The Associated Chambers of Commerce and Industry of India

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I am happy to be participating in the Fifteenth Annual Convocation ceremony of Post-Graduate Diploma in Management (Banking and Financial Services) for the Batch of 2017-19. I thank Dr. K.L. Dhingra, Director, National Institute of Bank Management (NIBM) and members of faculty for inviting me to join the young minds at their convocation ceremony. This is indeed a moment of pride for students as it marks the fruition of years of dedication, perseverance and hard work. To the students, I would like to convey my best wishes as they embark on a new phase in their lives. I am certain that it will be a life full of opportunities and challenges, and I hope you adopt a path of integrity and ethics to be able to make tough decisions as you move forward. As the father of the nation, Mahatma Gandhi, had said, “Always choose the right path and speak truth”. Your self-faith and determination will provide you with the strength to march ahead. My congratulations are also for the parents and guardians who are present here.

Let me now turn to the topic which I am going to address today. I propose to cover the current status of the banking sector and would highlight some issues as a way forward.

**Banking Sector:** The last few years have been testing times for Indian banks as they grappled with deteriorating asset quality leading to higher provisioning requirements, falling profitability and weak capital position. However, the banking system is on the cusp of a transformation, aided by recent policy measures to reduce vulnerabilities and improve its financial health. Several initiatives have been undertaken and are also underway to strengthen the regulatory and supervisory frameworks aimed at increasing the resilience of the banking system.

- **Banking Regulation:** As of March 2019, the capital to risk weighted assets ratio (CRAR) of scheduled commercial banks (SCBs) at 14.2 per cent remains well above the regulatory requirement of 9.0 per cent. However, if we take into account the capital conservation buffer (CCB), some banks, especially Public-Sector Banks (PSBs), are falling short of the required 10.875 per cent. Overall, the Government’s efforts to infuse capital into PSBs has significantly helped them achieve these targets. We have also put in place frameworks on countercyclical capital buffer (CCCB), leverage ratio, Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)1. For better management of concentration risks and in order to align Indian banks with the international norms, the Reserve Bank proposed guidelines on large exposures which became effective from April 1, 2019. The latest round of reforms published by the Basel committee on Banking Supervision (BCBS) in December 2017 have implementation timelines stretching up to 2022. The Reserve Bank is expected to come up with the draft guidelines by 2020 for consultations.

- **Non-Performing Assets:** The deterioration in asset quality of Indian banks, especially
that of Public Sector Banks (PSBs), can be traced to the credit boom of 2006-2011 when bank lending grew at an average rate of over 20 per cent. Other factors that contributed to the deterioration in asset quality were adverse macro-financial environment; lax credit appraisal and post-sanction monitoring standards; project delays and cost overruns; and the absence of a strong bankruptcy regime until May 2016. The Reserve Bank set up a Central Repository of Information on Large Credits (CRILC) in 2014 which was followed by an Asset Quality Review (AQR) in 2015. As a result of these initiatives, the recognition of non-performing assets improved, leading to a sharp rise in the gross NPA ratio from 4.3 per cent at end-March 2015 to 7.5 per cent at end-March 2016. It further reached the peak of 11.5 per cent in March 2018. Recent supervisory data suggests that various efforts made by the Reserve Bank in strengthening its regulatory and supervisory framework and the resolution mechanism instituted through Insolvency and Bankruptcy Code (IBC) are bearing fruit. This is reflected in significant improvement in asset quality of scheduled commercial banks (SCBs) during 2018-19 as gross NPA ratio declined to 9.3 per cent as on March 2019. At the same time, there has been an improvement in provision coverage ratio (PCR) of SCBs to 60.9 per cent at end-March 2019 from 48.3 per cent at end-March 2018 and 44.0 per cent at end-March 2015. Due to weak capital position of banks and risk aversion on their part, credit growth remained subdued in recent years. However, with incipient sign of improvement in the health of banks, credit growth is picking up.

**Resolution of Stressed Assets:** It is now well recognised that an efficient bankruptcy regime is essential for timely resolution and liquidation of stressed companies. The Insolvency and Bankruptcy Code, 2016, (IBC) has significantly altered the financial landscape as it provides a market mechanism for time-bound insolvency resolution enabling maximisation of value. The new regime is a paradigm shift in which creditors take control of the assets in contrast to the earlier systems in which debtors remained in possession of the assets till its resolution or liquidation, leading to an improvement in the credit culture of the country. In the wake of the Supreme Court’s order nullifying the Reserve Bank’s circular of February 12, 2018 for resolution of stressed assets, we have issued fresh guidelines yesterday (June 7, 2019). The new guidelines provide a system of strong disincentives in the form of additional provisioning for delay in initiation of resolution or insolvency proceedings. The new framework makes inter-creditor agreements mandatory and provides for a majority decision to prevail. Further, wherever necessary, the Reserve Bank will issue directions to banks for initiation of insolvency proceedings against borrowers for specific defaults so that the momentum towards effective resolution remains uncompromised. It is expected that the revised prudential framework for resolution of stressed assets will sustain the improvements in credit culture that have been ushered in by the efforts of the Government and the Reserve Bank so far, and that, it will go a long way in promoting a strong and resilient financial system in India.

**Non-Banking Financial Companies (NBFCs):** Let me now turn to Non-Banking Financial Companies (NBFCs). They play an important role in the Indian financial system given their unique position in providing complementarity as well as competition to banks. They cater to diverse financial needs of
a wide variety of customers, both in urban and rural areas. This sector, with a size of around 16 per cent of the combined balance sheet of SCBs, has been growing at a faster pace in recent years. As at end-March 2019, the aggregate CRAR of NBFC sector was 19.3 per cent, while the gross NPA ratio was 6.6 per cent. The credit growth of NBFCs, which was over 20 per cent earlier, slowed down in the third quarter of 2018-19 after the debt default by a systemically important NBFC. However, market confidence somewhat resurfaced in the last quarter of 2018-19 as the major sources of funding registered a recovery. The debt default by a large NBFC in mid-2018 highlighted the vulnerability and need for strengthening regulatory vigil on the sector in general and on the asset liability management (ALM) framework in particular. The Reserve Bank has recently come out with draft guidelines for a robust liquidity framework for the NBFCs. Further, the Reserve Bank has relaxed the norms for NBFCs to securitise their loan books. In addition, banks have been allowed to provide partial credit enhancement (PCE) to bonds issued by the systemically important non-deposit taking NBFCs and Housing Finance Companies. With a view to eschewing the regulatory arbitrage between banks and non-banks, the Reserve Bank has been aligning the regulatory and supervisory frameworks for NBFCs with that of SCBs. A comprehensive Information Technology (IT) framework for strengthening off-site surveillance of NBFCs is being put in place. Further, multiple categories of NBFCs are being rationalised into fewer categories in order to provide them greater operational flexibility. The Reserve Bank has also taken steps to enhance the supervision over NBFCs. These efforts are primarily focused on improving the four supervisory pillars – on-site examination, off-site surveillance, market intelligence and annual reports of statutory auditors. A fifth pillar of supervision in the form of an institutionalised arrangement for periodic interaction with all the stakeholders including statutory auditors, credit rating agencies and banks having large exposures to NBFCs is being put in place.

**Way Forward:** I have already highlighted certain critical issues in the area of regulation and supervision of banks and non-banks. As a way forward, I would like to highlight some important issues which need to be addressed in the coming months. The first and foremost is governance reforms in banks and non-banks. These would include the following:

a) In order to improve the functioning of the PSB boards and to foster corporate governance, it is important to enhance their quality and stability through further streamlining appointment process, succession planning and compensation. These aspects could be evaluated by bank boards and reviewed by the Banks Board Bureau. We also need to create a pool of independent directors across various areas of expertise.

b) The performance of MDs/CEOs of both public and private sector banks should be closely monitored by the Board of Directors either through a sub-committee or through an external peer group review.

c) An effective performance evaluation system should also be put in place for banks to improve their financial and operating parameters. The Government, the Bank Board Bureau and the Reserve Bank are engaged in developing an objective framework for performance evaluation of PSBs. This should redefine the contours of corporate governance in PSBs with a focus on transparency, accountability and efficiency.

d) Governance issues in private sector banks (PVBs) originate from altogether different set of concerns. The issues here mainly relate to incentive structure of their managements, quality of audits and compliance and also
efficient functioning of Audit and Risk Management Committees. The Reserve Bank has issued a discussion paper on proposed guidelines for compensation in private sector banks which includes specification of minimum variable pay component and clawback arrangements, among others. The Reserve Bank will continue to play a positive and constructive role to ensure private sector banks flourish in their operations.

Second, to create potent risk management systems in banks, the Chief Risk Officers (CROs) have to play an effective role and should be directly accountable to Managing Directors (MDs), Chief Executive Officers (CEOs) and Risk Management Committee of the Board.

Third, along with risk management, compliance function in banks is one of the key elements in their corporate governance structure. These have to be adequately strengthened and made sufficiently independent. For the compliance function to be effective, it must be supported by a healthy compliance culture within the organisation. Banks should review their compliance function comprehensively to ensure compliance to all statutory and regulatory prescriptions in addition to their own internal guidelines, directions of the Board and their Committees and audit assessments. It is important that the Board of Directors are always sensitised of any compliance failures. A group-wide compliance programme would help managements and Boards in understanding the legal and reputational risks in the organisation, especially their concentration in certain areas.

Fourth, it has been observed that most bank frauds can be traced to absence of effective controls. An essential element of an effective system of internal control is a strong control mechanism. It is the responsibility of the Board of Directors and senior management to emphasise the importance of internal control through their actions and words. Banks should regularly reorient and train their personnel so that they fully understand the importance of internal controls in their respective stations. The boards of banks should specifically pay attention to creating and sustaining a culture of effective control in the banks.

Fifth, even though the Government’s capital infusion has helped public sector banks (PSBs) to improve their balance sheets, I would like to stress that PSBs should not become too dependent on this source. Depending upon individual situations, PSBs should access the capital market for mobilisation of capital.

Sixth, I have referred to the importance of the IBC and the new bankruptcy regime earlier. There are, however, delays in the resolution of cases, as a significant number of them have extended beyond 180 or 270 days. The government has already announced two new National Company Law Tribunal (NCLT) benches at Indore and Amravati. Nevertheless, more number of benches as well as members are required. On our part, we are opening a new RBI Professorial Chair at the Indian Institute of Corporate Affairs (IICA), Manesar, Haryana which is starting a two year Graduate Insolvency Programme to increase the pool of trained insolvency professionals.

Seventh, in the light of various developments in the financial sector such as the use of complex financial products and rapid technological innovations which give rise to interconnectedness and spillover effects within and between entities, there has been a move globally towards building specialised teams of bank supervisors. Even in the Indian context, some incidents in the financial sector have underscored the need for specialisation in supervision and regulation. The build-up of risks among regulated entities due to exposure concentrations, non-transparent market
practices and the associated contagion effects in the banking sector have significant implications for financial stability. Considering these issues, the Reserve Bank has now decided to build a specialised regulatory and supervisory cadre for regulation and supervision of banks, non-banks and co-operatives. This specialised cadre in the Reserve Bank will play a pivotal role so that sound banking and non-banking sectors efficiently intermediate the financing requirements of the entire economy.

Eighth, the Reserve Bank has been at the forefront of creating an enabling environment for growth of digital technology for new financial products and services. We are strengthening the surveillance framework and have issued draft guidelines on Framework for Regulatory Sandbox. A committee on deepening of digital payments under the chairmanship of Shri Nandan Nilekani was formed which has submitted its report. Recently, the Reserve Bank came up with a Payment System Vision 2021 to ensure uninterrupted availability of safe, secure, accessible and affordable payment systems. The Reserve Bank will examine the recommendations of the report of Nilekani Committee and dovetail the action points, wherever necessary, with Vision 2021, for implementation.

Ninth, we also need to address the existing inadequacies in customer service and benchmark it against international standards. Efforts in developing robust customer grievance redressal mechanisms to increase customers’ trust and confidence in payment systems will be continued. Given the rising popularity of digital payments, data protection and cyber security norms need to be continuously strengthened. With the emerging threat landscape, where organised cyber-crime and cyber warfare are gaining prominence, working towards ensuring continuous protection against the changing contours of cyber security threat becomes imperative. As banks’ engagement with technology is increasing at a rapid pace, the challenge for the regulator would be to balance efficiency with prudential measures to mitigate risks to be able to harness the opportunities offered by Fintech.

Let me now turn to NBFCs. The conventional approach to their regulation and supervision has been light-touch, so that they could complement banks with their diverse financial products for niche areas and reach a large cross-section of population through innovative service delivery mechanisms. However, with a view to strengthen the sector, maintain stability and avoid regulatory arbitrage, the Reserve Bank has been proactively taking necessary regulatory and supervisory steps, keeping in mind the requirements of the time. In the light of recent developments, there is a case for having a fresh look at their regulation and supervision. It is our endeavour to have an optimal level of regulation and supervision so that the NBFC sector is financially resilient and robust. At the same time, NBFCs should be enabled to operate as well-functioning entities with necessary capacity to reach wider sections of population. The Reserve Bank will continue to monitor the activity and performance of this sector with a focus on major entities and their inter-linkages with other sectors. We will not hesitate to take any required steps to maintain financial stability in the short, medium and long-term. As you are aware, fine tuning and improving supervision and regulation are continuous exercises. Towards this direction, we have reduced the periodicity of the NBFC supervision to 12 months from 18 months earlier. We expect the Board of Directors of companies themselves to act diligently and take necessary action based on Reserve Bank’s supervision reports.

Further, our objective is to harmonise the liquidity norms between banks and NBFCs, taking into account the unique business model
of the NBFCs vis-à-vis banks. In this context, the final guidelines on the liquidity risk management framework which we have proposed recently will be issued shortly. Let me also make a reference to Urban Co-operative Banks (UCBs). Our experience suggests that the Board of Directors of UCBs require greater expertise and skill to conduct banking business professionally. The Reserve Bank is in the process of issuing guidelines on this issue. A need is also felt for establishment of an Umbrella Organization for UCBs which may extend loans and refinance facilities, setup IT infrastructure and provide support for capital and liquidity. The structure, functions and the regulatory guidelines of this organisation are being examined by the Reserve Bank. Mergers and consolidation in the sector will also help in reducing operating costs, encouraging greater risk diversification and economising capital. We propose to put in place a mechanism for encouraging voluntary mergers in the sector through appropriate incentives. We also propose to create a Centralised Fraud Registry for UCBs.

I have highlighted several issues in the banking and non-banking sectors. A sound and resilient financial system is a prerequisite for a modern economy that involves all sections of its society in sharing equitably the benefits of economic and social progress. As you would know, reforms are an ongoing process. The Reserve Bank will endeavour to be proactive in its approach. In the fast-changing financial landscape, we will continue to be watchful to the emerging challenges and respond to them appropriately to ensure a resilient and robust financial system.

Evolving Role of Central Banks (Shri Shaktikanta Das, Governor, Reserve Bank of India - June 17, 2019 - Delivered at the Lal Bahadur Shastri National Academy of Administration (LBSNAA), Mussoorie)

It gives me great pleasure to be here at the LBSNAA for the inauguration of this Phase V mid-career programme for IAS officers. I have many pleasant memories of this premier training institution where I had come after joining the IAS in the year 1980. I am thankful to Shri Sanjeev Chopra, Director of the Academy and members of the Faculty for having invited me to address such an august gathering. I am sure each one of you has worked hard and achieved many milestones over the path of your long careers. Where you stand today is perhaps the most important juncture in your career as you prepare for even higher roles and responsibilities in the Indian administrative structure. I understand that most of you would have spent around 28 to 31 years in the service. From now on you would be occupying top positions in central and state governments. At these levels, you would be responsible for policy making as well as guiding implementation of major programmes and schemes. You have to carefully weigh and assess the suitability of various policy options and advise the government on the way forward. While discharging your role at such high positions, it is very important to remember two quotes from the father of the nation, Mahatma Gandhiji: (i) “Be the Change that you wish to see in the World”; and (ii) “Recall the face of the poorest and the most helpless man whom you may have seen and ask yourself, if the step you contemplate is going to be of any use to him”.

In senior leadership positions, you will have the power to make a difference in the lives of the
people of this nation. Equally, you would have the power to make a difference in the lives of individuals whom you lead. Be sure to be their mentor, guide and inspire your team to dedicate themselves to the service of the nation. My advice to you would be to work towards introducing systematic changes in the functioning of our bureaucracy at various levels to further improve the delivery of public schemes and policies. More importantly, adhering to transparency and elimination of corruption should also be your top priorities. As policy formulation of any kind is a learning process, policy makers are often guided by past experiences. Therefore, today I have chosen to speak on the topic of “Evolving Role of Central Banks”.

**Evolution Of Central Banks:** Since the beginning of central banking, which goes back at least to the 17th century with the establishment of the Swedish Riksbank in 1668, the role and functions of monetary authorities have undergone several changes. Some of the oldest central banks were set up with the primary objective of providing war time finance to governments and managing their debts. Since then, their role has evolved over time in line with the changes in economic systems. They have now transitioned into modern day central banks which function with the objective of supporting sustainable economic growth through the pursuit of price and financial stability. In the case of India, the Hilton Young Commission (1926) recommended setting up of the Reserve Bank of India which was to be entrusted with pure central banking functions.

There is, however, a long history, which can be traced back to 1773, of the efforts to set up in India a banking institution, with some elements of a central bank. Consequently, the Reserve Bank was set up, and it commenced operations from April 1, 1935 with the Reserve Bank of India Act, 1934 providing the statutory basis for its functioning. It was originally set up as a shareholder’s bank, which was nationalised later in 1949. Since then, its role has evolved over time from supporting the planned development of the economy to a full service central bank.

**Role Of Central Banks During Global Financial Crisis:** Let me now elaborate on the role of central banks during crisis period. While it is true that crises lead to reforms, experience shows that other extraneous and complex factors can lead to future financial crises. For instance, despite learning lessons on inadequacies of regulation and supervision in many emerging economies during the East-Asian crisis of 1997, the occurrence of global financial crisis of 2008 originating from advanced countries could not be avoided. While macroeconomic vulnerabilities derived from large current account deficits, fiscal imbalances, excessive leverage and inadequate regulation and supervision of financial institutions were some of the most common features of this crisis, it was of truly global nature with much more intensity and depth. Given the speed of transmission of the impact of global financial crisis across countries, central banks were once again at the forefront of policy response. This time, however, typical monetary policy responses of central banks were not enough to curb the turmoil in financial markets. In the summer of 2007, major central banks began with traditional monetary policy tools and reduced the interest rates. The economic situation, however, deteriorated precipitously and central banks were not left with much headroom in their traditional policy tool kit to preserve domestic financial stability. Thus, central banks – particularly in advanced economies – took recourse to quantitative easing through unconventional policy measures to contain systemic risks, shore up confidence in the banking system and arrest economic slowdown. These policy measures were unconventional in terms of instruments and operational targets. Undoubtedly, the quantitative easing adopted
by central banks was one of the boldest policy experiments in the modern history of central banking. Another unconventional measure was the use of negative policy interest rates, though for achieving different objectives. The impact of these unconventional monetary policies is well known by now as large amount of liquidity created in the international financial system was channelled to EMEs in search of yield, creating boom and bust cycles in those economies.

**Regulatory Response To The Crisis:** From a supervisory and regulatory perspective, the crisis revealed some significant fragilities in the system. Basel Committee on Banking Supervision (BCBS) succinctly summarised these weaknesses: an excessive build-up of on and off-balance sheet leverage, accompanied by a gradual erosion in the level and quality of the capital base; insufficient liquidity buffers; a pro-cyclical deleveraging process; and the interconnectedness of systemic institutions through an array of complex transactions. The global regulatory response which took shape in the form of the Basel III framework focused on increasing the level and quality of capital, constraining bank leverage, improving bank liquidity and limiting pro-cyclicality, along with adding macro-prudential elements to regulations.

Keeping up with the traditionally prudent approach, India’s implementation process for Basel III reforms has been somewhat more stringent in terms of schedule as well requirements. Domestic factors and policy priorities continue to guide the Indian approach to financial sector regulation. Thus, the Reserve Bank has put in place the frameworks of capital requirements, countercyclical capital buffer (CCCB), leverage ratio, Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). More recently guidelines on large exposures were issued which became effective from April 1, 2019.

Another episode of stress witnessed across EMEs including India was during the taper talk period of mid-2013. The Indian economy was vulnerable due to the then prevailing high inflation of around 10 per cent and large current account deficit at 4.7 per cent of GDP. The Reserve Bank resorted to a host of policy measures including monetary tightening, restriction on gold import, special dollar swap window for public sector oil companies, special concessional swap window for banks for attracting Foreign Currency Non-Resident (Bank) deposits, increase in overseas borrowing limit of banks, and raising FII investment limit in government debt.

**What Do We Learn?:** Though there is no unique solution to these policy issues confronting the global economy, we could clearly draw three broad inferences:-

a) First, as we have discussed earlier, central banks’ role is important, both during normal as well as crisis times. While mandates for central banks broadly remain the same during both normal and stress periods, the weightage attached to competing objectives and the choice of policy instruments become crucial in the crisis periods.

b) Second, communication by central banks is very important which may be different in crisis times than in normal times. Not only it helps convey decisions in a more transparent way, it also signals the present and future policy stance of central banks. In fact, unconventional monetary policy measures undertaken by central banks during the crisis period worked mainly through the confidence and signaling channels. The US Federal Reserve’s statement on December 16, 2008 provided a clear forward guidance for the markets. On the other hand, only a mere hint of monetary policy normalization by the US Fed (popularly known as taper
tantrum) in May 2013 triggered portfolio outflows from some emerging market economies (EMEs). This led to high volatility in equity, debt and currency markets. In fact, such market volatilities in EMEs could have been avoided through clear advance communication on calibrated withdrawal of monetary policy accommodation.

c) In the Indian context, the Reserve Bank communicates its monetary policy decisions in terms of changes in the ‘Policy Repo Rate’ and ‘Stance’ based on an assessment of the current and evolving macroeconomic situation. The stance of the monetary policy is communicated as neutral, accommodative or calibrated tightening in consonance with the mandate of achieving the medium-term inflation target of 4 per cent ± 2 per cent, while keeping in mind the objective of growth. The Reserve Bank’s approach to communicate the policy stance is to explain it with rationale, information and analysis to enable market participants and stakeholders to have better clarity about the Reserve Bank’s assessment of the evolving situation.

d) Third, the global financial crisis was also a testimony to the fact that coordination of policies both at the global and domestic level is important for macro-financial stability. It is only through better coordination between central banks and between monetary and fiscal authorities in the domestic sphere that adverse consequences of spillovers and spillbacks could be contained. The fact remains that as most policy makers (monetary and fiscal) have domestic mandates, international cooperation may be hard to engender if international outcomes militate against domestic policy preferences. Therefore, success of coordination will depend on deft calibration of policies by major stakeholders.

Issues In The Current Context: Even after more than a decade of global financial crisis and six years after taper-tantrum, the global economy is still not on a stable growth path. Following an upward swing in 2017, there has been growing evidence that global growth and trade is weakening. Unsettled trade tensions and developments around Brexit are imparting further downside risks to the outlook. While signs of weakening world industrial production and trade volume were discernible in early 2019, other business confidence indicators have also dampened in many OECD countries. Taking cognisance of these factors, projections of world growth for 2019 have been revised down by the IMF, World Bank and the OECD in their latest assessments. Likewise, global trade is projected to expand at a moderate pace in next two years in line with the subdued investment outlook for many major economies.

While the global economy is still to recover to the pre-crisis growth path, India has continued to exhibit robust growth driven by consumption and investment demand in the last three years. However, in more recent period, we have seen a loss of speed in the second half of 2018-19 as some drivers of growth, notably investment and exports, slowed down. On the supply side, activity in agriculture and manufacturing moderated sharply. It is expected that the end of political uncertainty associated with an election season and continuation of economic reforms would lead to a reversal of the current weaknesses in some of the indicators in our economy.

To reinvigorate growth by improving investment climate, a healthy financial sector, inter alia, plays an important role. In this context, the Reserve Bank has accorded high policy attention to reform both banking and non-banking sectors. We have been taking several steps to strengthen the regulatory and supervisory frameworks in order to increase the resilience of the banking system. New guidelines
have been issued for resolution of stressed assets, which will sustain the improvements in credit culture.

In the non-banking sector, the Reserve Bank has recently come out with draft guidelines for a robust liquidity framework for the NBFCs. We are also giving a fresh look at their regulatory and supervisory framework. It is our endeavour to have an optimal level of regulation and supervision so that the NBFC sector is financially resilient and robust. The Reserve Bank will continue to monitor the activity and performance of this sector with a focus on major entities and their inter-linkages with other sectors. The Reserve Bank will not hesitate to take any required steps to maintain financial stability.

We are also taking a number of steps to improve commercial viability of Urban Co-operative Banks (UCBs). These steps include proposed establishment of an Umbrella Organisation and a Centralised Fraud Registry for UCBs and governance reforms at the board level. We are also encouraging voluntary merger and consolidation in the sector to help reduce operating costs, diversify risks and economise on capital.

**Interplay Between Inflation And Growth Objectives:** At the end, let me highlight the role of the Reserve Bank in the context of the mandate under the Reserve Bank of India Act, 1934: “to regulate the issue of Bank notes and the keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage”. This mandate has been interpreted over time as to maintain price stability, financial stability and economic growth with the relative emphasis between these objectives governed by the prevailing macroeconomic conditions. This role of the Reserve Bank has been restated as per the amendment in the RBI Act in May 2016 according to which “the primary objective of the monetary policy is to maintain price stability while keeping in mind the objective of growth”. Therefore it has been our endeavour in the Reserve Bank to ensure price stability under the flexible inflation targeting regime and simultaneously focus on growth when inflation is under control. In a flexible inflation targeting framework, a delicate balance needs to be maintained between Inflation and growth objectives. The relative emphasis on inflation and growth depends on prevailing macroeconomic scenario, inflation and growth outlook and signals emerging from incoming data. Post global financial crisis, it has been recognised that price stability may not be sufficient for financial stability and therefore financial stability has emerged as another key consideration for monetary policy, though jury is still out as to whether it should be added as an explicit objective of monetary policy. The fact remains that though the focus of monetary policy is mainly on inflation and growth, the underlying theme has always been financial stability.

**Concluding Observations:** While India emerged relatively unscathed from the global financial crisis, there should be no room for complacency. As a member of the several multilateral institutions, India actively participated in post crisis reforms of the international regulatory and supervisory framework under the aegis of the G20 and the Basel Committee. India remains committed to adoption of international standards and best practices in a phased manner, calibrated to our domestic conditions, wherever necessary. From the perspective of the Reserve Bank, we will continue to focus on effective communication and coordination with all stakeholders to achieve broader macroeconomic objectives of price stability, growth and financial stability.
The Complaint Management System (CMS), the application being launched today, symbolizes RBI's commitment to improve customer experience in grievance redressal process by ensuring timely resolution of complaints received at the Reserve Bank. I take this opportunity to seek the co-operation of all RBI regulated entities with public interface such as commercial banks, Urban Co-operative banks, Non-Banking Financial Companies (NBFCs), etc. in resolving customer complaints in a speedy and meaningful manner to promote public confidence in the financial system. Sustaining the confidence of consumers in banks and other Financial Service Providers (FSPs) through prompt and effective grievance redressal, together with empowering customers through education is pivotal for maintaining trust in the banking system.

CMS envisages improved customer convenience by providing a single window on Reserve Bank's website for lodging complaints against any regulated entity. The complaint would be directed to the appropriate Office of the Ombudsman/Regional Office of the RBI. The application also improves transparency by keeping the complainants informed through auto-generated acknowledgements and enabling them to track the status of their complaints and file Appeals online against the decisions of the Ombudsmen, where applicable. Further, complainants can also voluntarily share feedback on their experience in obtaining redressal.

CMS will be accessible on desktop as well as on mobile devices. The Reserve Bank also plans to introduce a dedicated Interactive Voice Response (IVR) System for tracking the status of complaints. I am sure, with time, the customer friendly nature of the CMS will be further enhanced.

As stated earlier, customer awareness is an enabling tool for strengthening customer protection. An alert and aware customer can effectively guard against the risks of mis-selling, cheating, frauds and such other threats. In our endeavor to spread awareness, we have placed on the CMS portal, videos with young role-models, including sportspersons, on safe banking practices and other important customer-centric regulatory initiatives of the Reserve Bank of India.

The benefit to the financial system will accrue from seamless access of CMS to the Nodal Officers of banks / Financial Service Providers (FSPs). CMS can generate various reports for monitoring and managing complaints pertaining to each entity. I expect banks / FSPs to use the data on CMS not only for reducing their Turn Around Time in resolution of complaints and strengthening their grievance redressal mechanism but also for undertaking root cause analyses with an objective of understanding their customer pain areas, behaviour and expectations so as to improve their services for maintaining customer loyalty. Insights from the data available from CMS can, for example, be used by banks / FSPs for designing products which meet the expectations of their customers. Obviously, those entities who perform better in analyzing the data and using it for creating customer value would be able to benefit more and have a competitive advantage.

Data from CMS can be leveraged by the Reserve Bank for analytics which can be used for regulatory and supervisory interventions, if required. Various dashboards provided in the application will help Reserve Bank to
effectively track the progress in redressal of complaints. With the launch of CMS, the processing of complaints received in the offices of Ombudsman and Consumer Education and Protection Cells (CEPCs) of the Reserve Bank has been digitalized. I urge the banks/FSPs to utilize the potential of CMS to the fullest.

**Shri Shaktikanta Das, Governor, Reserve Bank of India Speech on the Occasion of the Annual Statistics Day Conference on June 28, 2019, Mumbai:-**

I am honoured to inaugurate this year’s Statistics Day Conference, the thirteenth in the series organised by the Reserve Bank to commemorate the contributions of Professor Prasanta Chandra Mahalanobis. While paying tribute to him, I would like to take this opportunity to review some of the recent challenges in the field of statistics and in that context, to envision our future plans.

Professor Mahalanobis’s achievements in the field of statistics are pioneering and widely acclaimed. In many ways, his contributions have pushed outwards the frontiers of human understanding and endeavour. Very appropriately, therefore, he is regarded as the father of modern statistics in India. Professor Mahalanobis was also a great institution builder. He will always be remembered for founding the Indian Statistical Institute (ISI); for his path-breaking work on nationwide sample surveys; and for providing the architecture of the second five year plan (FYP) model of rapid industrialisation, among his many landmark contributions to nation building in those early days of independence. Professor Mahalanobis was the recipient of the prestigious award, the Padma Vibhushan. He also received international recognition, including as the Honorary President of International Statistical Institute and Fellow of the Royal Society of London for Improving Natural Knowledge.

Professor Mahalanobis was also the founder editor of the Indian Journal of Statistics ‘Sankhya’. In the editorial of its first issue, Professor Mahalanobis summarised the ethos of the discipline, and I quote: “…the history of the word sankhya shows the intimate connection which has existed for more than 3000 years in the Indian mind between ‘adequate knowledge’ and ‘number.’ As we interpret it, the fundamental aim of statistics is to give determinate and adequate knowledge of reality with the help of numbers and numerical analysis.” These words would inspire our deliberations on the theme of the Conference today, which is ‘Statistics for the Future’. The shared understanding that statistics is a ‘key technology’ in dealing with real life problems is resonating across the world. Aply, the 50th session of the United Nations Statistical Commission (UNSC) held in March 2019 had ‘Better Data Better Lives’ as its leitmotif.

The Reserve Bank’s statistics and information management system has evolved over several decades in response to demands for national level statistics of the highest quality and their dissemination as a ‘public good’. Over the years, more and more information is being compiled and released in the public domain, including those data that form inputs in policy-making. With India’s growing integration with the global economy and the sophistication and complexity of economic activity, information needs have exploded. This has thrown up challenges to practitioners to exploit innovations in analytical tools so as to keep pace with the fast changing dynamic. For instance, in the aftermath of the global financial crisis, statistical systems across the central banks have undergone a paradigm
shift. The focus is increasingly on monitoring of risks in the financial sector, global linkages, and sectoral accounts in terms of analysis of vulnerabilities, interconnectedness and spillovers. At the same time, information management and dissemination has become technologically more advanced, with an emphasis on higher frequency, granularity, better validation and integration into multi-purpose and structured data production processes. In the Reserve Bank too, we propose to leverage our new age data warehouse to support a granular data access lab to facilitate research, and a sandbox environment for evaluating regulatory tools.

Let me turn to some other modern-day challenges confronting professional statisticians, in the Reserve Bank as also outside the Bank. Big data is the new buzzword in the world of statistics, and it has already started changing the way the world views itself. Corporations are making large investments to predict the behaviour of consumers by exploiting the advances made in the field of data analytics. This information technology revolution has also created problems of plenty, underscoring the need for rigorous processes of classification, aggregation and analysis. Given the large amount of information, extracting ‘signals’ and ignoring ‘noise’ is vital in the productive use of new age technologies for analytical needs and policy decision support. Big data analytics are being increasingly employed to assess food inflation, to develop risk profiles and stress scenarios for the corporate sector and to conduct sentiment analysis with artificial intelligence and machine learning techniques.

In recent times, there have been animated discussions on the precision of statistical methods. The doctrine – even tradition – of statistical significance in scientific research has come under some cloud for its veracity and the journal American Statistician published a special edition on this issue earlier this year. Critics allege that these tests are susceptible to manipulation in order to make desired results significant, and undesired results non-significant. Further, some important results may be discarded at the conception level itself just because they are highly unlikely. Similarly, an opportunity to cherry-pick variables is available. In other words, correlations can conveniently be extended to establish spurious causality. In this context, do’s and don’ts have been cited: ‘don’t say statistically significant’ is one of them. Yet, as the global financial crisis demonstrated, tail risks materialised and the world was not the same again. These lessons inform our modelling of corporate financial risks on an ongoing basis. As the American Statistician recommends, “Accept uncertainty. Be Thoughtful, Open, and Modest”; in short, “ATOM.”

In my view, in an era marked by the widespread usage of the internet and social media, there is no substitute for rigorous statistical testing for establishing empirical regularities. In a deluge of data and results, what is vital is not just knowing which facts warrant importance, but also which are to be ignored, or even strongly refuted. Deviations from stylised facts and common sense should be investigated, but backed by robust analysis, peer reviews of the data used and the methods employed before deriving conclusions. So, the solution might not be less statistics, but actually more of them, but used in a manner that they are supposed to be. In most countries today, the profession of statistics is required to meet increasing analytical demands for decision support. The rising demands on the profession, as pointed out recently by the US Bureau of Labour Statistics, speak for the public’s expectations about and reliance on the quality of statistics, statistical methods and the statistician. In the Reserve Bank, we will continue to refine the methodologies used for forecasting and
assessment of macroeconomic developments on an ongoing basis. Research and analytics using cutting edge techniques will be pursued and in particular, nowcasting of growth and inflation will be further strengthened.

I am glad to note that renowned statisticians like Professor T.C.A. Anant, Professor T.J. Rao and Professor Srikanth Iyer have accepted our invitation and agreed to share their views on the theme of the Conference. We look forward to Professor Anant’s thoughts on the challenges for statisticians in the context of the United Nations’ Sustainable Development Goals (SDGs) as part of our commitment to the G20 process. The Reserve Bank has been conducting several surveys to provide forward-looking inputs for policy purposes. In this context, Professor Rao’s guidance will be extremely valuable; moreover, he has had a long-standing relationship with the Bank in the Technical Advisory Committee on Surveys. We are also eager to listen to Professor Iyer on Random Connection Models that help in reducing dimensions, compressing information and designing efficient algorithms in the era of Big Data.

I am also happy to learn that experts such as Dr. Subrata Sarkar, Dr. D.V.S. Sastry, Shri D.K. Joshi and Dr. Bornali Bhandari will discuss the research work done and the future research agenda with young researchers in the afternoon session. Their expertise would immensely help our young professionals in setting their own goals. I wish all participants the very best for today’s conference. I hope your deliberations will keep burning the flame of knowledge that illuminates human endeavour.

Development of Viable Capital Markets – The Indian Experience (Dr. Viral V. Acharya, Deputy Governor, Reserve Bank of India - June 29, 2019 - at the Indian School of Business, Hyderabad):

**Introduction:** Capital markets play a crucial role in the economic development of a country. They provide financial resources required for the long-term sustainable development of the economy. Development of viable capital markets is therefore considered an important element in the macro-financial policy toolkit, including for objectives such as financial stability and the transmission of monetary policy. The Committee on Global Financial System (CGFS), which meets at the Bank for International Settlements (BIS), constituted a Working Group in 2018-19 to examine global trends in capital market development, identify various factors (legal, institutional, structural and conjunctural) that foster the development of robust capital markets, and consider the role of policy including prudential measures. The Working Group, co-chaired by the People’s Bank of China (PBOC, Dr. Li Bo) and the Reserve Bank of India (RBI, Dr. Viral V. Acharya), focussed on issues primarily related to the development of markets in bond and equity securities. While these issues are arguably of greater relevance to emerging market economies, they were found to be of significant interest even for advanced economies.

The CGFS Report identified the drivers of capital market development and categorized them into two types:-

a) Drivers which create an enabling environment for financial development

b) Drivers which are more capital market specific.
Drivers which create an enabling environment as identified in the CGFS Report include:-

a) Macroeconomic stability,
b) Broad respect for market autonomy,
c) Fair and efficient legal and judicial systems
d) An efficient regulatory regime that creates conditions favorable for financial contracts.

Drivers which are capital market specific as identified in the CGFS Report include:-

a) Easy access to high-quality material information,
b) Diversity in the investor base,
c) Efficient market ecosystem for trading and robust market infrastructures,
d) Openness towards international investors while maintaining macro-economic stability
e) Markets for hedging and funding securities.

The CGFS Report made six broad policy recommendations:-

a) promoting greater market autonomy
b) Strengthening legal and judicial systems for investor protection
c) Enhancing regulatory independence and effectiveness
d) Increasing the depth and diversity of the domestic institutional investor base
e) Opening up capital markets internationally in a bi-directional manner
f) Developing complementary markets for derivatives, repo transactions and securities lending.

Policy initiatives in India have been largely in sync with the findings and recommendations of the CGFS Report. I shall discuss these and future policy directions after providing a brief overview of the Indian capital markets. While the scope of the CGFS Report is the entire capital market, I will largely confine this speech to the markets regulated by the Reserve Bank, viz., interest rate markets and (to a lesser extent) foreign exchange markets.

Overview Of The Indian Capital Markets:
Indian capital markets have a history of more than a century. However, they remained largely inactive till the 1970s. Partial liberalization of the economy and pro-capital market policies during the 1980s infused some life into the markets, but it was only the economic liberalization of the 1990s that provided a lasting impetus. Today, segments of India’s capital markets are comparable with counterparts in many of the advanced economies in terms of efficiency (price discovery), tradability (low impact cost), resilience (co-movement of rates across product classes and yield curves), and stability. In particular, their ability to withstand several periods of stress, notably the Asian financial crisis in 1997-98, the global financial crisis in 2007-09 and the “taper tantrum” episode in 2013, is a sign of their increasing maturity. In terms of size, all the major segments of the capital market, viz., Central Government securities (G-Sec) market, market for State Development Loans (SDL), corporate bond market and equity market — the so called “cash markets” — have experienced consistent growth during the past few decades in terms of primary issuance, market capitalisation (for equity market) and trading volumes in the secondary market. Equity market remains the largest segment, even as G-Sec, SDL and corporate bond markets have grown steadily (Chart 1).
Growth Of The Government Securities Market: A streamlined, transparent and market-based primary issuance process has underpinned the development of the government securities markets, both central government securities (G-Secs) and state government securities (SDLs). In the primary G-Sec markets, issuances are made as per a half-yearly pre-announced calendar. The calendar specifies the amount, tenor and issuance dates. The tenor of the G-Secs goes up to 40 years. G-Secs are mostly fixed-coupon bonds, although instruments such as inflation-linked bonds, capital-indexed bonds, floating-rate bonds and bonds with embedded options are also issued. Currently, all issuances are done through weekly auctions. Issuances are supported by Primary Dealers (PDs) who fully underwrite the issue. Auctions are conducted through both competitive bidding [for all residents, Foreign Portfolio Investors (FPIs) and Non-Resident Indians (NRIs)], which determines the market-clearing price, and non-competitive bidding (for retail investors, largely), which receives the allotted securities at the market-clearing price. More than 90% of the issuances are done through re-opening of existing securities which has contributed significantly to market liquidity by spreading out ownership across a large number of investors. The Reserve Bank has also introduced “when-issued” segment for the G-Sec market since 2006. The profile of both G-Secs and SDLs in terms of stock and flow characteristics is shown in Tables 1 and 2. The weighted average coupon on G-Secs has remained stable across interest rate cycles imparting stability to the debt profile as the average maturity of issuance (more than 10 years) is one of the longest globally, helping limit the rollover risk for the central government. SDL issuance has increasingly formed a much greater share of issuance relative to the G-Secs, rising from around 25% of issuance in 2013-14 to around 45% in 2017-18.

Table 1: Characteristics of Central Government borrowings (G-Secs)

<table>
<thead>
<tr>
<th>Year</th>
<th>Issued during the Year</th>
<th>Weighted Average Yield (%)</th>
<th>Weighted Average Maturity (Years)</th>
<th>Weighted Average Coupon (%)</th>
<th>Weighted Average Maturity (Years)</th>
</tr>
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<tbody>
<tr>
<td>2013-14</td>
<td>7.8</td>
<td>14.7</td>
<td>8.0</td>
<td>10.4</td>
<td></td>
</tr>
<tr>
<td>2014-15</td>
<td>7.9</td>
<td>16.0</td>
<td>8.1</td>
<td>10.5</td>
<td></td>
</tr>
<tr>
<td>2015-16</td>
<td>7.2</td>
<td>14.8</td>
<td>8.0</td>
<td>10.7</td>
<td></td>
</tr>
<tr>
<td>2016-17</td>
<td>7.0</td>
<td>15.0</td>
<td>8.0</td>
<td>10.7</td>
<td></td>
</tr>
<tr>
<td>2017-18</td>
<td>7.8</td>
<td>14.7</td>
<td>7.8</td>
<td>10.4</td>
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Source: Annual Report of Reserve Bank of India (2017-18) and Database of Indian Economy (DBIE), Reserve Bank of India

Liquidity Of The G-Sec Market: Liquidity in the secondary market for government securities has noticeably improved over the past decade (Chart 2). The average daily volume in the G-Sec and SDL markets has remained higher than that of corporate bond and equity cash markets. The liquidity in G-Secs is, however, mainly concentrated in a few benchmark securities, particularly the 10-year benchmark, and SDLs are relatively less liquid than the G-Secs, yielding typically 50-75 basis points more than the G-Secs in terms of yield at the 10-year tenor. The average bid-ask spread for liquid securities in the G-Sec market has remained less than a basis point during the last few years (Chart 3). Strikingly, bid-ask spread as well as the price impact of trade for the 10 year Indian G-Sec benchmark are comparable to or lower than
those for most of the advanced economies of the world including the US, the UK, France and Germany (Chart 4).

**There are several proximate drivers of this liquidity of the Indian G-Sec market:**

a) Regular issuance of the 10-year benchmark has concentrated trading interest in this segment of the yield curve. Efforts are now being made to regularise issuance of benchmark securities at shorter maturities (2 and 5 years).

b) Secondary market transactions are predominantly (around 80%) conducted in an anonymous electronic order matching system (NDS-OM) which is unique in the world for debt trading. While the remaining transactions happen over-the-counter (OTC) outside the NDS-OM, they are nevertheless reported to the NDS-OM platform.

c) Near real-time dissemination of trade information publicly accessible on the website of the Clearing Corporation of India (CCIL) ensures price transparency.

d) Settlement is guaranteed by the CCIL and takes place through Delivery versus Payment (DvP) mechanism on T+1 basis. Guaranteed settlement implies there is no risk to investors from each other of delivery failures.

e) Finally, enabling of short-selling facilitates a two-way interest adding to activity and price discovery in the market.

**Growth And Liquidity Of The Corporate Bond Market:** The corporate bond market has grown over the years to a size of USD 447 billion of outstanding stock as at the end of March 2019, clocking an annualised growth rate of 13.5% during the last four years. Issuances are predominantly through private placement and dominated by high credit issuers. In 2018-19, 79% of the issuances were by entities rated ‘A’ or higher. Secondary market trading has also picked up in the recent past, with trading volumes rising from USD 170 billion in FY 2014-15 to USD 267 billion in 2018-19. Trading is entirely OTC with trades settled bilaterally and reported to stock exchanges.

**Recent Developments In The Corporate Bond Market:** Consistent investment interest by domestic institutions like mutual funds, pension funds and insurance funds as well as foreign portfolio investors (FPIs) has helped in developing the corporate bond market. Tri-party repo (“sale and repurchase”) in corporate bonds has been introduced by the exchanges recently with a view to encourage trading
Implementation of the Insolvency and Bankruptcy Code (IBC) starting December 2016 is expected to go a long way in improving participation in the corporate bond market by strengthening the protection of creditor rights, in a market presently characterised by one of the lowest recovery rates (25%) in the world (Chart 5). With greater confidence in time-bound and efficient resolutions under the IBC, foreign investors are likely to explore investment in sub-investment grade and distressed corporate assets.

**Investor Base:** There has been a conscious and continuous effort by the Reserve Bank to expand the investor base and thereby liquidity of the markets it regulates, while preserving financial stability. The investor base for G-Secs, for instance, has expanded over the past decade in terms of an increase in the share of holdings by insurance companies and corporates and a corresponding decrease in the share of holding by commercial banks (Chart 6). In parallel, calibrated access for global investors through the FPI route is helping broaden the investor base, while also bringing in diversity of trading views and strategies.

**Funding And Derivatives Markets:** A necessary condition for the development of capital markets is the existence of funding and securities lending markets as well as derivative markets for risk transfer. Repo funding in Indian G-Secs is fairly deep with average daily volume of about USD 20 billion (Chart 7). In case of interest rate derivatives, there is reasonable liquidity in Interest Rate Futures (IRF) and Overnight Indexed Swaps (OIS) markets. Much of the recent increase in activity can be attributed to the Reserve Bank allowing non-residents to participate in interest rate derivatives markets for both hedging and trading purposes.

**Policy Initiatives In India:** What has enabled the growth of Indian capital markets to reach this stage? To answer this, I will now discuss the policy measures taken in India vis-à-vis the findings and recommendations of the CGFS Report.
1. ENABLING ENVIRONMENT:-

a. Macroeconomic Stability: India’s GDP growth has been one of the highest among large economies during the last decade and half (Chart 8). Double digit inflation of few years prior to the “taper tantrum” episode has been tamed, facilitated by a shift by the Reserve Bank in 2016 to flexible inflation targeting with a headline target of 4% (+/- 2%) for the Monetary Policy Committee (MPC). High levels of inflation make holdings of financial assets economically unattractive relative to non-financial assets such as housing and gold. The important reform of flexible inflation targeting, helped by low oil prices and food supply management, has kept the headline inflation under control during the last 5 years, relative to the MPC’s mandated target (Chart 9). This way, two preconditions of macroeconomic stability — stable growth and low inflation — necessary for financialisation of savings and capital market development are now in place in India.

b. Promoting Market Autonomy:-

i) Rationalizing Regulatory Guidelines And Procedures: In active coordination with the government and other financial market regulators, the Reserve Bank has undertaken a series of reforms and rationalisation of existing policies. These measures also seek to ensure financial stability and instil confidence among stakeholders. Some important examples include:-

1. Liberalising the process for innovation of new products
2. Moving away from a prescriptive approach to a principle-based regulatory approach
3. Minimising interference in the market process by eschewing ad-hoc ‘approvals’
4. Attempting to achieve comprehensive market regulations by addressing gaps, in particular, by issuing market abuse regulations and benchmark regulations, as well as regulating trading platforms.

ii) Development Of Financial Market Institutions And Infrastructure: A well-developed and reliable infrastructure is a prerequisite for safe and efficient functioning of financial markets. Acknowledging this principle, the Reserve Bank has taken several steps to put in place an effective infrastructure in the markets it regulates, the salient steps being:-

2. Introduction of an anonymous trading platform for G-Sec called the Negotiated Dealing System-Order Matching (NDS-OM)
3. Introduction of Legal Entity Identifier code (LEI) for OTC derivatives markets as well as non-derivatives markets
4. Development of a foreign exchange trading platform (Fx-Retail) aimed at bringing down transactions costs for retail users (August 2019)
5. Constituting an independent financial benchmark administrator, viz., the Financial Benchmarks of India Ltd. (FBIL).

iii) Macro-Prudential Management Of Investment Restrictions For Domestic And Foreign Investors: It has been a constant endeavour of the Reserve Bank to rationalise, and wherever consistent with macro-prudential objectives, to relax restrictions in the form of investment limits imposed on the market participants:

1. The Reserve Bank has reduced the Statutory Liquidity Requirement (SLR) stipulation on the minimum percentage of Net Demand and Time Liabilities (NDTL) to be held in G-Secs and SDLs by banks in a calibrated way (Chart 10) from close to 40% in 1990 to below 20% at present. This important relaxation has resulted in a greater flexibility for banks in their investment decisions and added to the diversity of investor base in G-Secs and SDLs (Chart 6) — which, in turn, have aided efficient pricing of these bonds.

2. The Reserve Bank has been calibrating access for Foreign Portfolio Investors (FPIs) in debt markets to provide them greater latitude in managing their portfolios in terms of increased FPI investment limits (Charts 11 and 12) as well as expanded eligibility of instruments and tenor for FPI investments.

3. Recently, the Reserve Bank has introduced the Voluntary Retention Route (VRR) scheme to relax the macro-prudential restrictions for FPIs that are willing to retain a significant portion of their investments in the country for a minimum retention period (presently three years).

iv) Strengthening The Legal And Regulatory Framework For Investor Protection: One of the most critical building blocks of market infrastructure is a proper legal framework which ensures investor protection by acting as a deterrent to market abuse and malpractices. In India, the Public Debt Act (1944), the Securities Contract Regulation Act (1956) and the Government Securities Act (2006) govern the formalisation of issuance and transfer of securities. In parallel, the Reserve Bank of India Act (1934) confers powers on the Reserve Bank to regulate money, derivatives, repo and government securities markets. With the Insolvency and
Bankruptcy Code (IBC) (December 2016), the legal framework for financial regulation is also moving closer to being comprehensive and effective in the context of non-financial corporate borrowers. However, the lack of resolution framework for non-bank financial entities remains a crucial gap that deserves prompt attention of the authorities.

2. Capital Market Specific Drivers: Let me now turn to some of the other important drivers of market development in India and also highlight some critical areas for improvement.

i) Disclosure Regime: As per the cross-country survey findings of the CGFS Report, proper and timely disclosure by the issuers in corporate bond market is a prerequisite for gaining investors’ confidence in this market. Conversely, lack of adequate disclosures raises the financing costs of corporates, especially sub-investment grade ones, and keeps the capital markets small. Recognising this, regulators in India have emphasised and mandated high quality and timely disclosures by issuers. However, a few instances of recent defaults in commercial paper and corporate bond markets have raised concerns about the quality of disclosures, even for investment-grade firms. These concerns are worthy of careful scrutiny and assessment relative to the best international practices to help fine-tune standards for the timely disclosure of default-relevant information by corporates.

ii) Deepening The Domestic Institutional Base: Expanding the investor base leads to increasing diversity in the market (see section 2.7). Efforts in this direction need to be sustained, with a particular focus on the domestic institutional investor base. Improving pension and insurance coverage for households can be a priority as it not only leads to social welfare outcomes, but also leads to a stronger and more stable investor base for capital markets. Better financialisation of household savings could be a catalyst for retail participation in markets, in turn providing a boost to collective investment vehicles such as mutual funds and alternative investment funds (AIFs).

iii) Bi-Directional Opening Of Markets To International Participation: One of the key drivers of market development recognised in the CGFS Report is opening up of the market to foreign participants although it entails managing global spillover risks. The Reserve Bank has taken calibrated steps in opening up its regulated markets to foreign participants as discussed earlier and also allowed domestic players to participate in overseas markets:

- In consultation with the government, the Reserve Bank has decided to permit offshore trading and settlement of G-Secs through International Central Securities Depositories (ICSD) for non-residents who do not want to undergo the domestic FPI registration procedure.

- The recently issued draft of regulations for hedging currency risk embodies many of the drivers identified by the CGFS report — product innovation, opening up markets to non-residents and simplified hedging guidelines which offer greater flexibility to users.

- Similarly, in March 2018, the Reserve Bank freed up overseas hedging by residents of commodity price risk and freight risk overseas. Residents were permitted to hedge both direct and indirect commodity risk through specified instruments. For direct exposure, all price risk on all commodities is now permitted...
to be hedged overseas, while for indirect exposure, residents can hedge overseas the price risk on industrial metals only. Further, revised directions treat risks acquired from domestic and cross-border transactions at par. To manage the global spillover risks arising from such reforms, prudential limits have been in place alongside most of these reforms to ensure consistency with the overall state of capital account liberalisation for India and anchor macro-prudential risks at manageable levels.

iv) Developing Complementary Markets: Deep and liquid complementary markets like repo and derivatives play a crucial role in the growth of the cash markets as they help investors in funding and hedging. Over the past few years, the Reserve Bank has taken measures to help develop repo markets for both Government securities and corporate bonds. Introduction of tri-party repo (August 2017) has been a success for the G-Sec market; however, tri-party repo is yet to pick up in the corporate bond market. Similarly, securities lending (“market repo”) works well for G-Secs although wider participation (especially by large holders of G-Secs like mutual funds, insurance companies and pension funds) is required to avoid occasional episodes of excessive volatility in borrowing costs. All these regulatory measures have resulted in a consistent growth in liquidity in the repo markets. To boost derivatives markets, efforts are required in encouraging better risk management by domestic institutions, especially banks. With the untapped interest rate derivatives market set for a pickup in the risk management activity of banks and non-banks, the role of complementary markets will strengthen in the years to follow.

3. Other Recent Initiatives: Let me conclude by enumerating four of the important initiatives underway to develop Indian capital markets further:

i. Task Force on Offshore Rupee Markets: The Reserve Bank constituted a Task Force in February 2019 to examine in depth issues relating to the offshore Rupee markets and recommend appropriate policy measures to align incentives for non-residents to gradually move to the domestic market for their hedging requirements and also to ensure the stability of the external value of the Rupee. The Report of the Task Force is due by mid-July 2019.

ii. Internal Working Group on Market Timings: The Reserve Bank has set up an Internal Working Group on Market Timings which will comprehensively review the timings of various markets that are under the purview of the Reserve Bank, and will assess the necessary payment and settlement infrastructure that can support co-ordinated timings across these markets. The Working Group’s Report, after submission, will be released for public feedback.

iii. Task Force On The Development Of Secondary Market For Corporate Loans: The Reserve Bank has constituted a Task Force on the Development of Secondary Market for Corporate Loans. It will suggest required policies for facilitating the development of a secondary market in corporate loans, including loan transaction platform for stressed assets, creation of a loan contract registry, its ownership structure and related protocols such as the standardization of loan information, independent validation and data access. The Report of the Task Force is due by the end of August 2019.
iv. Committee On The Development Of Housing Finance Securitisation Market:
The Reserve Bank constituted this committee to assess the state of housing finance securitisation markets in India; study the best international practices as well as lessons learnt from the global financial crisis; and propose measures to further develop these markets in India by identifying critical steps required such as, inter alia, definition of conforming mortgages, mortgage documentation standards, digital registry for ease of due diligence and verification by investors, avenues for trading in securitised assets, etc. The Report of the Committee is due by the end of August 2019.

TOP BANKING NEWS

• SBI In Favour Of A Single Resolution Professional For RCom, Subsidiaries:
State Bank of India has made a proposal to appoint a single resolution professional to run the bankruptcy process of Reliance Communications and two of its subsidiaries, people with knowledge of the development said. Chinese lenders to the Anil Ambani-controlled telecom company have, however, objected to the proposal. SBI made the proposal at a meeting of lenders on Thursday, arguing that it would ensure better coordination during the bankruptcy proceedings of RCom and its Reliance Infratel and Reliance Telecom arms, the people said. This, the state-run bank said, would result in speedier resolution and maximisation of the companies’ value. Two Chinese banks are said to have opposed the proposal, citing excessive workload if one person were to act as the resolution professional for all three. The National Company Law Tribunal had in May last year approved the appointment of three people as the interim resolution professionals (IRPs) — Pardeep Sethi, Mitali Shah and Manish Kaneria — to manage the insolvency process of RCom and the subsidiaries, though all of them represent a single firm, RBSA Advisors. An IRP can be confirmed as the resolution professional once the committee of creditors convenes and gives its consent. The lenders also have the right to replace the IRP with a new person. SBI has also proposed to replace RBSA with Deloitte. One person close to the development said the Chinese lenders were likely to object to this proposal as well, though this was not corroborated. “It is a policy of the bank not to comment upon individual accounts and its treatment”, an SBI spokesperson said in response to ET’s queries. China Development Bank, Export Import Bank of China and Industrial and Commercial Bank of China are among lenders to RCom as well as Reliance Telecom. China Development Bank’s exposure is around Rs 11,000 crore. ET could not ascertain which of the three had opposed the proposal. “Most of the claims of the Chinese lenders are at the parent company level and they would not like the bankruptcy processes to be run as a single process as this would reduce their voting strength when deciding on common resolution plans for all three companies,” a banker said. The lenders have decided to subject the proposed appointment of Deloitte to an electronic vote, ET reported on Friday. Several Indian banks are said to be backing
### Top Management, Auditors And Independent Directors, SFIO Identifies ‘Coterie’ That Defrauded IL&FS:

Launching a massive crackdown on perpetrators of the IL&FS scam, the Serious Fraud Investigation Office (SFIO) has charged the erstwhile top management members of the group's financial services subsidiary IFIN of forming a “coterie” with its auditors and independent directors to defraud the company while running the business as their “personal fiefdom”. Officials also said it is just a tip of the iceberg in this massive fraud case, involving defaults totalling an estimated amount of over Rs 90,000 crore, as the SFIO's first chargesheet concerns just one entity, IL&FS Financial Services Ltd (IFIN), and the probe is already underway against the parent firm Infrastructure Leasing and Financial Services Ltd (IL&FS) and several other subsidiaries. In addition to prosecution of former executive and independent directors of IFIN, among others, and attachment of their properties, the SFIO is also looking to seek interim attachment of all moveable and immovable assets of the auditors including their lockers, bank accounts and jointly-held properties, officials said. The SFIO is also collecting details about all borrowings by IFIN from banks and through market instruments, as also about the role of banks and their officials and of credit rating agencies. The first charge-sheet, filed by the government's white-collar fraud investigation agency, follows inspection of accounts of close to 400 entities, an extensive forensic audit, data collected from desktops and laptops seized from various IL&FS offices as also e-mails extracted from the IL&FS servers, RBI inspection reports, minutes of meetings, among other documents, as also the assessment reports from the government-appointed new board of IL&FS. The huge scam came to light last year after IL&FS and its subsidiaries defaulted on several debt repayments due to a severe liquidity crisis. As of March 2018, it owed over Rs 90,000 crore to banks and other creditors. The government in October last year superseded the board of IL&FS and appointed a new board, with eminent banker Uday Kotak as its executive chairman. In its chargesheet filed before a special court in Mumbai last Friday, the SFIO has accused 30 entities/individuals of various violations and offences, including of financial fraud. Some of the accused persons are already in judicial custody. The former top-management members of IFIN have been charged with committing fraud with intent to injure the interest of the company, its shareholders and creditors, resulting in wrongful loss to the company. They have been accused of forming a “coterie to control day-to-day affairs of the company and of colluding with others” in using illegal methods on multiple occasions in violation of the RBI directions. They have also been accused of conniving with some borrowers to help them make wrongful gains in the form of loans with the intention of not repaying the same. It has further alleged that statutory auditors of the company also colluded with the top management of IFIN and fraudulently falsified the books of accounts and the financial statements from the fiscal year 2013-14 to 2017-18. The members of the audit committee also connived with the ‘coterie’ and overlooked the violations of norms, causing unlawful loss to the company.
The ‘coterie’ repeated its modus operandi several times by getting an earlier loan facility for a borrower closed and creating a fresh facility, which was again funded after default with another funding cycle through the same or another group entity. Ultimately, the final loan facility was declared an NPA or written off, while several of them remain outstanding resulting in the ballooning of debt. The ‘coterie’ members abused their position, connived with auditors and others to defraud the company by devising an “illegal strategy” of lending money to group companies of IFIN by funding to vendors and contractors of another group firm. The top management members also “deliberately presented falsified, spruced up, deceptive and misleading” financial statements to the credit rating agencies, who continued to give them the highest ratings till the later part of 2018, the SFIO has charged. Listing names of Deloitte Haskins and Sells LLP and BSR and Associates LLP in the chargesheet, the SFIO said, “The statutory auditors failed to discharge their duties diligently and did not use professional scepticism to ensure true and fair disclosure of the state of affairs of the company”. “They, in fact, colluded with officials of the companies in order to conceal their fraudulent activities,” the SFIO said while citing documentary and digital evidence as also relevant portions from its investigation report about statements recorded during the course of the probe. The probe agency said the financial statements prepared and filed by the company did not give a true and fair view of the state of affairs at the company, while the financial statements for the fiscal years from 2010-11 to 2017-18 were not in compliance with the applicable accounting standards. One of the directors did not disclose his interest in a borrower company which had his wife and daughter on the board. The ‘coterie’ identified by SFIO included Ravi Parthasarthy, Hari Sankaran, Arun Saha, Ramesh Bawa, Vibhav Kapoor and K Ramchand, who were in the top management of various IL&FS firms. SFIO said its probe revealed that IFIN, as an NBFC, extended loans to companies of Siva, ABG, A2Z, Parsvnath and other corporate groups, though a number of them were not servicing their debt obligations timely. The ‘coterie’ was aware of the potential problematic accounts, as flagged by the company’s internal systems, but kept on getting loans extended to other companies of the same borrower groups, it added.

**Source:** https://economictimes.indiatimes.com/industry/banking/finance/banking/top-management-auditors-and-independent-directors-sfio-identifies-coterie-that-defrauded-ilfs/articleshow/69621075.cms

**Dated:** June 02, 2019

- **Lakshmi Vilas Bank Looks To Raise Rs 1,000 Crore If Merger Deal Goes Awry:**

Lakshmi Vilas Bank is preparing a Plan B just in case its merger plan with Indiabulls Housing Finance gets delayed. The lender is seeking investment of as much as Rs 1,000 crore from private equity funds in the event of a regulatory hitch. “Assuming that the merger would take some time to happen, we are talking to a few other investors with an intention of raising some capital,” said Lakshmi Vilas Bank (LVB) managing director Parthasarthi Mukherjee. “I am engaged with a variety of investors — my comfort level is to raise Rs 700-1,000 crore.” The bank is looking to sell 4.99% each to three-four investors if the merger does not materialise or if Reserve Bank of India (RBI) approvals are delayed. According to RBI rules, investors can buy up to 5% equity in banks without its express approval. The bank will also get Rs 188 crore from the preferential allotment made to Indiabulls Housing Finance, which
gives the latter a 4.99% stake. If the RBI approves the plan, the merged entity will be among the top eight private banks in India by size and profitability. Indiabulls has a strong presence in northern and western Indian markets, while LVB has a strong presence in the south. Mukherjee said if the merger receives approval it could pave the way for further consolidation of this kind. “I have no inhibitions about the fact that this will be a landmark transaction, a relatively larger entity is merging into a small entity,” he said. “If that were to happen, it will open a window for similar transactions going forward.” The bank is going through a crunch phase as growth has slowed due to lack of capital. It reported a net loss of Rs 264 crore for the quarter ended March against a loss of Rs 373 crore in the year earlier. This year the bank is targeting recoveries of Rs 800-1,000 crore, which will reduce its gross non-performing assets (NPAs) by a third. LVB will also focus on building a quality lending book, controlling expenditure and putting a large part of its manpower to work on expediting loan recovery. “The stress in the book has played itself out. Now we are focussing on recoveries,” Mukherjee said. “If all this goes as per plan we will turn profitable by year end.”

Dated: June 03, 2019

- **RBI Modifies Large Exposures Framework For Bank:**

The Reserve Bank of India modified the guidelines on large exposures for banks with a view to reduce concentration of risk and align them with the global norms. The modified ‘Large Exposures Framework’ (LEF) provides exclusion of entities connected with the sovereign from definition of group of connected counter-parties. It also introduces economic interdependence criteria in definition of connected counterparties. The amendment, the RBI said, is being done in order to “capture exposures and concentration risk more accurately” and to align the above instructions with international norms. As per the revised norms, the sum of all the exposure values of a bank to a single counter-party must not be higher than 20 per cent of the bank’s available eligible capital base at all times. In exceptional cases, board of banks may allow an additional 5 per cent exposure of the bank’s available eligible capital base. In case of groups of connected counterparties, the sum of all the exposure values of a bank to a group of connected counterparties must not be higher than 25 per cent of the bank’s available eligible capital base at all times, the revised LEF said. Under the LE Framework, an exposure to a counter-party will constitute both on and off-balance sheet exposures included in either the banking or trading book and instruments with counter-party credit risk. On exposures to NBFCs, the banks’ exposures to a single NBFC should be restricted to 15 per cent of their eligible capital base. Also, banks’ exposures to a group of connected NBFCs or group of connected counter-parties having NBFCs in the group should be restricted to 25 percent of their Tier I Capital.
Fitch Downgrades ICICI Bank Rating By A Notch As Financial Health Weakens:

Global rating agency Fitch said Monday it has downgraded ICICI Bank by a notch as financial health of the private sector banks has weakened. The rating action comes amid the challenges the bank faces in its operating environment, Fitch Ratings said in a statement. “Fitch Ratings has downgraded ICICI Bank Limited's Long-Term Issuer Default Rating(IDR) to ‘BB+’ from ‘BBB-’ and its Viability Rating to ‘bb+’ from ‘bbb-’. The Outlook on the IDR is Stable,” it said. It has also affirmed ICICI's Support Rating at ‘3’ and Support Rating Floor at ‘BB+’, it said. BB rating indicates speculative grade while BBB points at good credit quality. Fitch lowered its midpoint for India’s operating environment to ‘bb+’ from ‘bbb-‘ following a review of the banking sector’s performance, particularly in the last three years, and its regulatory framework, as well as the outlook in the near term. “We also compared India with other sovereign jurisdictions in Asia rated in the ‘BBB’ category including the key metrics of GDP per capita and the ease-of-doing-business ranking,” it said. It concluded the sector will perform below the average of its peers over the next one to two years in spite of our expectations of high economic growth and improving business prospects in India. The performance of Indian banks should have largely bottomed out, but the sector is still struggling with poor asset quality and weak core capitalisation, it said. “We estimate that Indian banks’ impaired-loan ratio declined to an average of 10.8 per cent by 9 months of 2019-20 from 11.5 per cent in the financial year ended March 2018 (FY18), which continues to be high by global standards,” it said. Capital buffers are assessed by Fitch as moderate, including for private-sector banks, especially in light of their high impaired-loan ratio, risk appetite and the challenging but competitive operating environment, it said. Fitch further said ICICI Bank's core capitalisation is higher than that of most other Indian banks but within the current operating environment poses only a moderate buffer against risks. That said, Fitch believes the bank has some capital fungibility through the sale of stakes in profitable subsidiaries and the repatriation of excess capital from foreign subsidiaries. Its impaired-loan ratio is weaker than that of other large private banks and most banks with Viability Ratings in the ‘bb’ category, even though the measure has improved slightly to 7.5 per cent in 2019-20 from 10 per cent in the previous fiscal, it added.

Kotak Digs In For The Long Haul, Takes His Fight With RBI To Next Level:

The tiff between the banking regulator and Kotak has been going on since 2014. Uday Kotak, India’s richest banker, seems to have hunkered down for the long haul in his fight with the RBI. According to an ET story, the billionaire promoter of Kotak Mahindra Bank has just told Bombay High Court he doesn’t buy RBI’s interpretation of promoter holding in banks. Kotak insisted that the owners’ stake in the bank as a percentage of paid-up capital was in line with rules. He also pointed out that the banking regulator never communicated with promoters over
shareholding — something that has now become quite a contentious issue. The tiff between the banking regulator and Kotak has been going on since 2014. According to the bank’s latest affidavit, the entire dispute has arisen from how the RBI has chosen to interpret the law. The row has its origins a regulatory diktat that had decreed paring promoter’s holding in the bank that is India’s fourth largest private sector lender. The RBI directive, issued in August 2018, had asked Kotak Mahindra Bank to dilute promoter’s holding from around 30 per cent to a maximum of 20 per cent of its paid-up voting equity capital by December 31, 2018 and to 15 per cent by March 31, 2020. According to RBI, the reason behind asking for promoter stake dilution is to ensure that voting power is not confined in the hands of one single group. The RBI had said the objective of paring the promoter shareholding was to prevent concentration of power and to make private banks more democratic. Kotak Mahindra Bank had moved the Bombay High Court in December 2018 against the RBI diktat. In a hearing in March this year, the court had turned down an interim relief plea by the bank on the ground that “the matter was not as simple as the petitioner was making it out to be”. This was the second time the bank was denied interim relief. Earlier in December, the bank had pushed for a stay on the December 31 deadline but its plea had been thrown out. The promoters of the bank, in August 2018, had tried to bring the holdings lower by way of a perpetual non-cumulative preference share sale. Kotak maintained that his family’s stake would be pared to 19.70 per cent from about 30 per cent through this sale. The complex mechanism, however, failed to cut any ice with the regulator — the RBI told Kotak it didn’t meet regulatory norms. Kotak soon challenged RBI’s stand and then, on December 10, in a move with no parallel in India, he dragged the RBI to the Bombay High Court against the December 31, 2018 stake dilution deadline. As per its petition, the bank wants the definition of paid-up equity capital to be widened to include these preference shares as well beyond the present equity voting capital, says a report. It also questions the norms on capping shareholding at a more fundamental level. More importantly, the bank is asking if there is any legal basis at all to have such shareholding caps. Kotak has contended that the RBI has never had clear communication with promoters about shareholding norms — he says RBI had initially asked the bank to only dilute promoter shareholding of its paid-up capital, but later also sought dilution of paid-up voting equity capital. According to the plea, after receiving the letter from RBI, the bank wrote two letters to the RBI governor — seeking clarification, but did not get any reply. Following RBI’s letter, Kotak Mahindra Bank wrote two letters to RBI Governor seeking clarification but didn’t get any reply, the bank’s plea says. Kotak Mahindra Bank has termed RBI’s directive as “arbitrary, without any authority of law and contrary to the provisions of the Banking Regulation Act, and Article 14 and 19(1)(g) of the Constitution”, a PTI story says quoting the lender’s petition. Kotak questioned RBI’s authority to seek reduction of stake by any investor – promoter or not – in a bank. The RBI has no power to tell any bank to cut anyone’s shareholding under the Banking Regulation Act, said the bank. According to the bank, Sections 12 and 12-B of the Act “form a complete code on a matter of shareholding and voting rights in a bank and therefore circumscribe the powers of the RBI in this regard.” RBI’s assertion is not only unreasonable and incorrect but amounts to the RBI contending that it is entitled to carte blanche powers irrespective
of the provisions of the Act, Kotak Mahindra Bank said in its rejoinder. It cannot be the RBI’s case that it has “unlimited and unimpeachable powers” in matters related to Indian banks and operates outside of statutory and constitutional limitations, Kotak said. In essence, Kotak Mahindra is seeking to contest the validity of the RBI’s orders, saying they were issued without authority of law and it was not the regulator’s prerogative to determine policy. The RBI appears to have conflated the concepts of economic ownership and control, and that this approach ignored provisions in the Act that specifically regulate voting rights of all shareholders under section 12 (2) and deal with the concentration of control, says an ET story quoting the bank’s rejoinder.

Dated: June 04, 2019

• **Bank Of Baroda Declares Dighi Port Chief Vijay Kalantri A ‘Wilful Defaulter’**: 

In a financial scandal evoking Nirav Modi and Vijay Mallya, a leading industrialist in Mumbai, who is well connected to the corridors of power, has been declared a “wilful defaulter” by the Bank of Baroda. Vijay Goverdhandas Kalantri, chairman and managing director of Dighi Port, and his son Vishal Kalantri, a director of the port, owe approximately Rs 3,334 crore to a consortium of 16 Indian banks led by Bank of India, for loans given to develop the port. The Bank of Baroda placed a public notice in a Mumbai newspaper on Sunday, 2 June, which states: “Notice is hereby given to the public at large that Vijaya Bank (now Bank of Baroda) has declared the following persons as wilful defaulters, in terms of the bank's/RBI's rules and regulations. 1) Dighi Port Limited , (borrower) 2) Vishal Vijay Kalantri, director and guarantor and 3) Vijay Goverdhandas Kalantri, director and guarantor. The bank has sent a suitable communication to the borrower/guarantor informing the decision of the bank to declare him/ them as a wilful defaulter. As permitted by the RBI, the bank publishes photos of the wilful defaulters for the information of the public at large.” TOI tried to reach Vijay Kalantri but he was not reachable. Dighi Port is being developed on the two banks of Rajpuri Creek as Maharashtra’s first private sector port with direct berthing facilities and modern cargo handling equipment. The corporate insolvency resolution process of Dighi Port was admitted by Mumbai Bench of NCLT in order dated March 25, 2018 and in May NCLT accepted the resolution plan submitted by JNPT for Dighi Port. Kalantri also heads Balaji Infra Projects, which is developing the port, and he is the Honorary Consul of the Consulate of Uzbekistan in India.

Dated: June 05, 2019

• **RBI Monetary Policy Highlights: Rate Cut By 25 Bps, Policy Stance Changed**: 

For the third time in a row, the Reserve Bank of India’s (RBI) Monetary Policy Committee (MPC) today cut interest rates by 25 basis points, as was widely expected. At the end of a three-day MPC meeting, RBI Governor Shaktikanta Das announced its second bi-monthly monetary policy statement for 2019-20. In a unanimous decision, the MPC also decided to change the stance of monetary policy from neutral to accommodative. Amid slowing economic growth and rising global
uncertainty, the RBI had decreased the short-term lending rate (repo rate) by 25 basis points each in its last two policy reviews. Top highlights from RBI’s monetary policy: Sovereign bonds rallied in India, sending benchmark yields to their lowest since November 2017, after the central bank cut its key rate and left the door open for more policy easing to shore up a sagging economy. The rupee held losses, while stocks extended declines; Home and car buyers would be hoping for cheaper loans from banks after the Reserve Bank of India today cut key policy rates for the third time in a row; A reduction in policy rates will come with a reduction in market yields even if the transmission to the real economy via lower lending rates from the banking system may take some time; Low inflation and subdued growth are the drivers of the move. Yet, the real concern is lack of transmission of rate cuts into effective lending rate. Liquidity conditions also remain tight for large part of the corporate sector. Effective transmission and adequate liquidity remain key challenges**: Sujan Hajra, Chief Economist and Executive Director, Anand Rathi Shares & Stock Brokers; A reduction in interest rates will affect different types of debt funds differently depending upon their portfolio. Not all debt funds react similarly to a fall in market yields; The RBI rate cut is expected to bring down EMIs on home and auto loans, and reduce the debt repayment burden on corporates. In all, the central bank has reduced the benchmark lending rate by 0.75 percentage point since February this year; The benchmark BSE Sensex was trading 333.32 points, or 0.83 per cent, lower at 39,750.22, and the broader Nifty fell 114.35 points, or 0.95 per cent, to 11,907.30; The Governor’s assurance that adequate liquidity will be provided will ensure that the present surplus liquidity situation will sustain: Dr. VK Vijayakumar, Chief Investment Strategist, Geojit Financial Services; Expect government to remain broadly fiscal-prudent: RBI Governor; RBI will issue a revised circular on NPA classification in the next 3-4 days; RBI says a change in stance to accomodative means that a rate increase is off the table; Elara Capital’s economist Garima Kapoor said a shift in the stance to accommodative is welcome as it will pave way for transmission to lending rates, which so far have been inadequate. “We expect MPC to cut rates by an additional 50 bps through the year while continuing to fine tune liquidity support through a combination of OMO purchases, forex swap and CRR cut,” she said; RBI said there is a case for more players in the Small Finance Bank sector. RBI will issue draft guidelines for ‘on tap’ licensing of small finance banks by the end of August 2019; RBI MPC projects upward bias in food inflation in near term due to rising prices of food items; To promote digital transactions, RBI has decided to waive off RTGS and NEFT charges; On NBFC crisis, Shaktikanta Das assures that action will be taken whenever required; RBI Governor Shaktikanta Das said a committee will be formed to look into ATM charges; Rupa Rege Nitsure, chief economist, L&T Financial Holdings, said, “Today’s policy actions are perfect and give a clear signal that the RBI will continue with easy monetary conditions until it sees a definite improvement in growth-inflation mix”; Risks around the baseline inflation trajectory emanate from uncertainties relating to the monsoon, unseasonal spikes in vegetable prices, international fuel prices and their pass-through to domestic prices, geo-political tensions, financial market volatility and the fiscal scenario, RBI said; Devendra Pant, chief economist, India Ratings, said the rate cut shows that with inflation below RBI’s target of 4%, growth
concerns have come to the forefront. “By changing its stance, the RBI has communicated to the market that the growth slowdown is real,” Pant said; RBI Governor Shaktikanta Das said they will ensure that adequate liquidity is there in the system; “The change in stance and downgrading of growth forecasts suggest they are leaving the door open for further loosening,” said Shilan Shah, India economist at Capital Economics in Singapore. “I wouldn't be surprised to see a further one or two cuts in the next six months”; Expressing concern on a sharp slowdown in investment activity along with a continuing moderation in private consumption growth, the MPC said growth impulses have weakened significantly as reflected in a further widening of the output gap compared to the April 2019 policy; “Interest rates on longer tenor money market instruments remained broadly aligned with the overnight WACR, reflecting near full transmission of the reduction in policy rate,” the RBI report said; On transmission of rate cuts, RBI noted that the transmission of cumulative reduction of 50 bps in the policy repo rate in February and April this year was 21 bps to the weighted average lending rate (WALR) on fresh rupee loans Inflation expectations of households in the May 2019 round of Reserve Bank’s survey declined by 20 basis points for the three-month ahead horizon compared with the previous round, but remained unchanged for the one-year ahead horizon; RBI has revised consumer price inflation forecast for the first half of fiscal year 2019-20 to 3-3.1% from 2.9-3% earlier, while the projection for the second half stands revised to 3.4-3.7% from 3.5-3.8% earlier; The MPC revised both its growth and inflation forecasts for the current fiscal. GDP growth has been revised downwards to 7% from the earlier projection of 7.2%. The MPC expects growth in in the range of 6.4-6.7% in the first half of FY20 and 7.2-7.5% in the second half; The minutes of the MPC’s meeting will be published by June 20; The next meeting of the MPC is scheduled during August 5 to 7; All members of the MPC (Dr. Chetan Ghate, Dr. Pami Dua, Dr. Ravindra H. Dholakia, Dr. Michael Debabrata Patra, Dr. Viral V. Acharya and Shaktikanta Das) unanimously decided to reduce the policy repo rate by 25 basis and change the stance of monetary policy from neutral to accommodative; -The reverse repo rate under the LAF stands adjusted to 5.50%, and the marginal standing facility (MSF) rate and the Bank Rate to 6%; RBI said these decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth; The benchmark equity indices Sensex and Nifty was trading negative since the beginning of the day as investors were cautious ahead of the RBI monetary policy. Sensex was down 150.69 points, or 0.38%, at 39,932.85 while the broader Nifty was trading at 11,955.30 falling 66.35%, or 0.55%; RBI’s policy statement is followed shortly after by a press conference with the central bank governor and his deputies. The RBI also releases minutes of each meeting within two weeks of the event, disclosing how each member voted and why; The last time the RBI had to cut rates three times in a row was in 2013; At a forum in Washington in April, RBI Governor Shaktikanta Das had said that central banks could be more flexible in the size of rate adjustments, rather than sticking to the usual moves of 25 basis points; Goldman Sachs sees the RBI increasing interest rates next year - one hike of 25 basis points each in first quarter and second quarter of 2020; Even as the RBI has decreased the repo rate by 50 basis points to 6% since February, bank
lending rates, on an average, have declined by only 5 basis points; Rating agency Icra expects the RBI to maintain a status quo in its monetary policy review. The agency said the central bank would adopt a wait and watch approach till the new finance minister Nirmala Sitharaman presents her first Budget on July 5; A recent report by SBI had advocated that RBI must go for a rate cut bigger than the widely-expected 25 basis points keeping in mind the current slowdown in the Indian economy; Most economists expect the RBI to cut repo rate by 25 basis points to 5.75%. Two-thirds of 66 economists polled by Reuters expect the MPC to wrap up on Thursday by cutting the repo rate by 25 basis points. Bloomberg said 31 of 43 economists it surveyed expect a 25 bps rate cut; At least three economists out of 43 surveyed by Bloomberg are penciling in a 50 basis points cut; Bank of America Merrill Lynch economist Indranil Sen Gupta, known for his contrarian calls in the past, is expecting that the RBI will lower its benchmark interest rate by 35 basis points; India Ratings has warned that rate cut is unlikely to stimulate demand in the near term due to the absence of quick resonance in the financial market; Apart from its likely rate cut, the RBI will have to tackle issues surrounding sluggish monetary policy transmission. Despite lowering rates by 50 basis points this year, bank lending costs have been rather sticky amid tighter liquidity. Those conditions, though, are showing nascent signs of easing; Kunal Kundu of Societe Generale SA is predicting a 50 basis-point reduction; Today's policy review will be RBI's first after the results of 2019 Lok Sabha elections; Uday Kotak, Managing Director of Kotak Mahindra Bank, opines that the RBI should reduce interest rates in view of the slowing economy. He however warned that the real challenge is to ensure transmission of the rate cut across deposit and lending rates.

Source: https://www.livemint.com/industry/banking/rbi-monetary-policy-live-updates-1559792726329.html
Dated: June 06, 2019

- **RBI Ban On SR Batliboi & Co May Impact Audit Of Large Lenders:**

The Reserve Bank of India's one-year ban on audit firm SR Batliboi & Co could impact the audit of large lenders, including HDFC Bank, Kotak Mahindra Bank and IndusInd Bank. Batliboi, an affiliate of global auditing firm EY, also audits South Indian Bank, Bandhan Bank and AU Small Finance Bank. The central bank's action against Batliboi on Monday came after it found several lapses in the audit report of Yes Bank, said a person privy to the matter. The action by the central bank was based on the enforcement action framework put out by the RBI last year in June which listed audit lapses resulting in errors in a bank's financial statement, wrong certifications and information given by auditors, misconduct of auditors and any other violations of RBI directions. “The firm was asked to make some representations about a year back for the Yes Bank divergence issue. The representations and explanations regarding the divergence and other issues in the audit were explained to the RBI,” the person said. Source: nseinfobase.com

The Securities and Exchange Board of India (Sebi) will seek details of the RBI report on Batliboi before deciding whether it can audit other listed companies. SR Batliboi also audits over 150 companies including Reliance Industries, Tata Power, Voltas, Vodafone Idea, Tata Communications and Vedanta. The market capitalisation of companies audited by EY group through its affiliate firms was about 24.1% of the total market value of all listed NSE companies in...
2018-19. An official spokesperson for SRBC & Co said, “We have learnt of this development from the press release issued by the RBI and are not aware of further details. Accordingly, we will be unable to comment further at this stage.” The RBI had not sent an official communication to EY regarding the ban. “RBI has a hawk’s view of the matter but as statutory auditors we don’t have that view,” said a senior chartered accountant. This ban comes around the time when other two major multinational auditors Deloitte and KPMG are under scrutiny for their role in auditing IL&FS Financial Services. SR Batliboi had ceased to be the auditor of Yes Bank from the fiscal ended March 2016 as part of the mandatory auditor rotation. BSR & Associates, a KPMG affiliate, took over as the auditor of Yes Bank thereafter.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/rbi-ban-on-sr-batliboi-co-may-impact-audit-of-large-lenders/articleshow/69658477.cms

Dated: June 06, 2019

- **Bankers, Financial Players Hail RBI Repo Rate Cut, Hope Consumer Demand To Get A Boost:**

Banking and finance experts hailed the RBI’s decision to cut the short-term lending rate, terming it as a step in right direction that could help stimulate consumer demand. The Reserve Bank in its second bi-monthly policy statement for 2019-20 announced to cut the key repo rate, at which it lends to banks, for a third straight time by 25 basis points to 5.75 per cent. “The policy was very positive and was reinforced by unanimous voting and the change in stance to accommodative. The statement’s focus on supporting growth and bolstering private investment as long as inflation remains within the mandate, is also encouraging and leads us to believe that more accommodation is on the cards,” said B Prasanna, Group Head -Global Markets-Sales, Trading and Research, ICICI Bank. Vasu Ramaswami, COO, Muthoot Fincorp said the latest rate drop should help in improving consumption demand, particularly for the common man, especially once banks decide to pass this rate change to their customers. On the NBFC crisis, Governor Shaktikanta Das said that the RBI is closely monitoring the situation and there is ample liquidity in the market currently. “The unanimous decision by the Monetary Policy Committee (MPC) to cut the repo rate by another 25 bps is a step in the right direction,” said Khushru Jijina, MD, Piramal Capital and Housing Finance. The downward revision of growth projection to 7 per cent calls for implementation of additional rapid policy interventions by RBI as well as the government. NBFCs are instrumental in providing credit to MSMEs and real estate sectors and more decisive and pro-active policy measures are required to address the current liquidity crisis, Jijina said Shriram Transport Finance MD & CEO Umesh Revankar said consumer spending has been weak on auto sales, real estates because of high interest rates and RBI should open up funding to retail NBFCs through banks that will stimulate consumer spending. “We may see more measures in the coming days that will help achieve faster and sizeable rate transmission - a pass through of 75 basis of the three rate cuts should happen in the coming months...This may also imply that deposit rates may start
falling sharply in the coming days,” said R K Gurumurthy - Head Treasury, Lakshmi Vilas Bank. RBI has also raised marginally the retail inflation projection for the first half of this fiscal to 3.1 per cent from 2.9-3 per cent projected earlier. The decision to cut the repo rate by 25 basis points is a welcome one, this was expected, given the backdrop of low inflation and rising growth concerns in the economy, said Anshuman Magazine, Chairman & CEO, India, South East Asia, Middle East & Africa, CBRE. The rate cut coupled with the budget stimulus for the economy, and the real estate sector in particular, will impact consumer sentiments positively, Magazine said. Mahindra Group CFO, VS Parthasarathy said while the rate cut and stance is good, the transmission and execution will make it great and help the country to rise. “Banking and NBFC are the backbone of the country which need to be nursed back to health. Liquidity is the blood in the veins of this country,” he said.

Dated: June 06, 2019

• **Fincare SFB, Kookmin Bank Get Included Into Second Schedule Of RBI Act:**

Fincare Small Finance Bank and Kookmin Bank have been included in the second schedule of the Reserve Bank of India Act, according to RBI notifications. Fincare Small Finance Bank was included in the Second Schedule to the Reserve Bank of India Act vide notification dated March 28, according to an RBI notification on Thursday. The central bank in separate notification said that Kookmin Bank has been included in the Second Schedule vide notification dated April 4. Fincare Small Finance Bank in a statement said that as a Scheduled Commercial Bank, it can now broad-base its lines of funding and liquidity facilities. The Bank can issue certificates of deposits and get access to interbank borrowings at competitive interest rates, enabling it to bring down its cost of funds, the bank said Thursday. Besides, it can also get deposits from new sources such as governments, public sector undertakings, corporates, mutual funds, insurance companies and other market participants.

“This status will help the Bank expand our liabilities base at more competitive rates - be it through new instruments such as CDs, access to new sources of liabilities such as mutual funds, government and public sector institutions, or through access to the RBI’s facilities for liquidity management,” said Rajeev Yadav, the MD & CEO of Fincare Small Finance Bank. Fincare SFB, earlier Disha Microfin, was one of the 10 entities to receive the Small Finance Bank licence from the RBI in September 2015 and commenced banking operations in July 2017.

Dated: June 06, 2019

• **State Bank of India “Very Closely” Monitoring Exposure To Shadow Banks:**

State Bank of India said that they are “closely monitoring” the financial health of the troubled housing financiers Deewan Housing Finance (DHFL), who delayed on their interest payments to investors on Tuesday. The country’s largest lender affirmed that their exposure to NBFC sector still is “good” and that “appropriate actions” are being taken for specific stressed accounts. “SBI has been receiving queries on the impact that recent developments in accounts like DHFL
could have on the Bank and on the system,” said an SBI spokesperson in a statement. “We have been very closely monitoring its exposures in the NBFC sector for the past 10 months and taking action as deemed appropriate. Challenges faced by accounts like DHFL have already been factored in when we have given our estimate for the stress that the Bank would have to deal with in FY 19-20 and included in our estimates for slippage and loan loss provisioning for the current financial year.” At least three rating agencies – Crisil, ICRA and Care Ratings – have already downgraded debt securities to ‘D’ or default category. SBI has a loan exposure of Rs.11000 crore in DHFL till last year's December quarter as per latest available data. A CLSA estimate shows that of DHFL's Rs.1 trillion debts as of December quarter of which 38% is with banking sector causing worry among investors. DHFL on Monday had issued a statement to its investors claiming that the non-payment of interests on borrowings ‘delays’ rather than ‘defaults’. In a separate statement on Wednesday following the downgrade DHFL said “the action taken by rating agencies is extremely surprising as the company has been making substantial efforts in ensuring no defaults on its financial obligation...Since September 2018, DHFL has repaid close to Rs 40,000 crores of financial obligation.”

Dated: June 06, 2019

• Embassy Buys 14% In Indiabulls Real Estate In Bulk Deal:

Embassy Property Developmentson Friday bought an around 14% stake in Indiabulls Real Estate from its promoter through a bulk deal on the stock exchanges. The deal is part of a three-stage transaction under which a Blackstone Group-Embassy alliance will be acquiring Indiabulls group chairman Sameer Gehlaut's 39.5% stake in the real estate company for Rs 2,700 crore. As per the terms, Blackstone-Embassy will acquire Gehlaut's remaining stake of over 24% in 6-8 weeks and then make an open offer to the company's shareholders. On Friday, Embassy acquired nearly 6.31 crore Indiabulls Real Estate shares at a weighted average price of Rs 150.45 each. The stock closed 2.6% lower at Rs 128.20 on the Bombay Stock Exchange, after touching an intra-day high of Rs 151. Indiabulls Real Estate has 23.5 million sq ft of residential and 2.4 million sq ft of commercial projects under construction. The deal puts its enterprise value at nearly Rs 7,000 crore. Blackstone and Embassy are planning to keep the realty developer listed after the conclusion of the transaction and make it the alliance's residential platform. This is the first time that Blackstone is acquiring a listed real estate company in India.

Dated: June 08, 2019

• RBI Circular A Welcome Step; Provides More Freedom To Bankers, Indian Banks’ Association:

The Reserve Bank's new circular for resolution of stressed assets is propelled by provisioning requirements and gives more freedom to bankers in taking decisions, Indian Banks’ Association (IBA) Chairman Sunil Mehta said Saturday. Two months after the Supreme Court struck down its February 12 circular, the Reserve Bank of India (RBI)
Friday came out with a revised framework for resolving stressed assets wherein lenders have been given a 30-day period on whether to label an account as a non-performing asset. “The RBI circular is a very welcome step. It has given more freedom to bankers to bring their own resolve and instead of directions, it (circular) has been propelled by provisioning requirements which will propel lenders to take timely decisions. “... it has created a lot of clarity for various stakeholders,” Mehta said on the sidelines of a seminar here. Corporate Affairs Secretary Injeti Srinivas said in terms of the spirit and rigour, the latest circular is identical to the February 12 guidelines. “Only thing is that now banks have more delegation (power) and there will be board level resolution policy and the discretion on whether you would like to take it (the case) to insolvency and bankruptcy proceedings or like to settle it outside that... (now) that decision is with the banks,” he said. He also noted that it is a very good replacement circular and given the Supreme Court’s judgement that the RBI is not authorised to give a general circular, this is the best replacement circular we could have had. The latest directions from the RBI retain the basic spirit of the February 12, 2018 circular as it mandates higher provisioning, bankruptcy options as well as do not allow any other resolution methods outside the new norms. The new norms provide a framework for early recognition, reporting and time-bound resolution of stressed assets, the central bank said in a notification on Friday. In April, the Supreme Court struck down the RBI’s February 12 circular for resolving bad loans under which a company could be labelled as a non-performing asset if it missed repayment even by a day, and banks were to find a resolution within 180 days or else the case had to be sent to bankruptcy courts. The RBI circular, issued on Friday, would be applicable to all borrowers with exposure of Rs 2,000 crore and above to banks, financial institutions like Nabard, Exim Bank, Sidbi, small finance banks and NBFCs, with immediate effect. To a query on whether the number of cases referred under the Insolvency and Bankruptcy Code (IBC) might come down with the issuance of the RBI circular, Srinivas said the Code has always been the last resort and not the first. “If you can have a resolution outside the IBC framework, you should try that first... Empirical evidence show even today, 6,500 cases got resolved before admission. That means some sort of informal mediation has taken place and they have got resolved,” he said. According to him, even now people prefer to resolve it outside the IBC and only in cases where there is no other option but court-supervised process, then it would come to the IBC and that is a good development. “Now, it is left to the banks. You will have an inter-creditor agreement and if 75 per cent of banks in terms of voting share or 60 per cent of banks in terms of numbers, they come to some sort of consensus then you can push through the resolution plan... It is a very good solution and we could not have asked for anything better,” he noted.


Dated: June 08, 2019

• RBI Issues Fresh Circular For Defaulting Companies:

The latest circular clears up the contentious issue of how the RBI can direct banks to initiate insolvency proceedings on all cases where banks couldn’t come up with a resolution plan. The Reserve Bank of India issued the much-anticipated, revised circular
on dealing with defaulters that retained the original spirit of its efforts to discipline borrowers and banks but sought to make the rules compliant with the Supreme Court’s observations. The central bank put the onus on lenders to act quickly to preserve the value of assets instead of waiting for directions. The original February 12, 2018, circular had tightened the screws on those who missed loan repayments and scrapped all debt recast plans in favour of the Insolvency and Bankruptcy Code (IBC). The circular had been struck down by the Supreme Court in April over banks being forced to start insolvency proceedings within a stipulated period. Instead of this, the RBI has ratcheted up provisioning norms. Under the revised rules, the longer it takes to come up with a resolution plan, the higher the amount the lender will need to set aside. The regulator also extended the rule to other entities such as nonbanking finance companies and has said that lenders will have one month to review a loan account after the borrower misses a payment and have to come up with a resolution plan within 180 days after that watch period. The one-day default rule, which had exercised banks and borrowers, stays although the language of the previous rule has been diluted with “review period” of one month replacing “shall initiate steps to cure the default.” “One-day default norm stays,” said State Bank of India deputy managing director Prashant Kumar. “An additional 30-day window has been given to review the asset.” The 180 days will start from the end of the review period. Relief may only apply to some borrowers. The new rules also distinguish between term loans and revolving credit, making it easier for the latter. The new rules are applicable for loans above Rs 2,000 crore immediately while for those between Rs1,500 crore and Rs 2,000 crore, it will take effect on January 1 next year. “Only customers availing cash credit and overdraft have got relaxation, because if there is a mismatch it can be adjusted if the default continues for more than 30 days... then we need to review it,” Kumar said. “But for any term loan, it will be a single-day default.” The regulator retains the right to direct any lender to initiate insolvency proceedings as per the law and has made provisioning norms expensive for lenders that don’t proceed immediately to resolve the default. “RBI will issue directions to banks for initiation of insolvency proceedings against borrowers for specific defaults so that the momentum towards effective resolution remains uncompromised,” the central bank said in the circular posted on its website. “It is expected that the current circular will sustain the improvements in credit culture that have been ushered in by the efforts of the government and the Reserve Bank of India so far and that it will go a long way in promoting a strong and resilient financial system in India.” Governor Shaktikanta Das had to come up with a new set of rules for banks to deal with defaults with the February 2018 circular termed ultra vires by the Supreme Court after several power sector companies challenged it. The circular had mandated banks to treat payments missed by a day as a default and initiate insolvency proceedings. Although the SC did not question the bankruptcy process, it did not find merit in RBI using a particular section (35 AA) of the Banking Regulation Act to issue blanket orders to banks to initiate bankruptcy proceedings. The new rules have been designed to ensure that these lacunae have been addressed and, at the same time, retain their effectiveness. “Lenders may decide on the resolution strategy, including the nature of the resolution plan, the approach for implementation of the plan, etc.,” RBI said. “The lenders may also choose
to initiate legal proceedings for insolvency or recovery.” The latest circular clears up the contentious issue of how the RBI can direct banks to initiate insolvency proceedings on all cases where banks couldn’t come up with a resolution plan. “The revised framework has much larger room for discretion to lenders, and unlike the February 2018 circular, does not mandate referral of the borrowers en masse to insolvency resolution,” said Vinod Kothari, a resolution professional. “While the RBI has reserved the rights to refer specific borrowers to the IBC, it gives liberty to the members of the joint lenders forum to decide the resolution plan.” RBI also made it financially difficult for banks if they don’t draw up resolution plans on time. It has proposed 20% provisioning if a viable plan has not been formulated within 180 days and an additional 15% if not done in a year’s time. “Any action by lenders with an intent to conceal the actual status of accounts or evergreen the stressed accounts, will be subjected to stringent supervisory, enforcement actions as deemed appropriate by the Reserve Bank, including,” the RBI said.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/rbi-issues-fresh-circular-for-defaulting-companies/articleshow/69698131.cms

Dated: June 08, 2019

- BoB Puts Accounts Worth Over Rs 9k Cr On Block As NCLT Process Gets Delayed:

The bank, which has become the third largest lender after it amalgamated Vijaya Bank and Dena Bank with itself in April this year, has narrowed its losses to Rs 991 crore in the fourth quarter of FY19 from Rs 3,102 crore in the same quarter of FY18. As resolution through the insolvency courts keep getting delayed inordinately, the state-run Bank of Baroda has put on sale non-performing loans amounting to Rs 9,060 crore, including two large accounts - Bhushan Power & Steel and Alok Industries which are undergoing insolvency process but delayed. While Bhushan Power & Steel dues are to the tune of Rs 2,099 crore, Alok Industries dues are Rs 903 crore. Both these companies are among the 12 largest stressed accounts which the Reserve Bank had asked banks to refer to National Company Law Tribunals for resolution in June 2017 and forms the first list put out by the monetary authority in the mid-2016. The third largest lender had put Bhushan Power & Steel on sale in December 2018 but could not find a buyer. Besides these two big accounts, the bank is also looking to sell 65 other medium and small-size stressed accounts worth Rs 6,057 crore, only on cash basis, according to the information on the bank’s website. Of these, some of the big accounts are Lanco Vidarbha Thermal Power (dues Rs 628 crore), Jindal India Thermal Power (Rs 373 crore), Anrak Aluminium (Rs 306 crore), GVK Power Govindwal Sahib (Rs 266 crore), ECI Engineering Construction Company (Rs 207 crore), Lanco Solar (Rs 160 crore), Visa Steel (Rs 150 crore) and Adhunik Power & Natural Resources (Rs 58 crore), among others. The bank has invited expressions of interest for all these accounts over the past weekend. The EoIs for Bhushan Power & Steel and Alok Industries are to be submitted by June 24, while for other accounts it has to be submitted by June 21, the bank said on its website. The bank, which has become the third largest lender after it amalgamated Vijaya Bank and Dena Bank with itself in April this year, has narrowed its losses to Rs 991 crore in the fourth quarter of FY19 from Rs 3,102 crore in the same quarter of FY18. Its gross NPA came down to 9.61 percent as of March 2019 from 12.26 percent.
in the previous year while the net NPA ratio improved to 3.33 from 5.49 in March 2108.


Dated: June 09, 2019

- **IL&FS May File Contempt Case Against 9 Big Banks:**

The government-appointed board of Infrastructure Leasing & Financial Services (IL&FS) is likely to file contempt proceedings against nine large banks including State Bank of India, Bank of Baroda, HDFC Bank, Yes Bank, Punjab and Sind Bank, Punjab National Bank, Indian Bank and Indian Overseas Bank for unauthorised withdrawal of about Rs 800 crore during the moratorium period, said people with knowledge of the matter. It will also seek refunds, they said. They made “unauthorised auto-deduction from IL&FS escrow accounts,” in the last six months towards debt recovery, said one of them. These violated the protection granted to the financier and its subsidiaries by the National Company Law Appellate Tribunal (NCLAT), which restricted any lender from initiating recoveries, said the sources. “Unauthorized deductions affected cash flow and it is also likely to affect timelines, which is detrimental to overall resolution framework being followed by the board toward speedy resolution,” said one of them. The government appointed a new board to take charge of the company after it defaulted on repayments in September last year, sparking a liquidity crisis that hit nonbanking finance companies (NBFCs) and undermined the financial system. According to an IL&FS internal assessment, at least nine major banks made the deductions between October 2018 and April 2019.

IL&FS spokesperson Sharad Goel declined to comment. HDFC Bank, Yes Bank, State Bank of India and Bank of Baroda didn’t respond to queries. The board is likely to seek refunds and file contempt cases to recover the deductions. The projects where such deductions have been made include the Chenani Nashri tunnel highway, where SBI is the lead bank and Rs 200 crore has been withdrawn. Another Rs 60 crore has been withdrawn from the escrow account for Jharkhand road projects, where Allahabad Bank is the lead bank. Auto debits have been made from escrow accounts tied to the Hazaribagh Ranchi Expressway, Barwa Adda Expressway, Karyavattam sports facility, East Hyderabad Expressway and Baleswar Kharagpur Expressway. According to
estimates, SBI has withdrawn over Rs 100 crore, HDFC Bank and BoB a combined Rs 90 crore, Canara Bank, Union Bank, Allahabad Bank, Punjab and Sind Bank together over 100 crore. The IL&FS resolution framework has categorised its group units into green, amber and red, based on their ability to meet payment obligations over the coming 12 months. Those able to meet all payment obligations are green. Those that can only operational payments and senior secured debt obligations are categorised amber. Those unable to meet obligations to even senior secured financial creditors are categorised as red. IL&FS group companies have an outstanding debt in excess of Rs 91,000 crore. The NCLT Mumbai bench superseded the board of IL&FS with government nominated on October 1 last year. The Ministry of Corporate Affairs (MCA) had approached the National Company Law Appellate Tribunal (NCLAT) for a 90-day moratorium on loans taken by group companies of the debt-laden IL&FS group.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/ilfs-may-file-contempt-case-against-9-big-banks/articleshow/69718453.cms

Dated: June 10, 2019

• Sacking Of J&K Bank Head Opens Up A Can Of Worms:

Sacked J&K Bank chairperson Parvez Ahmad Nengroo is alleged to have sanctioned loans worth hundreds of crores of rupees in brazen violation of guidelines and standard operating procedures to clients recommended by former minister in the PDP government Imran Aftab Ansari and People’s Conference chief Sajjad Lone, investigating agencies have found. The irregularities the J&K anti-corruption bureau (ACB) is now probing include how Shamsuddin Andrabi, the Class 12 pass brother of ex-PDP minister Farooq Andrabi and former CM Mehbooba Mufti’s uncle, was appointed directly as manager. Andrabi is currently posted in the bank’s Bhaderwah branch. Mehbooba on Sunday said the manner in which Nengroo was sacked was “quite disconcerting” and “disgraceful”. The ACB seized around 300 files pertaining to illegal/fraudulent appointments in the bank by Nengroo during PDP rule in the state during raids led by bureau director Anand Jain. Among several allegations of nepotism, corruption and financial irregularities against Nengroo, who was removed on Saturday, which are now under the lens are appointment of several members of his extended family, some of whom came to occupy key positions in the bank. The ACB is probing how two J&K Bank branches – in Karin (Shopian) and Wuyan (Pulwama) – are operating from Nengroo’s personal premises and those of his in-laws. Both locations are highly unsuitable, sources in the agencies told TOI. ACB sleuths are investigating how Nengroo, whose registered date of birth as per his service and school records is April 21, 1963, passed the matriculation exam at the age of 14 years in November 1977. With him at the helm, renovation of hundreds of bank branches were allotted to select individuals for Rs 50 lakh to Rs 1.5 crore a branch. The actual cost was found to be only 30% of the money paid. Overdrafts of hefty amounts were allegedly released to defaulters who had run up debts with other banks. Many such accounts turned NPAs. Also, one-time settlements were done with select defaulters, allegedly against huge kickbacks. Investigation sources claimed Rs 8 crore was spent under CSR on beautification of Royal Spring Golf Course, which is a rendezvous of the elite and has no utility for common people. There were purportedly huge variations in cost-income ratio as expenditure during Nengroo’s time spiralled. Paid advertisements
worth Rs 10-30 lakh were released to Kashmir Life to highlight the state budget, which officials now allege nobody saw. Sources said Nengroo’s rise was meteoric, from a chartered accountant to J&K Bank CMD in a span of 15 years. He got his nephew Muzaffar, considered his key pointman, posted in his office immediately after taking over as chairman. Nengroo’s daughter-in-law Shazia Ambreen was appointed as a probationary officer and is currently heading the Hazratbal branch. J&K Bank’s personnel manager Aslam Ganai, believed to be close to Nengroo, allegedly had a role in transfers within the bank and the decisions were not necessarily in keeping with the bank’s interests, a source said. Two of Nengroo’s relatives – Asif Beg and M Fahim – are overseeing HR and Board affairs, including credit proposals, while two other kin – Faheem Nengroo and Taseen Nengroo – are posted in the ex-chairman’s office.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/sacking-of-jk-bank-head-opens-up-a-can-of-worms/articleshow/69720590.cms

Dated: June 10, 2019

• **Smaller Banks Hit Most By RBI’s Revised Note On NPAs:**

The central bank’s revised circular on stressed assets promises to speed up resolutions of bad assets, but smaller banks in specific deals may now have to follow the larger lenders that have more at stake in a consortium of creditors. The rule that 75% of creditors’ vote is enough to pass a resolution plan and that dissenting lenders must sell at liquidation value would lower the bargaining power of smaller banks that have less exposure in specific deals. On the flipside, that would mean quicker resolutions as banks with less exposure can’t stall deals any longer. “Small lenders would always try to get the full value of the loan even if their exposure was just a few crores. This was not always possible and would delay the process,” said Prashant Kumar, CFO at State Bank of India (SBI), the country’s biggest lender. “Now, things will be easier: If 75% of lenders by value of the loans or 60% by number agree, the plan can be taken forward.” Mint Road framed a new set of rules on Friday for banks after its previous circular failed to pass legal scrutiny. Power sector companies had approached India’s highest court against the regulator’s 2018 order that had ordered banks to treat a single-day’s payment delay as default and required lenders to initiate insolvency proceedings. The new circular does not expect banks to start restructuring within one day of default but gives them a ‘review period’ of one month, replacing the earlier guideline that had said lenders ‘shall initiate steps to cure the default.’ However, after agreeing to a resolution plan, lenders have to sign a so-called inter creditor agreement (ICA) mandatorily, which could become a deterrent in the process. “The catch is that banks may not sign the ICA if not satisfied with the proposed resolution professional (RP) by the borrower, or can even arm-twist the borrowers. Small lenders may not sign the ICA and may lead to all lenders making additional provisioning,” said BoB Capital Markets in a note on Saturday. Some others believe that there is no clarity on the
Realisable, or liquidation, value of an asset, and lack of clarity on as fundamental a point as this will lead to delays. “If the liquidation value becomes negative, how much will the small lenders get? When can such an assessment be done is also a question,” said Harish Chander, an independent consultant. “Valuation of companies is no longer done on a desktop. It takes three to six months, which means there could be delays.” Unlike the previous circular that gave a blanket approval for the IBC process, this time the central bank has chosen to incentivise the insolvency mechanism instead, disfavouring customised restructuring plans. Banks have to make an additional 15% provision within one year of the commencement of the review process. This will be in addition to the 20% provision required at the end of the 180-day period, which means a 35% provision if a plan is not put in motion after a year. “More importantly, RBI has done away with the 50% provision required for IBC cases, which means banks need only a 15% provision if they want to directly take a case to IBC. Or banks risk a higher 35% provision if a plan is not agreed,” Kumar said. Lawyers say the removal of a stringent timeline is welcome. “The new circular is a relief for lenders who, under the earlier circular, were compelled to initiate the insolvency process within a stringent timeline even where they believed that resolution of a particular stressed asset was possible without approaching the NCLT,” said Ayush Agarwala, partner of law firm K Law.


Dated: June 10, 2019

- I-T Department Finds Evidence Of Loan Ever-Greening In J&K Bank:

The income tax department has stumbled upon evidence of loan ever-greening by the J & K Bank during a search operation on a Srinagar-based business group dealing in transportation, manufacturing of silk yarn, hospitality and retail trading of Kashmir Arts & Crafts. The department has also detected evidence of a on time settlement of the group’s loan being done through active connivance of a senior J & K Bank official, an official statement said late Tuesday. The group had got their loans worth Rs.170 crore restructured for an amount of Rs 77 crore out which payment of only Rs 50.34 crore has been made.


Dated: June 11, 2019

- HDFC Bank Launches Global Search For Shri Aditya Puri’s Successor:

India’s most valuable lender HDFC Bank will soon start a global search for a successor to Aditya Puri, the man who built the country’s best start-up since liberalization. The private lender’s board will constitute a committee to look for candidates from domestic and global markets, the bank said in its annual report. “The board will identify a successor and work to ensure that this is done in a manner that
will allow appropriate time for an effective transition of responsibilities,” it said. “The nomination & remuneration committee of the board will constitute a search committee to undertake a global search of both internal and external candidates.” The industry is keenly watching whether or not the Reserve Bank of India will extend the 70-year age limit for a private sector bank chief. The age limit was last raised in 2014. Puri, 69, is set to retire in October 2020. Speculation has been rife for many years on who would succeed Puri – the longest serving chief of an Indian bank – and it has only intensified after he underwent a cardiac surgery in February 2016. Puri, India’s highest paid bank chief, built HDFC Bank from scratch in his uninterrupted stint as MD since the bank’s inception in 1994. HDFC Bank’s steady growth and performance are widely attributed to Puri’s no-nonsense leadership. In May 2018, Puri said while speaking to analysts that the HDFC Bank board would soon start the process of identifying his successor and the depth of leadership within the bank would ensure a smooth transition. The plan was to start the process of identifying a successor 18-24 months ahead of Puri’s retirement, and the bank planned to have a 12-month overlap period when the successor would work with Puri. Only three months after that pronouncement, Puri’s most trusted lieutenant and the heir apparent, Paresh Sukthankar, announced his sudden departure from the bank, throwing open the succession race. The bank has till date not appointed a replacement for Sukthankar. Executive director Kaizad Bharucha and chief financial officer Sashidhar Jagdishan are among other key managerial personnel. In March 2017, Puri had told ET that the bank has substantial depth in leadership to take on the baton from him. “I have four more years to go. I will clear the road-map even further by then. We have depth inside, outside everywhere. One or two years before my retirement, of course, the successor will be named, but if I do it too early, I will lose my effectiveness also, don’t you agree?”

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/hdfc-bank-launches-global-search-for-aditya-puris-successor/articleshow/69745273.cms

Dated: June 12, 2019

- **RBI’s Norms To Give More Headroom To Lenders To Resolve Big Ticket NPAs:**

  Reserve Bank's new guidelines to deal with bad loans will provide lenders the headroom and flexibility for resolution of large ticket stressed asset cases under the Insolvency and Bankruptcy Code (IBC), according to a report. The RBI came out with a revised prudential framework for resolution of stressed assets after its February 2018 circular in this regard was struck down by the Supreme Court. The new prudential framework provides some leeway to lenders and encourages them to refer cases to IBC, said SBI in its research report ‘Ecowrap’. The report said under the current and revised dispensation, an additional provisioning of 20 per cent would have to be made in case resolution plan is not implemented within 180 days from the end of the review period, which is after 210 days of default. “A better time frame and transition offered in the revised framework on this would allow the lenders the headroom and flexibility for resolution in large ticket cases. “Also, noteworthy is the consensus among lenders in terms of value and also in terms of number,” the report said. Earlier, 100 per cent consensus was required there, but with new framework in place 75 per cent lenders by value and 60 per cent by numbers would be required for resolution. Further, lenders are to enter into inter-credit agreement. Measures in the revised framework are
likely to facilitate better realisation and write back of provisions, said the research report. “Overall we believe, various efforts made by RBI in strengthening its regulatory and supervisory framework and the resolution mechanism initiated through IBC are bearing fruit, as also can be seen from the Gross NPA trend since September 2018,” said Ecowrap.

The new directions issued by the RBI on June 7 retain the basic spirits of the February 12, 2018 circular as it mandates higher provisioning, bankruptcy options as well as do not allow any other resolution methods outside the new norms. The central bank said the new norms provide a framework for early recognition, reporting and time-bound resolution of stressed assets.


Dated: June 11, 2019

• RBI Constitutes Committee To Review ATM Pricing:
The Reserve Bank of India has set up a committee of experts to reduce prices for customers on ATM transactions, with a broader objective to improve rural penetration of teller machines. The six-member committee will be headed by Indian Banks’ Association chief executive V G Kannan with a specific mandate to review the existing interchange fee and pricing structures, RBI said in a statement on Tuesday. “…the Reserve Bank of India has constituted a Committee to examine the entire gamut of ATM charges and fees… The Committee may submit its report within two months from the date of its first meeting.” RBI said. NPCI chairman Dilip Asbe, SBI banker GK Nair, Director of confederation of ATM industry K Srinivas, HDFC banker S Sampath Kumar and Tata Communications and Payment Solutions CEO Sanjeev Patel are among other members in the panel.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/rbi-constitutes-committee-to-review-atm-pricing/articleshow/69744102.cms

Dated: June 11, 2019

• PNB Admits Staggering Loan Defaults Of Rs 25,000 Crore:
The beleaguered public sector Punjab National Bank (PNB) has admitted to 1,142 big and small defaulters all over India who have defaulted a stupendous Rs 25,090.3 crore. Of these 1,142, the PNB has so far initiated recovery proceedings by filing suits against 1,108 defaulters to recover Rs 23,879.8 crore. However, no suits have been filed against the remaining 34 defaulters who owe the bank Rs 1,210.5 crore. As is mandatory, the RBI has been informed of the status of all these messy accounts -- some of them several years old and recoveries still pending from them -- as on March 31, 2019. The veritable ‘hit-list’ preared by the country’s second largest PSB covers all defaulters owing PNB Rs 25 lakh and above, through all its branches in all states, with the highest numbers emerging from Maharashtra, Punjab, Delhi, Chandigarh, Gujarat, Uttar Pradesh and West Bengal. Mysteriously, some companies which availed of loans are shown as registered abroad, while others which are registered in India have taken loans from the PNB from its overseas branches. Interestingly, the list of debt-dodgers goes beyond the duo of absconding diamantaires Nirav D. Modi and Mehul C. Choksi - whose scams worth around Rs 14,000-crore first brought the PNB imbroglio into the limelight in early 2018. Also figuring in the list is another high-profile absconder, Vijay Mallya, who owes Rs 597.4 crore on the defunct
Kingfisher Airlines account. The other defaulters include Kudos Chemie Ltd., Chandigarh (Rs 1,301.8 crore), Winsome Diamonds & Jewellery Ltd. Surat (Rs 899.7 crore), Jas Infrastructure & Power Ltd., Kolkata (Rs 410.9 crore), Zoom Developers Pvt. Ltd. Mumbai/Indore (Rs 410.1 crore). A few defaulters like Kingfisher Airlines, Winsome Diamonds & Jewellery Ltd, Kudos Chemie Ltd. and Zoom Developers Pvt. Ltd. are currently being investigated by the Central Bureau of Investigation (CBI). When contacted by IANS, PNB officials declined to comment on the list of defaulters. Recently, the PNB has initiated proceedings to recover around USD 13 million from the Tarapur Textile Park Ltd., Palghar (Maharashtra), which availed the loans from PNB’s London branch. According to official sources, now the PNB is planning to hand over the case to both CBI and the Serious Frauds Investigation Office (SFIO) and invoke the guarantees provided by TTPL’s Chairman Arunkmar Muchhala, and the directors Ritika Muchhala and Trinkal Muchhala. With reference to this instance, the buzz in banking circles is - how companies registered in India availed massive loans from PNB’s foreign branches, and similarly, how companies registered on foreign shores were granted loans from the bank’s Indian branches, without the connivance of certain officials. The All India Bank Employees Association General Secretary C. H. Venkatachalam termed as “a very serious matter that one bank has such a massive number of defaulters of public money”. “Plus, it is not confined to one bank and all banks have such bad loan accounts. A bulk of defaulters are corporates or big companies and a forensic audit of all should be carried out. Why can’t the bank file criminal cases against the big-time willful defaulters instead of merely civil suits which can drag on for years,” Venkatachalam told IANS.

Dated: June 12, 2019

• Banks Asked To Issue KCC To Eligible Farmers Within 2 Weeks Of Submitting Application:

With many farmers still out of the ambit of institutional credit, the Centre Wednesday said it has directed concerned banks to issue Kisan Credit Card (KCC) to eligible ones within two weeks of the submission of completed application. Currently, there are 6.95 crore active KCCs, under which crops loans are given at a subsidised interest rate. The KCC has been extended to farmers involved in animal husbandry and fishery activities as well. Normally, farm loans attract an interest rate of 9 per cent. But the government is providing 2 per cent interest subsidy to ensure farmers get short-term farm loan of up to Rs 3 lakh at an effective rate of 7 per cent per annum. An additional incentive of 3 per cent is being given to farmers for prompt repayment of loans within due date, making the effective interest rate 4 per cent. “There are still a large number of farmers who do not have access to institutional credit either because they have not been issued a KCC or the KCC issued earlier were inactive due to various reasons other than default/non-performing assets. The government had therefore decided to launch a campaign to saturate farmers for financial inclusion under KCC,” Additional Secretary in the Agriculture Ministry, Dolly Chakrabarthy, said in a letter to banks. Under the campaign, eligible farmers will be issued KCCs by the concerned banks within two weeks of the submission of completed
application forms, she said. Farmers can avail the option of directly submitting the completed application form with necessary supporting documents to the bank branch for issue of KCC. Since the credit availed to KCC will be eligible for subsidised interest rates, the official said that the details of Aadhar card number of the applicants will also be captured. The official further said the camps for collection of applications can be organised bank-wise or village wise. The District Level Bankers Committee will decide the modalities of the camp and the date wise schedule. The focus will be on issuing KCC in a time-bound manner from the branch where the farmer is already having an account. In case, the eligible farmer is not having any bank account, the same will be immediately opened in any of the nearby branch of his/her choice within the block, the official added.

The campaign will be launched through financial institutions including commercial banks, cooperative banks and regional rural banks in collaboration with the state governments. The Indian Banks Association has directed all banks to waive processing and inspection fee to enable farmers avail the KCC facility without any additional financial burden. The official said that farmers already possessing a KCC but involved in activities related to animal husbandry and fisheries can avail an additional sub-limit within an overall crop loan limit of Rs 3 lakh. Farmers who are involved in activities related to animal husbandry and fisheries but not possessing any KCC will be eligible to get a fresh KCC with credit limit up to Rs 2 lakh at a subsidised rate.


**Dated:** June 12, 2019

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**Indian Bank To Focus On Increasing CASA, Curtailing Costs In FY19-20:**

Public sector Indian Bank would focus on increasing CASA, curtailing costs and containing level of non-performing assets, a top official has said. Indian Bank Managing Director and CEO, Padmaja Chunduru on the strategy for financial year 2019-20, said it would be on “concentrated growth with profitability”. “The prime focus would be on increasing CASA (current account-savings account), curtailing costs, increasing revenue, accelerating revenue in respect to impaired assets and containing level of NPA (non-performing assets)”, she said in the bank’s annual report. Chunduru said the bank raised capital of Rs 295.48 crore in May 2019 through “Employees Stock Purchase Scheme” and there were plans to tap the market at appropriate time during the current financial year to raise further capital. “The raising of capital would bring down the stake of government below 75 per cent as per regulatory guidelines,” she said. On the bank’s performance, she said in FY2018-19, the bank's business touched Rs 4.29 lakh crore, while deposits grew to Rs 2.42 lakh crore and advances to Rs 1.87 lakh crore. Gross NPA and Net NPAs reduced to 7.11 per cent and 3.75 per cent, respectively from 7.37 per cent and 3.81 per cent respectively, as on March 31, 2018. Chunduru said Indian Bank had international presence in Singapore and Sri Lanka (Colombo and Jaffna), adding these centres were profit-making and the bank has focused on further business improvement at them. On enhancing customer service, she said, the focus would be on offering efficient and excellent customer service with frequent employee customer connects and educating them on use of digital banking. With the BJP assuming office for second term at the Centre, Chunduru said, there is likely to be...
enough impetus for accelerating growth in FY2019-20 with the formation of a stable government at the centre, continuation of reforms, higher financial flows to the commercial sector. “The strong mandate for the current government for the second successive time would ensure a continuity in policy and reforms and pave the way for commencement of investment decisions and inflows,” she said.

Dated: June 13, 2019

• No Capital Need For SBI From Government:
State Bank of India Chairman Shri Rajnish Kumar on said the bank does not need any capital from the government. “SBI doesn’t need any capital from the government,” Kumar said after a meeting with the Finance Minister for pre-Budget consultations with bankers where capital infusion in PSU banks was discussed. In March this year, the SBI raised Rs 1,251 crore in bonds to boost its additional tier 1 capital ratio while its board has extended the deadline to raise Rs 20,000 crore till March next year. The additional CET1 requirement will be in addition to the capital conservation buffer. Tier 1 capital is calculated as Common Equity Tier 1 (CET1) capital plus Additional Tier 1 (AT1) capital. In 2018-19, the government had pumped in Rs 1.6 lakh crore, the highest ever, into public sector banks, helping five lenders come out of the PCA framework and to meet regulatory and growth capital. The interim budget presented in February did not provide any allocation for recapitalization. In February this year and in the last fiscal, the government approved and later infused Rs 48,239 crore recapitalisation plan for 12 public sector banks (PSBs), including the fraud-hit Punjab National Bank (PNB), to help them avoid and come out of the prompt corrective action (PCA) framework. State Bank of India’s balance sheet has been fully repaired in FY2019 even as it recorded a turnaround performance in the fourth quarter. In Q4, the country’s largest bank had reported a net profit of Rs 838 crore against a net loss of Rs 7,718 crore in the same period the previous year. It reported a substantial improvement in the asset quality, with lower fresh slippages and better recoveries. The profit in the reporting quarter came on the back of a 15 per cent year-on-year (Y-o-Y) increase in the net interest income (the difference between interest earned and interest expended) at Rs 22,954 crore and lower loan-loss provisions of Rs 17,336 crore (down 28 per cent Y-o-Y). For the full-year ended March, the bank reported a net profit of Rs 862 crore against a net loss of Rs 6,547 crore in FY18. Gross NPAs declined from 10.91 per cent of gross advances as at end-March 2018 to 7.53 per cent as at end-March 2019 and the net NPAs fell from 5.73 per cent of net advances to 3.01 per cent. The PCR improved from 66 per cent to 79 per cent. The bank said recovery in FY19 was at an all-time high of Rs 31,512 crore. Of this, Rs 13,836 crore came through the Insolvency and Bankruptcy Resolution process.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/no-capital-need-for-sbi-from-government-chairman/articleshow/69772741.cms
Dated: June 13, 2019

• Banks Seek Clarity On Inter-Creditor Agreement Rejig:
Banks are in a fix over the Reserve Bank of India’s (RBI) revised circular addressing resolution of stressed assets which insists
on an inter-creditor agreement (ICA) to start any process. While 37 banks have already signed an ICA last year when the government wanted a mechanism to resolve the power sector distress, the latest one has put a couple of new clauses which may have to be incorporated. Bankers aren’t clear whether the new clauses will mean that the whole ICA agreement, as it stands today, will need to be rewritten or the new clauses will have to be inserted and the agreement have to be newly signed. “ICA is now mandatory, that is clear. Logically it looks like they will have to modify the master ICA agreement. But we are still not clear. The Indian Banks' Association (IBA) will most probably seek a clarification on this and we will go by whatever they say,” said a senior executive with a public sector bank which is among the 37 banks which have signed the ICA already. A senior IBA official said that the industry group will approach the central bank to formulate what changes that need to be made. “One option for us it to have a master agreement like the one signed by 37 banks as of now and then let them work on resolutions on a case-by-case basis. The other way is to make banks sign a new 25-page document each time they start a resolution process. We are taking legal and regulatory opinion on whether this master circular will work or we need to modify it,” this IBA official said. Legal experts said the ICA in its current form will have to reworked, but they do not see the need for a brand new agreement. “The existing Sashakt ICA will have to incorporate two main changes from the new RBI circular which requires approval of 76% of lenders by value and 60% by number to take decisions. Earlier, the voting threshold was 66% by value (similar to IBC). The new circular also provides for protection for dissenting creditors by providing for liquidation value. All banks, term financial institutions, systemically important NBFCs, deposit-taking NBFCs and ARCs will have to sign the revised ICA,” said L Vishwanathan, partner, finance & projects practice at Cyril Amarchand Mangaldas.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/banks-seek-clarity-on-inter-creditor-agreement-rejig/articleshow/69781001.cms

Dated: June 14, 2019

• SBI Says It Continues To Lend To NBFCs:

Amid the growing fears of defaults by non-banking finance companies, the largest lender State Bank of India Friday said it will continue to funds to the sector as it feels the problems facing the industry are not very grave and system-wide. The bank does not consider the crisis plaguing the shadow banks are grave as only one or two of them are severely impacted, said a top bank official. “SBI is lending to NBFCs and we will continue to do so...Our decision is based on risk perception that we have on a particular entity. We have not stopped lending to NBFCs at all,” managing director Arijit Basu told reporters on the sidelines of a banking summit organised by industry lobby IMC. Last week, SBI had said it had been closely monitoring its exposures to NBFCs for the past many months and was taking appropriate measures to safeguard its interest. “The overall quality of the NBFC asset portfolio in our books continues to be good. We have already included the stressed NBFC accounts in our estimate for slippages and loan loss provisions for the current financial year,” SBI had said without quantifying it. As of March 2019, SBI had an exposure of Rs 1.87 lakh crore to the NBFC sector, which has been in trouble since IL&FS went belly up last September. He said both RBI and government have taken a few steps to address the issues and are contemplating more measures. It could be noted that
Dewan Housing Finance had defaulted on bond repayments on June 4, which led to the downgrade of its Rs 850-crore commercial papers to D from A4 by Icra and Crisil. On June 11, the mortgage lender, however, said it paid Rs 962 crore towards interest payment on debt instruments which fell due on June 4, and met the seven-day “cure period” to pay off its obligation. DHFL paid the interest towards a total of 12 NCDs amounting to Rs 961.95 crore which were due for payment on June 4.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/sbi-says-it-continues-to-lend-to-nbfcs/articleshow/69791754.cms
Dated: June 14, 2019

• RBI Asks Banks To Grout ATMs To Wall, Pillar Or Floor To Enhance Security:

The Reserve Bank on Friday asked banks to ensure their ATMs are grouted to a Wall, pillar, or floor by September-end, except those installed in high secured premises such as airports, to enhance security of the cash vending machines. In 2016, the RBI had set up a Committee on Currency Movement (CCM) to review the entire gamut of security of treasure in transit. Based on the recommendations of the panel, the central bank has now issued the instructions aimed at mitigating risks in ATM operations and enhancing security. As part of the security measures, all “ATMs shall be operated for cash replenishment only with digital One Time Combination (OTC) locks”. Also, “All ATMs shall be grouted to a structure (wall, pillar, floor, etc.) by September 30 2019, except for ATMs installed in highly secured premises such as airports, etc. which have adequate CCTV coverage and are guarded by state/central security personnel”. Further, banks may also consider rolling out a comprehensive e-surveillance mechanism at the ATMs to ensure timely alerts and quick response, it said. The new measures to be adopted by banks are in addition to the existing instructions, practices and guidance issued by the RBI and law enforcement agencies. The RBI also warned the banks that non-adherence of timelines or non-observance of the instructions would attract regulatory action including levy of penalty.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/rbi-asks-banks-to-grout-atms-to-wall-pill-or-floor-to-enhance-security/articleshow/69794131.cms
Dated: June 15, 2019

• PNB Puts On Block 6 NPAs With Outstanding Of Over Rs 1,000 Crore:

State-owned Punjab National Bank has put on sale six non-performing loans amounting to over Rs 1,000 crore, including two accounts of Vandana Vidyut and Visa Steel. Asset reconstruction companies (ARCs), non-banking financial companies (NBFCs), other banks and financial institutions can submit binding bids till June 26. The bids will be opened on the following day. “We intend to place the (six accounts) for sale to ARCs/NBFCs/Other Banks/FIs etc,” said a notice put up by PNB. The reserve price for the six non-performing assets (NPAs) has been fixed at Rs 342 crore. Bhopal-based Vandana Vidyut Steel owes Rs 454.02 crore, while Kolkata located Visa Steel has an outstanding balance of Rs 443.76 crore. The rest four NPAs - Temptation Foods, Helios Photovoltaic, Cabcom Cables, and Zoom Vallabh Steel - are Delhi based. The sale process is to be handled by the Stressed Assets Targeted Resolution Action (SASTRA) Division of the bank. The submission of financial bids will be only through e-auction method, which will take place on the portal of the bank, it said. Punjab National Bank (PNB), which
was hit by a massive Rs 14,000-crore scam allegedly perpetrated by jeweller duo Nirav Modi and Mehul Choksi, has enhanced its recovery mechanism by forming the Stressed Asset Management Vertical (SAMV) and SASTRA. It is also looking to raise Rs 10,000 crore in 2019-20 from sale of non-core assets, rights issue and expected write-backs from two large accounts undergoing insolvency proceedings. For the full fiscal 2018-19, the bank’s consolidated net loss was at Rs 9,570.11 crore, as against a loss of Rs 12,113.36 crore during 2017-18. Its income during the fiscal ended March 2019 rose to Rs 59,514.53 crore compared to Rs 57,608.19 crore in preceding year. Gross NPAs of the bank stood at Rs 78,472.70 crore at the end of the financial year 2018-19, lower than Rs 86,620.05 crore reported in 2017-18. Net NPAs were valued at Rs 30,037.66 crore as against Rs 48,684.29 crore. The Delhi-headquartered bank had recovered Rs 20,000 crore in 2018-19 as against Rs 9,666 crore in the previous fiscal.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/pnb-puts-on-block-6-npas-with-outstanding-of-over-rs-1000-crore/articleshow/69810995.cms

Dated: June 16, 2019

- **Ministry Of Corporate Affairs Looks To Freeze IL&FS Ex-Directors’ Properties:**

The Ministry of Corporate Affairs (MCA) is expected to move court for freezing the bank accounts and properties of some of the past directors of IL&FS group. The ministry would soon apply before the National Company Law Tribunal to widen the net in the IL&FS probe, said persons familiar with the matter. Till now, assets of executive directors of IL&FS group have been attached by the court. “Now, the MCA is likely to request the court to extend the earlier orders to cover past directors, probably including some of the non-executive board members... former auditors may also be included,” said a senior lawyer. The ministry had taken a similar action against directors of Gitanjali Group, which was charged with diverting funds from state-owned banks using unauthorised letters of undertaking or guarantees. The MCA had originally moved NCLT on October 1, 2018, seeking the replacement of IL&FS board of directors on the ground that a probe by the Registrar of Companies had prima facie concluded that mismanagement and compromise in corporate governance norms were perpetrated by indiscriminately raising short- and longterm borrowings. Once the court passes an interim order freezing the assets, limited withdrawal of funds is allowed for the sustenance of account holders. Meanwhile, it’s learnt that the income tax department had a meeting last week with its investigation division in weighing a possible probe into suspicions that the costs of multiple IL&FS infrastructure projects was inflated. The I-T department had probed IL&FS Rail, an arm of ITNL. A probe now would focus on allegations of shell companies floated to award contracts and divert fund for a commission of 0.5% of the amount routed. According to an ED complaint on IL&FS Rail, “… transaction made with private firms Silverpoint Infratech, Suryamukhi Projects, NKG Infrastructure, Ethical Constructions, Prathyusha Resources & Infrastructure were bogus…” “In case of Silverpoint that was probed by the income tax department, their managing director disclosed that they were involved in the business of providing accommodation entries to earn a commission of 0.5%,” added an agency official. In a related development, the bids for the domestic road vertical of IL&FS group (ITNL) have been delayed further. The
incumbent government-appointed board had set a deadline of May 15 for finalising bids from interested parties for its 22 projects from which the board expected divestment of Rs 26,000 crore. According to sources, the divestment has suffered on three counts: no representation and warranty extended by the board, the fair value of the projects were yet to be ascertained and the verification of the authenticity of the orders and applicable concessions relating to the projects. “This is also a matter of interest for both the I-T department and the Enforcement Directorate (ED),” added the official. When approached for a comment, IL&FS group’s chief communication officer Sharad Goel declined to comment. “This would require an enquiry into the affairs and books of ITNL (IL&FS Transportation Networks India Ltd) and various special purpose vehicles which were floated to construct infrastructure projects that could focus on whether there were fake invoices, role of auditors and nature of documentation etc,” said a source. ITNL is the largest arm of the IL&FS group. “The Serious Fraud Investigation Office (SFIO) chargesheet on IFIN, the NBFC, largely talks about evergreening of loans. But if irregularities are found in ITNL, it could take the investigation to another level. There would be questions, whether funds were diverted (with bogus bills), what was the amount, where did the money go, were politicians involved etc,” he said. SFIO is currently working on the chargesheet on ITNL. The IL&FS probe has turned the glare on large auditors who have been interrogated and named in the chargesheet. Questions that have cropped up are: Whether the auditors were working hand in glove with the IL&FS management? Did the auditors violate their code of ethics? Or, is the SFIO treading a gray area? To articulate their views and present them before the MCA, senior chartered accountants in Mumbai have formed a group, which includes a few partners of the Big 4 firms.

Dated: June 17, 2019

• Private Banks Beat State-Run Peers In Deposit Rate Race:

Private sector banks are offering higher rates on deposits compared with their public sector peers that traditionally have a higher share of domestic savings. The weighted average deposit rate for private lenders is 51 basis points higher than state owned lenders with the differential hitting a six-year high. This implies that the competition to garner deposits is likely to heat up further for state-run banks, which may be sluggish in passing on rate-cut benefits. On a system wide basis, the weighted average term deposit rates for private banks was 7.2% versus 6.72% for government owned banks as of April this year, data compiled by Motilal Oswal Securities showed. The spread or differential is at an all-time high since March 2013, according to data disclosed by the Reserve Bank of India. “Private banks are quick to tap credit demand while deposit growth remains modest, which is making it difficult for them to cut deposit rates,” said Nitin Aggarwal, banking analyst at Motilal Oswal Securities. “All banks are cautious to maintain their net interest margin as they now look for growth.
after battling bad loans for long.” “The inability to lower funding cost is making it difficult for lenders to reduce interest rates even as RBI has cut repo rate by 75 bps since December last year,” he said. In June, the gap widened between ICICI Bank, HDFC Bank and Axis Bank and the State Bank of India, the country’s largest lender. It expanded as much as 70 basis points for term deposit rates in the 15-36 month maturities. The likes of IndusInd Bank, Kotak Mahindra Bank and RBL Bank are offering 45-125 basis points higher rate than the banking behemoth in the same category of deposits. “If banks need money to lend, they can’t cut (deposit) rates amid liquidity constraints leading to growth in advances being higher than growth in deposits,” said Kamal Mahajan, head of treasury and global markets at Bank of Baroda. “While some state-owned banks are under Prompt Corrective Action (PCA) that limits business expansion, many are challenged with inadequate capacity to expand credit.” “There is as such no compulsion for these banks to dramatically retain the deposit rates elevated,” he said. PCA is a regulatory austerity measure aimed at improving financial health. Half-a-dozen banks are still under PCA. “Future bank deposit rate cuts will depend on market liquidity, in the absence of which, rate transmission would not happen,” he said. Cash available in the banking system or liquidity was tight for the past few months. It was an obstacle for lenders passing on RBI rate cut benefits. “Public sector banks are unlikely to cut deposit rates as the competition to have a larger share of savings is heating up with private banks offering higher rates,” said Suresh Ganapathy, head of financial research at Macquarie Capital Securities. “Banks are also competing with the government’s other small savings schemes amid prevalent liquidity tightness.”

“The differential between private and public sector bank deposit rates may widen as well, depending on liquidity and credit demand,” he said. “Reducing deposit rates is not going to be easy for banks now.” Since the past three RBI rate cuts, large banks have cut the MCLR (Marginal Cost of Funds based Lending Rates) in the range of 5-10 bps, according to Motilal Oswal.


Dated: June 17, 2019

- ICICI Bank Moves NCLAT To Seek Early Hearing On JAL Insolvency Plea:

Private sector lender ICICI Bank Monday approached the National Company Law Appellate Tribunal (NCLAT), seeking a direction to NCLT Allahabad to hear urgently its insolvency petition against Jaiprakash Associates Ltd (JAL) and pass the order without any further delay. In its plea before the appellate tribunal, ICICI Bank submitted that there has been no progress in its insolvency petition filed against JAL, which was filed in September last year. The bank alleged that Jaypee group’s flagship firm is delaying admission of the insolvency plea by approaching several judicial forums. ICICI Bank also said that hearing before the Allahabad bench of National Company Law Tribunal (NCLT) was adjourned almost 12 times from September 10, 2018, to May 27, 2019, and such adjournments were “unfairly delaying” the resolution process. Hearing the matter, a single-member NCLAT bench of Justice Bansi Lal Bhat directed to list ICICI Bank’s plea on July 1 for hearing. JAL owes around Rs 1,296 crore and the bank had approached NCLT to recover the dues by filing an insolvency plea against the company under section 7 of the Insolvency
& Bankruptcy Code (IBC). However, JAL challenged the ICICI Bank petition before the Allahabad High Court but the same was rejected. Later, JAL moved Supreme Court, which too refused to stay the application.

“However, despite this, there is no development in this matter,” said ICICI Bank counsel on Monday. “We want direction to NCLT to expedite the matter,” the counsel said, alleging that the proceedings before NCLT are being played into the hands of the JAL promoters. In its petition, ICICI Bank has requested the appellate tribunal to “direct NCLT, Allahabad Bench to hear the (matter) ... on an urgent and day-to-day basis and pass final order of disposal ... expeditiously and without any further delay.” ICICI Bank also alleged that JAL is delaying the insolvency resolution process by approaching several judicial forums “only to prolong and delay the admission of the Insolvency Application”.

“It is submitted that the Respondent (JAL) has been deliberately abusing insolvency resolution process by approaching different forums to stay or set aside the Insolvency Application,” it added. JAL was in the RBI’s second list of 26 defaulters, against which banking sector regulator had directed to initiate insolvency process.


Dated: June 17, 2019

• Government Begins Groundwork For Capital Infusion In Regional Rural Banks:

The NDA-2 government has set the ball rolling for providing capital support to regional rural banks, indicating its urgency to address the credit gaps at the grassroots. RRBs are facing fresh stress with additional liabilities because of the new pension scheme and higher gratuity, putting them into risk of eroding capital and ability to lend to the sector which needs attention the most amid farm distress. Two people familiar with the development told ET that these banks have been asked to make finalisation of their accounts a priority and complete statutory audit so that their capital requirement can be assessed soon. The Reserve Bank of India has also been approached for amortising their liabilities over a time period. The National Bank for Agriculture & Rural Development (Nabard), the nodal agency for RRBs, has sought details from these banks of their pension and gratuity liabilities to access the total capital requirement over the next five years with a target of keeping CRAR above 9%. “RRBs are requested to prepare and submit data, justifying the need for capital requirement based on actual and projected data,” Nabard said in a note to RRB chairpersons. Nabard directed these banks to furnish data for the first three years, i.e., up to 2019, on actual basis and for the subsequent four years on projected basis. The deadline for submission of details is June 20. “RRBs have also been told to make provision towards the additional liabilities. The government may inject a similar amount as capital support in these banks so that they remain healthy with minimum 9% CRAR,” a senior RRB official said. The government has approved a new pension scheme for RRBs following the Supreme Court’s order to pay higher pension and bring it at par with the pension scheme in nationalised banks. The new scheme also covers persons already drawing pension. Each of these banks has created a pension corpus by transferring fund from its profit and loss account. This, in turn, could put strain on the bank’s capital as it will not be able to plough back profit.

“The shortfall in their capital risk-adjusted ratio (CRAR) will be made good by the
government,” people involved in the process of finalising the pension scheme told ET. The government holds 50% share in RRBs while public sector banks hold 35% in each RRB, and the respective state governments hold the remaining 15%.


Dated: June 18, 2019

• Deloitte Global CEO Met Top Officials To Persuade Them Against The Possible Ban:

Deloitte global CEO Punit Renjenmet top Indian officials on Friday to persuade them against a possible ban over perceived omissions in the firm’s role as auditor of Infrastructure Leasing & Financial Services (IL&FS), said people with knowledge of the matter. Renjen, who had come to India from the US for personal reasons, visited New Delhi to meet the officials, they said. The government has asked the National Company Law Tribunal (NCLT) for a ban on Deloitte Haskins & Sells and BSR & Co, part of the KPMG network, for their alleged role in concealing bad loans at IL&FS, which unexpectedly defaulted on payments in September last year. That event triggered a liquidity crisis at nonbanking finance companies and threatened to undermine India’s financial markets. “Renjen visited officials in North Block and briefed them about the impact a probable ban on the audit practice can have on the India market,” said one of the persons. Another person said Renjen also spoke to some senior partners of the firm about how they were dealing with the crisis. ET reported on June 10 that the Indian audit industry faces an upheaval if the NCLT accedes to the government’s demand for a ban. This would take out two of the so-called Big Four and affect as many as 342 listed companies, said experts and executives. Renjen went to Singapore on Monday along with senior partners to attend Deloitte’s annual global meeting, said two of the persons cited above. The India matter will likely come up for discussion at this meeting, they said. The firm declined to comment. “Punit makes frequent personal trips to India; however, as a policy, we don’t comment on the specific travel plans of our executive leadership,” a Deloitte spokesperson said. Deloitte currently has about 55,000 employees in India with about a fifth dedicated to its India business. That includes audit, tax and consulting. It posted $45 billion in global revenue in the last financial year. While there are no official figures on India revenue, the Big Four-Deloitte, PwC, EY, KPMG are estimated to make a total of about Rs 15,000 crore annually in India. According to a person close to the development, Deloitte’s plans to hire around 40,000 professionals across verticals in India will be impacted if a ban was to be imposed. While Deloitte’s consulting backend business, which houses most of its India employees, will not be directly impacted, the firm’s ability to win contracts could be affected, said the people cited above. Deloitte and KPMG have a substantial presence in the India auditing space. KPMG network firms audit 175 listed companies while the count is 167 for the Deloitte network. These companies account for about 40% of the market capitalisation of listed companies, according to Prime Database. It’s still not clear whether a ban will affect their networks in total. Deloitte has seven network firms while KPMG has six in India. In PwC’s case, the Securities and Exchange Board of India (Sebi) banned the entire network in the Satyam Computer Services fraud case. In India, the Big Four firms operate through
separate local entities to abide by Institute of Chartered Accountants of India (ICAI) rules. After the Companies Act mandated rotation of auditors every five years to improve scrutiny in 2017, top Indian companies switched among the Big Four and there was a marked shift away from Indian firms to multinationals. KPMG won the most accounts among listed companies. Deloitte lost marquee clients but managed to replace most accounts. EY, KPMG and Deloitte accounted for about two thirds of NSE listed companies by market value in FY19. They audited about 300 companies in the BSE 500. Sebi had levied a two-year ban on PwC in 2018 that’s being contested in the Securities Appellate Tribunal (SAT).

Dated: June 18, 2019

**RBI Fines HDFC Bank Rs 1 Crore For Violation Of KYC Norms:**

Reserve Bank Tuesday fined country's largest private sector lender HDFC Bank Rs 1 crore for not reporting frauds and non-compliance with other directions. The fine pertains to submission of forged bill of entries (BoEs) by certain importers to HDFC Bank for remittance of foreign currency, the RBI said. “Examination in this regard revealed violations of RBI directions on ‘KYC/AML norms’ (know your customer/anti-money laundering)and on reporting of frauds,” RBI said on its website. A notice was issued to HDFC Bank on why monetary penalty should not be imposed for non-compliance with the directions, the apex bank said. The fine was imposed through an order last Thursday after considering HDFC Bank's reply, oral submissions made during the personal hearing and additional submission made, the apex bank said. The penalty has been imposed in exercise of powers vested in RBI under the provisions of Section 47A(1)(c) read with Section 46(4)(i) of the Banking Regulation Act, 1949, it said. “This action is based on deficiencies in regulatory compliance and is not intended to pronounce upon the validity of any transaction or agreement entered into by the bank with its customers,” the RBI clarified.

In a statement to exchanges, HDFC Bank said it has “taken necessary measures to strengthen its internal control mechanisms so as to ensure that such incidents do not recur”.


Dated: June 18, 2019
• **PNB’s Recovery Of Bad Loans Doubled To Rs 20,000 Cr In FY19:**

State-owned Punjab National Bank (PNB) recovered Rs 20,000 crore of bad loans during the financial year ended March 2019, almost double the recovery amount in the preceding year, its Chairman Sunil Mehta has said. The bank suffered losses allegedly after jewellers Nirav Modi, Mehul Choksi and some bank employees collided to defraud PNB of about Rs 1,000 crore. The scam was unearthed in February 2018. In the bank's annual report, Mehta said the financial year 2018-19 started off on a tepid note. “With the biggest financial incident in terms of severity and enormity, the bank had a huge task before it to overcome the crisis and turnaround,” he added. In spite of challenges, he said the bank was able to narrow its net loss to Rs 9,975 crore against the loss of Rs 12,283 crore during 2017-18, and high level of net non-performing assets (NPAs) saw a sequential reduction from quarter-to-quarter. The net NPA reduced from Rs 48,684 crore in March 2018 to Rs 30,038 crore. “The recovery momentum has continued with gross recovery of more than Rs 20,000 crore up to March 2019 as compared to recovery of Rs 9,666 crore during March 2018,” Mehta said. The annual report further said that despite the challenging circumstances, the bank has added over Rs 1 lakh crore to the domestic business to reach Rs 11.45 lakh crore as at March 2019 with year-on-year growth of 11.1 per cent, “reflecting the unstinted faith of our customers”. The bank’s gross domestic advances grew 14.1 per cent y-o-y to reach Rs 4.91 lakh crore. It also took initiative in identifying wilful defaulters and notices were issued to various borrowers who were found to have committed an act of wilful default. As a result, as on March 31, 2019, 1,142 borrowers were declared as wilful defaulters, according to the annual report.


*Dated: June 19, 2019*

• **RBI Slaps Rs 10 Lakh Fine On South Indian Bank:**

The RBI Wednesday said it has imposed a fine of Rs 10 lakh on South Indian Bank for violating norms regarding bank guarantees. The penalty follows references from a government department and a private party alleging non-payment of invoked bank guarantees by the lender, the Reserve Bank said in a statement. The penalty has been imposed through an order dated June 13. “Examination in this regard revealed violation of RBI directions on ‘Guarantees and Co-acceptances’ and a notice was issued to the bank advising it to show cause as to why penalty should not be imposed for non-compliance with the directions,” the RBI said. After considering the bank’s reply, oral submissions made during the personal hearing and additional submission, the RBI said it came to the conclusion that the charge of non-compliance with directions was substantiated and warranted imposition of monetary penalty. However, the RBI added the action is based on deficiencies in regulatory compliance and is not intended to pronounce upon the validity of any transaction or agreement entered into by the bank with its customers.


*Dated: June 19, 2019*
US Fed Holds Rates Steady, Signals Cuts Possible Later This Year:

The US Federal Reserve held interest rates steady on Wednesday but signaled possible rate cuts of as much as half a percentage point over the remainder of this year, as it responded to increased economic uncertainty and a drop in expected inflation. The US central bank said it “will act as appropriate to sustain” the economic expansion as it approaches the 10-year mark and dropped a promise to be “patient” in adjusting rates. Nearly half its policymakers now show a willingness to lower borrowing costs over the next six months. While new economic projections showed policymakers’ views of growth and unemployment largely unchanged, they saw headline inflation at just 1.5% for the year, down from the 1.8% projected in March. They also expect to miss their 2% inflation target next year as well. Seven of 17 policymakers said they expected it would be appropriate to cut rates by half of a percentage point by the end of 2019, and an eighth saw a rate cut of a quarter point as appropriate. That was not enough to change the median outlook for the Fed’s targeted overnight lending rate, which officials projected to remain in a range of between 2.25% and 2.50% for the rest of this year. But it still represented a significant shifting of views on the Fed. It appeared many, and perhaps most, policymakers trimmed a full half percentage point from their outlook for rates. Only one policymaker continues to see a rate hike as likely in 2019. The long-run federal funds rate, a barometer for the state of the economy over the long term, was cut to 2.50% from 2.80%. Along with the change in the policy statement, Wednesday’s projections open the door for the central bank to lower rates in short order if the economy weakens, or U.S. trade disputes with China and other nations escalate. The Fed continued to regard the labor market as “strong” and said “sustained expansion of economic activity” and eventually rising inflation were still “the most likely outcomes.” The drop in inflation, however, was a blow for a central bank hoping to reach its target sometime next year. Fed Chairman Jerome Powell will hold a press conference at 2:30 p.m. EDT (1830 GMT) to elaborate on the results of the policy meeting, which was the first since President Donald Trump raised tariffs on $200 billion of Chinese imports and threatened, though ultimately decided against, imposing new tariffs on Mexican goods. Those actions caused Fed officials to change their tone from largely dismissing the macroeconomic fallout of Trump’s trade policies to worrying that a new world order of persistent high tariffs and reordered global supply chains could be emerging. St. Louis Fed President James Bullard, who had argued that rates should be cut, dissented in Wednesday’s policy decision.


Dated: June 19, 2019

IndusInd Bank-Bharat Financial Merger To Be Effective From July 4:

Private sector lender IndusInd Bank and Bharat Financial Inclusion Ltd (BFIL) Wednesday said their merger will be effective from July 4. The National Company Law Tribunal on June 10, 2019 approved the Scheme of Arrangement among BFIL, IndusInd Bank and IndusInd Financial Inclusion and their respective shareholders and creditors. IndusInd Bank in October last year decided to acquire the country’s leading micro-finance player BFIL, which was previously known as SKS Microfinance.
The boards fixed Thursday, July 4, 2019 as the effective date of the scheme, when the NCLT order will be filed by the bank, BFIL and IFIL with the jurisdictional Registrar of Companies. Besides, the Boards Wednesday have decided to take on record and publish consolidated financial results for the quarter ending June 30, 2019, on July 12, 2019. “July 4, 2019 shall also be the Record Date, following the effectiveness of the scheme, for determining the shareholders of BFIL who shall be entitled to receive shares of the bank, as consideration pursuant to the Scheme,” both the companies said in regulatory filings. In accordance with the scheme, Bharat Financial shareholders will get 639 shares of the bank for every 1,000 held. The scheme also contemplates a preferential allotment of share warrants to the promoters of the bank in accordance with the scheme, it said. “Each share warrant, upon exercise, shall entitle the Promoters to one Equity share. The Share Warrants shall be issued to the Promoters of the Bank at Rs 1,709 per warrant, which has been determined in accordance with the applicable SEBI regulations, and is confirmed by the NCLT order,” it said. Pursuant to the scheme, the Promoters of the bank will pay an amount equivalent to 25 per cent of the aggregate consideration for the share warrants on the effective date. All the employees of BFIL will become part of IndusInd family and M R Rao, currently MD and CEO of BFIL, will become the MD & CEO of IFIL, it said.


Dated: June 19, 2019

**Indiabulls Housing Finance-Lakshmi Vilas Bank Merger Gets CCI Nod:**

Indiabulls Housing Finance on Friday said the Competition Commission of India (CCI) has approved the proposed merger of the company with Lakshmi Vilas Bank. In April this year, Lakshmi Vilas Bank had announced its merger with Indiabulls Housing Finance in a share-swap deal with an intent to create a combined entity with larger capital base and wider geographical reach. “The Competition Commission of India... at its meeting held on June 20, 2019, considered the proposed combination and approved the same,” Indiabulls Housing Finance said in a BSE filing. The board of Lakshmi Vilas Bank had approved the merger with Indiabulls Housing Finance in which shareholders of the bank will get 14 shares of Indiabulls Housing Finance for every 100 shares they hold. The combined entity, with employee strength of 14,302, will have a loan book size of Rs 1.23 lakh crore for the first nine-month period of 2018-19. After the proposed merger, Indiabulls Housing Finance will get access to low cost deposits, geographical diversification and expanded client-base and cross-selling opportunities.


Dated: June 21, 2019

- **RBI Launches CMS For Filing Online Complaints Against Banks, NBFCs:**

The Reserve Bank of India Monday launched an application on its website for lodging complaints against banks and NBFCs with a view to improve customer experience in timely redressal of grievances. The Complaint Management System (CMS) is a software application to facilitate RBI’s grievance redressal process. Customers can lodge complaints against any regulated entity with public interface such as
commercial banks, urban cooperative banks, Non-Banking Financial Companies (NBFCs). The complaint would be directed to the appropriate office of the Ombudsman/Regional Office of the RBI. The CMS will be accessible on desktop as well as on mobile devices. The RBI also plans to introduce a dedicated Interactive Voice Response (IVR) system for tracking the status of complaints. Keeping the convenience of customers in mind, the CMS has been designed to enable online filing of complaints. “The application also improves transparency by keeping the complainants informed through auto-generated acknowledgements and enabling them to track the status of their complaints and file appeals online against the decisions of the Ombudsmen, where applicable,” said RBI Governor Shaktikanta Das at the launch of CMS. Complainants can also voluntarily share feedback on their experience in obtaining redressal. He stressed that sustaining the confidence of consumers in banks and other financial service providers (FSPs) through prompt and effective grievance redressal, together with empowering customers through education is pivotal for maintaining trust in the banking system. Das further said an alert and aware customer can effectively guard against the risks of mis-selling, cheating, frauds and other such threats. “In our endeavour to spread awareness, we have placed on the CMS portal, videos with young role models, including sportspersons, on safe banking practices and other important customer-centric regulatory initiatives of RBI,” the Governor said. He also said banks/FSPs are expected to use the data on CMS for reducing their turn around time in resolution of complaints and strengthening their grievance redressal mechanism. The data should also be used for undertaking root cause analyses with an objective of understanding their customer pain areas, behaviour and expectations so as to improve their services for maintaining customer loyalty. Also, insights from the data available from CMS can be used by banks/FSPs for designing products which meet the expectations of their customers. “Obviously, those entities who perform better in analysing the data and using it for creating customer value would be able to benefit more and have a competitive advantage,” Das said. Data from CMS can be leveraged by the central bank for analytics which can be used for regulatory and supervisory interventions, if required. Various dashboards provided in the application will help RBI to effectively track the progress in redressal of complaints. With the launch of CMS, the processing of complaints received in the offices of Ombudsman and Consumer Education and Protection Cells of RBI has been digitalised, he said.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/rbi-launches-cms-for-filing-online-complaints-against-banks-nbfcas/articleshow/69931505.cms

Dated: June 24, 2019

• Debit Cards Show Up More At Retail Stores, Less At ATMs:

Bank customers are increasingly getting comfortable making payments through debit cards on swipe machines at kirana stores and local retail outlets. Latest data from the RBI show that over a third of all debit card transactions were made at point of sale (PoS) terminals in April this year for the first time since demonetisation. With about 80-crore withdrawals worth Rs 2.84 lakh crore in April, ATM transactions made for just over 66% of overall debit card transaction volume. PoS machines registered the rest 34% of the transaction volume in this period. The only other time the ATM
transaction share fell below the two-thirds mark was in December 2016 — a month after demonetisation — when it was at 60.3% and PoS transactions at 39.7%, owing to the lack of cash in the system. The transaction share was 68.6% to 31.4% for ATMs and PoS in March this year while in January, ATMs made up for over 70% of debit card transaction volume share, an analysis of RBI data showed. The Reserve Bank of India, in its payments vision document published in May 2019, has set an objective of achieving a PoS-based debit card transaction share of 44% by 2021 to push New Delhi's goal of a less-cash digital economy. With increasing number of banks, both public sector and private sector, aggressively deploying swipe machines across small stores in the country, bankers say that card-based digital transactions are only set to gain share from here on. “While absolute cash continues to dominate India’s payment landscape, an advancement in technology and better cost-benefit economics make deployment of POS devices a new business avenue for banks,” said Surinder Chawla, head retail liabilities and wealth management, RBL Bank. The private sector bank has been one of the leading acquirer banks in terms of PoS deployment with over 7 lakh functional terminals across the country. Currently, there are about 37.5 lakh active PoS terminals deployed by public, private and payment banks. “We see PoS deployment not as profit-making business model, but more as a tool to increase customer engagement on their primary accounts… Historically, these devices have found more traction in tier-1 urban centres but over the past four years, most volume has been coming from tier-2 and tier-3 cities and also from e-commerce sites,” Chawla said. Since 2016, PoS deployment has grown at an annual rate of almost 39% to 37.5 lakh terminals in April 2019. In this period, banks barely added 7000 ATMs to their fleet of 2 lakh such machines. The saturation in ATM growth has largely been due to the high cost of setting up and maintaining these machines, say experts. “We have seen ATM growth stalling over the past few years. However, they remain the key access infrastructure for most people's cash needs in this country... Low interchange fee, high maintenance costs and high security compliances have held banks back from deploying ATMs especially in rural India,” said Radha Rama Dorai, managing director ATM business, FIS and a member of India's ATM industry body CATMi. India's ATM penetration is amongst the worst for any major economy. While China, the US, Germany, Brazil and South Africa all had a per capita ATM deployment rate of under 2,000, India’s ATM deployment rate was at 5,919 in 2017, according to RBI’s Benchmarking Payments report.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/debit-cards-show-up-more-at-retail-stores-less-at-atms/articleshow/69936651.cms

Dated: June 25, 2019

- **Indian Overseas Bank To Focus On Robust Policy Framework:**

  Public sector Indian Overseas Bank would focus on maintaining a robust policy framework and establishing various business verticals to reduce non-performing assets, according to a top official of the bank. The city-headquartered bank would also look at conserving capital and reducing risk burden to protect interest income and meet the provision requirement, Indian Overseas Bank managing director and CEO R Subramaniakumar said in the annual report. On its plans going forward, he said the bank would look at building brand image and improve ‘brand IOB’ recall.
value with improved customer service and enhanced digital-based dispensation. The total business of the bank stood at Rs 3,74,530 crore as of March 2019 as against Rs 3,67,831 crore as of FY 2018. Deposits stood at Rs 2,22,534 crore as of March 2019 as against Rs 2,16,832 crore registered the previous year. Gross advances stood at Rs 1,51,996 crore as of March 2019 as against Rs 1,50,999 crore the same period last fiscal.

The bank has rebalanced its credit portfolio with retail, agriculture and micro, small and medium enterprises share of total domestic advances improving from 66.14 per cent as of March 2018 to 67.20 per cent March 2019. Net loss of the year ending March 31, 2019 decreased by 40.66 per cent to Rs 3,737.88 crore as against Rs 6,299.49 crore for year ending March 31, 2018 mainly due to provisions of Rs 8,772 crore made during the year. Gross NPA as on March 31, 2019 was at Rs 333,98 crore with ratio of 21.97 per cent as against Rs 38,180 crore with ratio of 25.28 per cent as on March 31, 2019. Gross NPA reduced by 331 basis points from 25.28 per cent as of March 2018 to 21.97 per cent as of March 2019. Net NPA of the bank as on March 31, 2019 was Rs 14,368 crore with ratio of 10.81 per cent while it was Rs 20,400 crore with ratio of 15.33 per cent as on March 31, 2018. Net NPA was reduced by 275 basis points from 13.56 per cent at March 2018 to 10.81 per cent as at March 31, 2019. Subramaniakumar who is set to retire this month said it is with a sense of accomplishment and pride that he looks back on tenure as MD&CEO of the bank as the time to hand over the baton draws near. “I take this opportunity to thank the members of the board who have generously given their time and expertise, and the government of India and Reserve Bank of India for their valuable support and guidance”, he said.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/indian-overseas-bank-to-focus-on-robust-policy-framework/articleshow/69946060.cms

Dated: June 25, 2019

- **Financial Frauds Drop 32% To Rs 6,735 Crore In FY19:**

Banks and select financial institutions reported fraud worth Rs 6,735 crore in the last fiscal, as compared with Rs 9,886 crore in the corresponding period in FY 2017-18. In reply to a question in Rajya Sabha, finance minister provided details of the amount involved in frauds of Rs 1 lakh and above. In 2016-17, due to Nirav Modi scam the fraud amount was at Rs 25,884 crore.

“Comprehensive measures have been taken to tighten fraud prevention systems and deter perpetration of frauds in banks,” the ministry noted in its statement adding that the government has already directed state run banks to examine all non-performing assets (NPAs) exceeding Rs 50 crore from the angle of possible fraud, and place a report before the bank's committee for review of NPAs on the findings of this investigation.

“Central Fraud Registry (CFR), based on Fraud Monitoring Returns filed by banks and select financial institutions, has been set up by RBI as a searchable online central database for use by banks. In order to bring transparency and accountability in the larger financial system, bank accounts of 3.38 lakh inoperative companies were frozen over the last two financial years,” it said. In a separate statement, the finance ministry said that asset quality has improved as reflected in 45% year-on-year reduction in slippage into NPAs in FY 2018-19, and 63% reduction in 31 to 90 days overdue corporate accounts by March 2019 from their peak in June 2017.

“With stress recognition largely completed, significant headway in recovery and
resolution under IBC, and reduced slippages as a result of improved underwriting and monitoring, gross NPAs of PSBs have started declining.” it said noting that bad loans have declined by Rs 89,189 crore from Rs 8.96 lakh crore in March 2018 to Rs 8.06 lakh crore in March 2019. The ministry further noted that with substantial cleaning up, accompanied by recapitalisation of banks, credit growth of PSBs has picked up substantially, from 0.78% year-on-year in FY 2016-17 to 7.51% in FY 2018-19.


dated: June 26, 2019

- UCO Bank Targets Rs 8,000 Crore Recovery In FY20:

UCO Bank, which is focusing on increasing retail, agriculture and Micro, Small and Medium Enterprises (MSME) business, is aiming at Rs 8,000 crore recovery from the non-performing asset (NPA) accounts during the current fiscal, an official said on Wednesday. “We set a target of at least Rs 2,000 crore of recovery per quarter and by this, we aim at recovering Rs 8,000 crore in the entire year,” the bank’s MD and CEO A.K. Goel said. The lender is expecting at least Rs 1,000 crore of recoveries by September this year from the resolution process under the Insolvency and Bankruptcy Code through the National Company Law Tribunal (NCLT), he said. “We have recovered Rs 1,163 crore from six accounts for which the NCLT resolution was done. For another seven accounts, we made a partial recovery of Rs 20 crore and about Rs 79 crore is yet to be received. “There are about 14 accounts for which CoC (Committee of Creditors) approved the resolution but the NCLT has not passed the order. We are going to recover around Rs 1,795 crore from these 14 accounts. Of this (amount), we are expecting to recover at least Rs 1,000 crore by the September quarter,” he told reporters after the bank’s 16th Annual General Meeting here. The Kolkata-headquartered lender referred 183 NPA accounts with a total exposure of Rs 25,096 crore to the NCLT. Of these, 109 accounts with aggregate exposure of Rs 15,865 crore were admitted in the tribunal while 72 accounts with a total exposure of Rs 8,226 crore were not and the remaining two accounts were sold. Goel said the bank is eyeing to lower its net NPA ratio to less than 6 per cent by end of the current fiscal. Gross NPA percentage increased marginally to 25 per cent in 2018-19 (FY19) from 24.64 per cent in 2017-18 (FY18) while its net NPA percentage decreased to 9.72 per cent in FY19 from 13.10 per cent in the previous year. Goel also said its top 100 accounts having a total exposure of about 70-80 per cent of the bank’s total NPA are being “monitored rigorously” by its top management. UCO Bank, which is under the prompt corrective action (PCA) framework of the Reserve Bank of India, is hopeful of making profits by end of the current fiscal. “By the end of this fiscal, we are hopeful to come out from the PCA and expecting to make profit,” he said, adding that they have set up the Sankalp-2020 mission to come out of the PCA through a multi-pronged strategy by boosting low-cost deposit base, increasing retail, agriculture and MSME business, strengthening of credit monitoring and recovering aggressively from NPA accounts. The lender reported an operating profit Rs 2,760 crore in FY19 as against Rs 1,334 crore in the previous year, reflecting a growth of 106.88 per cent. However, the net loss in FY19 stood at Rs 4,321 crore as compared to a loss of Rs 4,436 crore in FY18.
• **NHB Lowers Refinance Rates In Order To Transmit The Policy Rate Cuts:**

Housing finance sector regulator has said that in order to transmit the policy rate cuts announced on June 6, it has reduced its refinancing rates. Earlier this month the Reserve Bank of India (RBI) had announced a 25 basis points or 0.25% rate cut for a third time in a row. In a tweet, National Housing Bank said that consequent to the policy rate cut by RBI on June 6, NHB has passed on the reduction by way of lowering the refinance rates on disbursements made in the month of June 2019. “Refinance rates were also lower by about 20 bps in the second fortnight of June over the previous fortnight,” it noted. NHB offers refinance assistance to housing finance companies in respect of their loans given to individuals for housing. In 2018-19, it had increased the refinance limit to Rs 30,000 crore for housing finance companies in view of the liquidity position of the sector. As the regulator, NHB regularly monitors the liquidity position of housing finance companies. With 75 basis point reduction in this calendar year, repo rate now stands at 5.75% from 6%. RBI Governor Shaktikanta Das had said after the June 6 review that RBI’s expectation is that going forward there will be the higher and faster transmission of rate cuts. “It has been noticed in the past that it took four to six months for transmission. But this time, the transmission has been faster than that,” he had said noting that banks have already passed on 0.21% of the 0.50% in rate cut effected in the first two rate cuts in January and April 2019.

Dated: June 26, 2019

• **Government Not Keen To Provide Any Additional Capital To IDBI Bank:**

The government is not keen to provide any additional capital to IDBI Bank, which requires around Rs 7,000 crore to meet regulatory requirements and enhance its lending book. The bank has indicated that it will need this money in the current fiscal itself, according to two officials aware of the development. It had reported a loss of Rs 4,918 crore in the last quarter of FY19 and Rs 15,116 crore for the full year. “The bank is already monetising its non-core assets to raise capital. Any public offer will depend on how much active participation is there from the promoter and the second largest shareholder,” said one of the officials. Since the government is not keen to participate in a rights issue, that may not be a feasible option, he said. IDBI and LIC didn’t respond to queries. LIC and IDBI are discussing capital-raising plans with the government, the second official said. “There can be a qualified institutional placement (QIP) offering or the bank can raise money through a follow-on offer,” he said. There may be little interest from investors given current market conditions, a senior bank executive said.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/ government-not-keen-to-provide-any-additional-capital-to-idbi-bank/articleshow/69967212.cms
Dated: June 27, 2019

• **Govt Asks Banks To Appoint GM-Level Officer To Address MSME Sector Woes:**

In a bid to promote MSME sector, the government Thursday asked banks to appoint a general manager-level official to...
resolve the problems being faced by micro and medium enterprises which contribute significantly towards employment generation and exports. The MSME sector has been a focus of the Narendra Modi government as it plays a critical role in promoting economic growth. Taking forward the agenda of the Modi 2.0 government, Finance Minister Nirmala Sitharaman has asked officials to focus on inclusive growth with an objective of achieving the target of $5 trillion economy by 2024. The Department of Financial Services, under the Ministry of Finance, in a circular issued to heads of all public sector banks directed that a chief general manager/general manager level officer be specifically designated for in-depth analysis of the progress made and address issues with regard to availability of credit, being faced by MSMEs. The prime minister last year announced a slew of measures, including sanction of loans of up to Rs 1 crore to MSMEs in 59 minutes through a special portal to give a boost to the nation's second biggest employing sector. Modi had unveiled 12 measures with a view to provide access to market, technology upgradation, ease of doing business and provision of social security for employees of MSMEs. These steps are aimed at addressing the constraints faced by the sector on several fronts for the past few years. The circular further said that while doing the analysis and corrective action, the nodal GM may collect stepwise information with regard to details of MSMEs that have taken loans from the bank, NPAs and restructuring/resolution done as per RBI circular dated January 1, 2019. Besides, the banks have been asked to submit details of new MSMEs covered during the campaign and those still not covered by banks. “A pro-forma for submitting weekly reports to Department of Financial Services is being sent separately. The campaign will be supervised by ED in charge of MSME financing,” it said. Needless to add that all sincere effort should be made so that during the process of formalization, MSMEs may not suffer in want of credit which should be available to them as per the extant guidelines, it added. There are 6.5 crore MSME units which provide employment to about 12 crore people. MSMEs contribute around 45 per cent in India’s exports, about 25 per cent to the GDP from service activities and over 33 per cent to the manufacturing output of India.


Dated: June 27, 2019

• **Micro ATMs A Big Hit In Rural India, Transactions In May Touch 33.5 Million:**

More than a million Indians are scanning their fingerprints and withdrawing cash at local kirana stores every day through biometric-abled payment channel from their bank accounts linked with Aadhar to fulfil their cash needs. With an annual growth rate of 150% since 2016, the Aadhar-Enabled Payments Channel (AEPS), which falls under the broader category of micro-ATMs, has emerged as one of the fastest growing payments systems in the country, second only to the Unified Payment Interface (UPI) system in terms of annual volume growth. As per latest National Payments Corporation of India (NPCI) data, 33.5 million transactions worth Rs 9,000 crore happened over micro ATMs in May. In the first five months of the calendar, nearly 145 million transactions have taken place through this channel as against an overall transaction volume of 200 million in the entire 2018. “While UPI addresses just top 80 million customers, AEPS caters to 800 million
customers who are neglected by banks,” a senior private sector banker said. “With increased imetus by government on Direct Benefit Transfers (DBT) for transferring the government schemes to the citizens, such access infrastructure can go a long way in fulfilling financial inclusion mandate of the government,” the person said, requesting anonymity. The payment channel developed by NPCI in 2015 works as cash points for rural bank customers where they can withdraw cash from their Aadhar linked bank accounts simply by scanning their fingerprints at biometric compatible point of sale (POS) devices. Additionally, these points can also function as ‘cash in, cash out’ (CICO) centres where customers can withdraw up to Rs 10,000 using their debit cards and make deposits. There are only about 220,000 ATMs across more than 720 districts in the country, and out of these only 40,000 odd ATMs are in rural areas where 62% of the Indian population resides, said the person cited earlier. “That is why there is a need for micro-ATM penetration in all villages in the country as most of these areas are high-cash economy.” An analysis of Reserve Bank of India’s data on ATM deployment by banks shows that only 19% ATMs were deployed in rural geographies. While public sector banks are deploying one out of every five ATMs in these geographies, for private sector banks the deployment rate is less that one for every 10 ATMs. Major private sector banks with sizeable ATM fleets and rural customers such as ICICI Bank, HDFC Bank, IndusInd Bank and Axis Bank have dismal rural deployment ratios at 5%, 7%, 3% and 12%, respectively. The largest public-sector bank, State Bank of India has about 18% of its total 58,000 ATMs in rural areas. In this context, bankers say that micro-ATMs, which are cheap to set up and operate, may go a long way in improving banking access for the underbanked. “Another big advantage is that this model provides additional income for merchants,” said Ashish Ahuja, chief business officer at Fino Payments Bank. “Almost 70% to 80% of all merchants that we have on boarded have a primary revenue streams such as local grocery stores, chemists, mobile stores and even petrol pumps.” Fino Payments Bank, which started in 2017, has nearly 60,000 micro-ATMs setup across the country. Among banks setting up micro-ATM points are private sector lenders such as IDFC Bank, Yes Bank, RBL Bank and Andhra Bank. Experts have pegged the number of these ATMs at between 200,000 and 250,000 across the country with heavy concentration in Madhya Pradesh, Uttar Pradesh, Rajasthan, Bihar, West Bengal and Odisha.


Dated: June 28, 2019

- **RBI Sets Average Base Rate Of 9.18% For NBFC-MFI Borrowers For July Quarter:**

The Reserve Bank Friday set an average base rate of 9.18 per cent for non-banking financial companies and micro finance institutions to be charged from their customers for the quarter beginning July 1. “The applicable average base rate to be charged by non-banking financial companies and micro finance institutions (NBFC-MFIs) to their borrowers for the quarter beginning July 1, 2019 will be 9.18 per cent,” RBI said in a release. The central bank in a circular in 2014 had communicated to NBFCs and MFIs regarding pricing of credit on the last working day of every quarter. RBI sets the average base rate for NBFC-MFIs on the basis of average of base rate of the five largest commercial banks.
• **Fund Transfer Via RTGS, NEFT Set To Get Cheaper From Monday:**

Fund transfer through RTGS and NEFT systems is set to become cheaper from Monday after the Reserve Bank of India decided it will not impose any charges on such transactions. After announcing its decision to waive all charges on fund transfer through RTGS and NEFT systems from July 1, the Reserve Bank of India (RBI) had also asked banks to pass on the benefits to customers from the same day. The real-time gross settlement (RTGS) system is meant for large-value instantaneous fund transfers, while the national electronic funds transfer (NEFT) system is used for fund transfers of up to Rs 2 lakh. “With a view to push the digital transaction, the RBI has decided not to charge the RTGS and NEFT transactions. This would help banks reduce the fees from customers for these transactions,” Indian Banks’ Association Chairman Sunil Mehta said in IBA’s newsletter. The country’s largest bank SBI charges between Re 1 and Rs 5 for transactions through NEFT and between Rs 5 and Rs 50 for RTGS route. To provide an impetus to digital funds movement, the central bank had decided to do away with the processing charges and time-varying charges levied on banks by the RBI for outward transactions through the RTGS, as also the processing charges for transactions processed in NEFT will be waived by the Reserve Bank of India. Currently, the RBI “levies minimum charges” on banks for transactions routed through its RTGS and NEFT system. Banks, in turn, levy charges on their customers. The RBI has also constituted a high-level committee under IBA Chief Executive V G Kannan to examine ATM charges and fees by banks amid demands for reviewing the levies. The use of automated teller machines (ATMs) has been growing significantly and there have been persistent demands to change ATM charges and fees.


Dated: June 30, 2019
India’s overall exports (Merchandise and Services combined) in April-May 2019-20* are estimated to be USD 92.33billion, exhibiting a positive growth of 4.32per cent over the same period last year. Overall imports in April-May 2019-20* are estimated to be USD 109.75billion, exhibiting a positive growth of 5.30per cent over the same period last year.

- **Merchandise Trade:**
  - **Exports (Including Re-Exports):** Exports in May 2019 were USD29.99billion, as compared to USD28.86billion in May 2018, exhibiting a positive growth of 3.93per cent. In Rupee terms, exports were Rs. 2,09,280.62 crore in May 2019, as compared to Rs. 1,94,928.45 crore in May 2018, registering a positive growth of 7.36 per cent. In May 2019, major commodity groups of export showing positive growth over the corresponding month of last year are Cumulative value of exports for the period April-May 2019-20 was USD56.07billion (Rs.3,90,301.96 crore) as against USD54.77 billion (Rs.3,64,981.41 crore) during the period April-May 2018-19, registering a positive growth of 2.37per cent in Dollar terms (6.94per cent in Rupee terms). Non-petroleum and Non Gems and Jewellery exports in May 2019 were USD21.42billion, as compared to USD19.94billion in May 2018, exhibiting a positive growth of 7.42per cent. Non-petroleum and Non Gems and Jewellery exports in April-May 2019-20 were USD40.96billion, as compared to USD39.74billion for the corresponding period in 2018-19, an increase of 3.07per cent.
  - **Imports:** Imports in May 2019 were USD45.35billion (Rs. 3,16,448.93 crore), which was 4.31per cent higher in Dollar terms and 7.76per cent higher in Rupee terms over imports of USD43.48billion (Rs.2,93,660.48 crore) in May 2018. Cumulative value of imports for the period April-May 2019-20 was USD86.75billion (Rs.6,03,881.86 crore), as against USD83.11billion (Rs.5,53,745.15 crore) during the period April-May 2018-19, registering a positive growth of 4.39per cent in Dollar terms (9.05per cent in Rupee terms). Major commodity groups
of import showing negative growth in May 2019 over the corresponding month of last year are:

- **Crude Oil And Non-Oil Imports**: Oil imports in May 2019 were USD12.44 billion (Rs. 86,822.36 crore), which was 8.23 percent higher in Dollar terms (11.81 percent higher in Rupee terms), compared to USD11.50 billion (Rs. 77,654.11 crore) in May 2018. Oil imports in April-May 2019-20 were USD23.82 billion (Rs. 1,65,811.82 crore) which was 8.72 percent higher in Dollar terms (13.57 percent higher in Rupee terms) compared to USD21.91 billion (Rs. 1,45,998.35 crore), over the same period last year. In this connection it is mentioned that the global Brent price ($/bbl) has decreased by 7.98 percent in May 2019 vis-à-vis May 2018 as per data available from World Bank (Pink Sheet). Non-oil imports in May 2019 were estimated at USD32.91 billion (Rs. 2,29,626.57 crore) which was 2.90 percent higher in Dollar terms (6.31 percent higher in Rupee terms), compared to USD31.98 billion (Rs. 2,16,006.37 crore) in May 2018. Non-oil imports in April-May 2019-20 were USD62.93 billion (Rs. 4,38,070.04 crore) which was 2.84 percent higher in Dollar terms (7.44 percent higher in Rupee terms), compared to USD61.19 billion (Rs. 4,07,746.80 crore) in April-May 2018-19. Non-Oil and Non-Gold imports were USD28.13 billion in May 2019, recording a negative growth of 1.31 percent, as compared to Non-Oil and Non-Gold imports of USD 28.50 billion in May 2018. Non-Oil and Non-Gold imports were USD 54.18 billion in April-May 2019-20, recording a negative growth of 1.73 percent, as compared to Non-Oil and Non-Gold imports USD 55.14 billion in April-May 2018-19.

- **Trade In Services**:
  - **Exports (Receipts)**: As per the latest press release by RBI dated 14th June 2019, exports in April 2019 were USD 18.06 billion (Rs. 125,399.77 crore) registering a positive growth of 2.84 percent in Dollar terms, vis-à-vis April 2018. The estimated value of services export for May 2019 is USD 18.20 billion.
  - **Imports (Payments)**: As per the latest press release by RBI dated 14th June 2019, imports in April 2019 were USD 11.40 billion (Rs. 79,161.12 crore) registering a positive growth of 4.46 percent in Dollar terms, vis-à-vis April 2018. The estimated value of service Import for May 2019 is USD 11.60 billion.

- **Trade Balance**:
  - **Merchandise**: The trade deficit for May 2019 was estimated at USD 15.36 billion as against the deficit of USD 14.62 billion in May 2018.
  - **Services**: As per RBI’s Press Release dated 14th June 2019, the trade balance in Services (i.e. Net Services export) for April, 2019 is estimated at USD 6.66 billion.
  - **Overall Trade Balance**: Taking merchandise and services together, overall trade deficit for April-May 2019-20 is estimated at USD 17.42 billion as compared to USD 15.72 billion in April-May 2018-19.
## MERCHANDISE TRADE

### Exports & Imports (US $ Billion)

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<tr>
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<th>May</th>
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<td>2018-19</td>
<td>28.86</td>
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<td>2019-20</td>
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<td>%Growth 2019-20/2018-19</td>
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<td><strong>Imports</strong></td>
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<td>2018-19</td>
<td>43.48</td>
<td>83.11</td>
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<td>2019-20</td>
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### Exports & Imports (Rs. Crore)

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<th>April-May</th>
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<tr>
<td><strong>Exports (Including Re-Exports)</strong></td>
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<tr>
<td>2018-19</td>
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<td>2019-20</td>
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<td>2018-19</td>
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<td>2019-20</td>
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<td>2019-20</td>
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<td>-213,579.90</td>
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# Services Trade

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<td>Imports (Payments)</td>
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<th>Exports &amp; Imports (Services) (Rs. Crore)</th>
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<td>Imports (Payments)</td>
<td>79,161.12</td>
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<td>Trade Balance</td>
<td>46,238.65</td>
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**TOP BANKING APPOINTMENTS**

- **RBI Approves Appointment Of Rakesh Makhija As Chairman Of Axis Bank:**

  Axis Bank said the Reserve Bank of India (RBI) has approved appointment of Rakesh Makhija as chairman of the bank. The board of the bank in March had approved the appointment of Makhija as chairman subject to RBI clearance. “We would like to inform you that RBI vide its letter dated 31 May 2019 has approved the appointment of Rakesh Makhija (DIN: 00117692), independent director as the non-executive (part-time) chairman of the bank, for a period of 3 years, with effect from July 18, 2019, up to July 17, 2022 (both days inclusive),” Axis Bank said in a regulatory filing. Makhija has been an active participant and contributor to the industrial and technology sectors, both internationally and in India during his career spanning over four decades. He has held a number of top management positions within the SKF Group. Prior to joining SKF, he was the chief executive officer and managing director of Tata Honeywell Ltd.


  Dated: June 03, 2019

- **DBS Appoints Alex Woo CEO Of Technology Development Centre In India:**

  DBS Group Holdings Limited, Asia’s foremost financial services group, recently announced the appointment of Alex Woo as CEO of DBS of Asia Hub 2 (DAH2). DAH2 was established in Hyderabad in 2016 as the second technology hub of DBS Group Holdings Limited. Woo reports to David Gledhill, group chief information officer and head of group technology & operations at DBS. He brings with him about two decades of experience in driving technology operations for DBS in the Asian market. He was most recently head of technology & operations in DBS Indonesia where he spent five years managing several key projects. His role at DAH2 includes supporting DBS in building its digital capabilities to suit ever-changing customer and technological demands by developing innovative and relevant digital solutions. “We believe that with his vast experience and deep understanding of DBS’ technology ethos, he will be able to strengthen DAH2’s capabilities in developing the next generation of cutting-edge solutions,” said Gledhill in a statement.

  Home to a workforce of 1,300 employees including software engineers, data scientists and business analysts, DAH2 is the bank’s first technology development centre outside Singapore.


  Dated: June 12, 2019

- **J&K Bank Says In Safe Hands Under New Boss RK Chhibber:**

  After the state government effected changes in the top leadership over the past weekend, J&K Bank Wednesday said the lender is in “safe hands” and affirmed commitment to serve the people under a new chairman. RK Chhibber, a bank veteran, has taken over as the chairman and managing director of the Srinagar-headquartered bank, replacing Pervez Ahmad, who was removed by the state on corruption charges. “We shall not
only weather the challenges at hand but also put the bank on a different pedestal with the committed support of all the stakeholders who includes our dedicated workforce,” Chhibber was quoted as saying in a statement. He said the bank is in the “safe hands” of the 14,000 employees and the board, and also enjoys “full support” of the state government. “We will take this bank to newer heights,” he said. Chhibber, an executive director earlier, said he has been associated with the bank for over three decades and reposed faith in the employees. Ahmad was replaced over the weekend by the state and is under a graft probe now. The J&K Bank scrip has taken a beating since his sacking and plunged another 10 percent to Rs 43.65 on the BSE Wednesday as against a 0.50 percent fall in the benchmark.

Dated: June 12, 2019

• RBI Gets A New Executive Director:

Dr. Rabi N. Mishra has been elevated as executive director in the Reserve Bank of India. Earlier, he was the principal chief general manager. There are a dozen of executive directors at the central bank looking after different divisions. Mishra’s portfolio now includes non-banking and Co-op bank supervision as well as the College of Supervisors. Mishra has been serving RBI for about 30 years now. He has been associated with many research papers. He has also authored a book on banking, which is likely to be launched soon.

Dated: June 15, 2019

• Canara Bank GM Sarada Kumar Hota Appointed As National Housing Bank MD:

Canara Bank General Manager Sarada Kumar Hota has been appointed as the managing director of the National Housing Bank (NHB), the finance ministry said. The appointment comes nine months after Sriram Kalyanaraman's forced resignation amid allegations of irregularities and misconduct against him. In absence of a regular managing director, Dakshita Das, additional secretary in the finance ministry, was holding additional charge of NHB. The Appointments Committee of the Cabinet (ACC) has approved the appointment of Hota as the managing director (MD) of the housing finance regulator for a period of three years, the finance ministry said in a notification. Prior to this, he served as the managing director of Can Fin Homes, a subsidiary of Canara Bank. The appointment of Hota comes at a time when the housing finance sector is going through a turbulent phase due to liquidity crunch sparked off by a series of defaults by IL&FS group companies.

Dated: June 27, 2019

Top Expert Reports

• India Has 597 ATMs Less In 2019 Than 2017 (RBI Report):

The number of ATMs in India dropped to 2,21,703 as on March 31, 2019 from 2,22,300 at the end of 2017, recording a decrease of 597 ATMs during the period, according to a report released by the Reserve Bank of India. India also has one of the lowest ratios of ATM cash withdrawal relative to cash in circulation, revealed the report titled “Benchmarking India’s Payment Systems”.

Dated: June 15, 2019
“It is also an indicator of low efficiency in recycling cash, i.e., the cycle of withdrawing cash, making payments with it and in turn making deposits through the banking system,” said the report. However, in terms of the number of ATMs deployed, India is next only to China, recording a strong compound annual growth rate of 14 per cent in the period between 2012 and 2017. The analysis, however, revealed that although India has made progress with reference to the absolute number of ATMs deployed, the rate of deployment is still relatively low when the size of the population is taken into consideration. “All countries in the benchmarked group have a better deployment rate. The silver lining, however, is that the availability has doubled over the six-year period between 2012 and 2017 with dependency reducing from 10,832 persons per ATM in 2012 to 5,919 persons per ATM in 2017,” the study revealed. The report provides a comparative position of the payment system ecosystem in India relative to comparable payment systems and usage trends in other major countries.


Dated: June 08, 2019

• Rate Cuts Unlikely To Push Credit Demand As NBFC Crisis Deepens (Fitch):

Credit growth is unlikely to pick up despite the three successive rate cuts by the central bank due to the capital constraints at banks and the deepening crisis in the non-banking lenders sector, warns a report. The Reserve Bank had cut its key policy rate Thursday by 25 bps, its third such move in successive policy reviews in 2019, to a nine-year low to help spur sagging growth. “We expect credit growth to remain slow, despite the latest interest rate cut, as most banks are capital-constrained and non-banking financial institutions are facing tighter funding conditions,” global rating agency Fitch said Friday in a note. It said NBFCs currently account for a fifth of the overall credit as against 15 percent five years ago. Meanwhile, on the troubled Dewan Housing Finance, the report termed the recent events as a “demise”, highlighting the funding risks for the broader NBFC sector. Issues with NBFCs were already known to the market but Dewan became a focus point after the failure of IL&FS last September contributed to a sector-wide liquidity squeeze as investors turned risk averse, it noted. “Liquidity of NBFCs is sensitive to market sentiment as their business models rely on short-term wholesale funding, which can dry up fast if market sentiment turns negative,” the report said and explained that because of these pressures, top NBFCs have begun to explore other sources of funding and are working onto start tapping the overseas bond markets. Accordingly, the agency expects NBFCs to become more regular issuers in the offshore bond markets, which can be “credit positive” if managed prudently. The funding squeeze has led to increased cost for the shadow banking sector and a slowdown in loan growth therein, the report said, noting that these players are an important channel for extending credit to the wider economy with wide distribution networks. Non-performing assets-related issues at banks only led to NBFCs’ importance growing much higher, it said, adding NBFCs’ fast loan growth in an environment of relatively benign interest rates was increasingly funded by short-term funding, in particular, commercial papers issued to mutual funds. It can be noted that in the past as well, analysts have pointed out to asset liability mismatches as the real problem that led to the problems
for the NBFCs since the latter half of 2018. Traditionally, the banking system has been an important source of funding for NBFCs due to a push to “priority lending”, while the mutual funds segment has also deployed investments. “Both of these funding sources for NBFCs have become more risk-averse, which means that the sector is likely to face higher funding costs and a period of deleveraging, although the better-positioned NBFCs should still be able to achieve loan growth,” the agency said.

Dated: June 07, 2019

• Use Of RBI's Excess Reserves Not To Hurt India's Rating (BofA-ML):

The Jalan panel was constituted last December, after a protracted debate on the issue. Drawing excess capital funds from Reserve Bank of India (RBI) will not impact India's ratings, which depend on the depth of foreign exchange reserves rather than the central bank's internal reserves, said BofA Merrill Lynch. The excess capital at RBI that can be transferred to the government is estimated at Rs 1-3 lakh crore, or 0.5-1.5% of India's gross domestic product, a research report prepared by the firm said. The Bimal Jalan committee has reviewed RBI's economic capital framework and RBI is expected to make the recommendations public this month. There has been engaging debate over the issue of RBI's excess capital and some believed that transferring the excess capital to the government would hamper India's sovereign ratings. “We actually welcome the use of excess RBI capital to recapitalise public sector banks to support recovery,” the BofA Merrill Lynch report said. BofA Merrill Lynch said that the RBI Act permits transfer of past excess reserves. “There is no bar as long as the RBI maintains Rs 5 crore of reserve fund under Section 46. While Sec 47 enjoins the RBI to credit its annual surplus to the government, after provisions, it does not place any restriction on further transfers,” said Indranil Sen Gupta, senior economist at the firm. He said that RBI can transfer excess reserves to the ministry of finance without selling government securities or foreign exchanges. “It can monetize net worth as the creator of money. Monies will be transferred to the government's balances with the RBI. They will then convert to currency on public spend,” Sen Gupta said. Bank recapitalization using RBI's excess capital will be liquidity-neutral and the central bank will not have to use its g-sec portfolio to sterilize liquidity from the system.

Dated: June 11, 2019

• Indian Banks Have Been Under-Reporting Frauds (Reserve Bank of India):

Bank frauds numbers may not be startling, but the way they are reported is. In a staggering revelation indicating that Indian banks have been under-reporting frauds, the Reserve Bank of India has revealed that 90.6 percent of the frauds reported by banks in 2018-19 occurred between 2000 to 2018. Data released by the banking regulator in its latest edition of the Financial Stability Report, suggests that nearly 40 percent of the under-reported frauds actually took place in three years between 2013 to 2016. “The time-lag between the date of occurrence of a fraud and the date of its detection is significant,” the RBI said. “It was observed that in many
cases frauds being reported now were perpetrated during earlier years.” As a fallout of this, the RBI is now reviewing its master direction on frauds and considering additional measures for timely recognition of frauds and enforcement action against violations, it added. With regard to frauds reported, the relative share of state-run banks in the overall fraud amount reported in 2018-19 was in excess of their relative share in the credit. At the end of March 2019, share of PSU banks in overall fraud amounts reported was a whopping 96 percent against a banking industry average of 60.9 percent. RBI also said that as on December 31, 204 borrowers who had been reported as fraudulent by one or more banks were not classified fraud by other banks despite having exposure to the same borrower.

“The reasons cited for delays in recognizing frauds include delays in completing forensic audits or inconclusive findings of forensic audits,” the regulator said. “It is proposed to revise the Master Direction on Frauds in this regard and issue necessary guidance to banks.” A comprehensive checking of legacy stock of non-performing loans across state-run banks during 2018-19 has helped unearth frauds perpetrated over several years and is leading to increased number of reported incidents of frauds in recent years, RBI explained.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/indian-banks-have-been-under-reporting-frauds-rbi/articleshow/69978271.cms
Dated: June 27, 2019
## TOP RBI CIRCULARS

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<th>Department</th>
<th>Subject</th>
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<td>RBI/2018-2019/228 DBR.No.BAPD. BC.50/22.01.001/2018-19</td>
<td>28.6.2019</td>
<td>Department of Banking Regulation</td>
<td>Revision in Proforma and Reporting of Bank/Banking Outlet (BO) details under the Central Information System for Banking Infrastructure (CISBI)</td>
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<td>Department of Non Banking Regulation</td>
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