI seeking explanations for the sudden change in the provisioning policy.

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