



Banking and Financial Awareness Digest July 2019

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BANKING AND FINANCIAL AWARENESS DIGEST: JULY 2019

TAPAN RAY COMMITTEE SET UP BY RBI TO REVIEW CIC

- RBI has set up a committee to review the regulatory guidelines and supervisory framework of Core Investment Companies (CIC).
- Tapan Ray will be the chairman of the working group (of 6 members) who is presently Non-Executive Chairman of Central Bank of India and former Secretary of Ministry of Corporate Affairs.
- Suggest changes to the current approach of the Reserve Bank of India towards registration of CIC.
- To strengthen corporate governance and disclosure requirements for CIC.
- CIC is a Non-Banking Financial Company (NBFC) that is indulged in the business of acquiring shares and securities.
- The investment is made in equity shares, preference shares, debentures, bonds, debt or loans in group companies.

DD CHANNEL FOR START-UPS

- Finance Minister Nirmala Sitharaman proposes to start a DD channel exclusively for start-ups announcing the Union Budget 2019-20.
- The channel will serve as a platform to discuss issues affecting the growth, funding and tax paying and matchmaking with venture capitalists and investors.
- In 2016, the Department of Industrial Policy and Promotion (DIPP) has suggested setting up a channel dedicated to startups to the Ministry of Information and Broadcasting.

RBI CAN SUPERSEDE NBFC BOARD

- The government has decided to give the regulation of the NBFCs to the RBI by announcing it in the budget 2019.
- According to the Finance Bill, the RBI can supersede the NBFC Board for a maximum five year period, if the RBI finds that it in the 'public interest' or to prevent the affairs of an NBFC whose conducts are detrimental to the interest of the depositors or creditors.
- For purchase of high-rated pooled assets of financially sound NBFCs, of not more than Rs 1 lakh crore, the government will provide one-time six months' partial credit guarantee to PSUs for first loss of up to 10%.
- Provided some tax incentives to the NBFCs by treating them on par with banks in relation to Debenture Redemption Reserve (DRR).

SEBI GETS POWER TO PROBE DATA LEAK

- Securities and Exchange Board of India (SEBI) has acquired new powers to act against information tampering, leak of data, destroying of regulatory data or unauthorised access to data.

- According to the bill, if a person tampers with information, destroys regulatory data, access data in an unauthorised manner then a penalty of up to Rs 10 crore or 3 times the unlawful gains, whichever is higher would be imposed on the entity.
- The step has been taken as SEBI was in the midst of probing sensitive data leak through social media platforms, Whatsapp and National Stock Exchange (NSE) case.
- SEBI was established in 1988 and got powers and mandate under the SEBI Act,1992.
- Its objective is to regulate the securities market and protect the securities investors.

'UTKARSH 2022': THREE YEAR ROADMAP OF RBI

- The RBI Board finalised a 3-year roadmap covering its mission and vision for regulation and supervision.
- The three-year medium-term strategy- named UTKARSH 2022 has been made for improving regulation, supervision of the central bank and avoid any crisis.
- Deputy Governor Viral Acharya anchored an internal committee which was formed to identify issues to be addressed in the next three years.
- All central banks across the world strengthen their regulatory and supervisory mechanism by formulating a long-term plan as well as a medium-term plan. RBI has also formulated a three-year plan on the same line.
- The RBI is India's central bank, established on April 1, 1935, under the Reserve Bank of India Act.

BANK 44,016 FRAUDS IN LAST 11 YEARS

- Since 2008-2009, 2016-17 was the worst year with the highest amount of money involved in bank frauds.
- 2016-17 alone had 3927 frauds of amount Rs 25,883 crore.
- The frauds mentioned in the list are those involving Rs 1 lakh or more.
- The government has already made framework guidelines for frauds, allowing all bank accounts exceeding Rs50 crore be examined if classified as NPAs.

RBI TO REGULATE HOUSING BANKS

- The government proposed to return the regulation authority over the housing finance sector from National Housing Bank (NHB) to RBI.
- Investment of Rs. 100 lakh crore is proposed in infrastructure over the next five years.

MINIMUM PUBLIC HOLDING RAISED FOR LISTED FIRMS

- The Government will work with RBI/SEBI to enable Stock exchanges to allow AA rated bonds as collaterals in order to deepen corporate debt markets.
- Trading platforms for corporate bonds will be reviewed to make them more User-friendly.
- SEBI to consider raising the threshold from 25% to 35% for a minimum public shareholding in the listed companies.

RBI DATA ON AFFORDABLE HOUSING IN FOUR YEARS

- The house price-to-income ratio has increased in the last 4 years, as per the RBI's quarterly Residential Asset Price Monitoring Survey.
- The survey shows that the house price-to-income ratio has increased from 56.1 in the 2015 March quarter to 61.5 in of 2019 March quarter.
- A wide gap between home prices in the country and real income was found in the survey.
- Bhubaneswar with a price-to-income ratio of 54.3 was found to be the most affordable city for home buying in the 2019 March quarter.

RBI REVISED INSTRUCTIONS FOR BSBD ACCOUNTS

- As per the revised circular, Banks are advised to offer basic minimum facilities free of charge without any minimum balance requirement.
- There will be no limit on number and value of deposits made in a month.
- 4 minimum withdrawals in a month along with ATM withdrawals are allowed.
- No minimum balance would be required to avail such additional services.
- The BSBD account can be converted into a normal saving account only at the written request of the customer.
- The banks would be penalized under RBI Banking Regulation Act, 1949, if found for non-compliance of any instruction.
- RBI has mandated all banks to offer BSBD accounts to those looking to open a bank account.
- In a BSBD account, no minimum balance is required to be maintained.

RBI IMPOSED PENALTY ON SBI AND UBI

- RBI imposed a penalty of Rs 7 crore on SBI and Rs 10 lakh on Union Bank of India for violating norms issued by RBI.
- SBI was found to violate the code of conduct for opening and operating current accounts(CRILC), income recognition and asset classification (IRAC) norms, fraud risk management and its reporting.
- The Union Bank of India was fined for non-compliance on cyber security framework direction issued by RBI.
- After bank's reply, RBI concluded to impose a monetary penalty of Rs 7 crore.
- RBI has imposed penalty with powers vested under the provision of section 47A(1)(c) of the Banking Regulation Act,1949.

HDFC BANK, CSC LAUNCHES CREDIT CARD FOR VLES

- The credit card has been launched for small traders, village-level entrepreneurs (VLEs) and VLE- sourced customers.
- HDFC Bank and CSC have signed a pact in July 2018 in which the bank offered to provide products and services in remote locations to VLEs that are enrolled with CSCs.
- CSCs acts as delivery points of various government and public utility services across the country.
- There are about 3.6 lakh CSCs in the country with transacting the business of about Rs 70,000 crore.

BIMAL JALAN COMMITTEE REPORT ON RBI SURPLUS FUNDS

- The Bimal Jalan Committee on Economic Capital Framework met on 17th July 2019 for the final time to decide on transferring of surplus reserves to the government.
- It's a 6 member committee headed by Bimal Jalan (former RBI governor) and other members include Finance Secretary Subhash C Garg, RBI deputy governor Rakesh Mohan (vice-chairman of the panel), RBI deputy governor NS Vishwanathan, and RBI central board members Sudhir Mankad and Bharat Doshi.
- RBI had the total surplus cash reserve of Rs 9.43 lakh crore on 30th June 2018.
- According to the finance ministry, the buffer of 28 % of gross assets maintained by the RBI is well above the global norm of around 14 %.

SEBI OPPOSED TRANSFERRING SURPLUS MONEY TO CFI

- The Finance Minister proposed an amendment to the SEBI Act in the budget 2019-20 which will transfer 75% SEBI's surplus funds to the central government.
- SEBI chairman Ajay Tyagi has asked to review the proposal of transfer of surplus funds as it will compromise the autonomy of SEBI and its functioning.
- Two provisions as presented in the finance bill were opposed by SEBI- the First one is related to the transfer of surplus funds and second one seeking prior approval from finance ministry for raising expenses.

STANCHART TO BE 1ST FOREIGN BANK TO LAUNCH OPERATION AT GIFT CITY

- The bank has received in-principle regulatory approvals to set up its IFSC Banking Unit in GIFT city, Gujarat.
- The Gujarat International Finance Tec-City (GIFT City) is envisaged as a hub to bring offshore financial transactions.
- The GIFT city is working with organisations to help build a hub for aircraft leasing and financing within GIFT City.
- The banking business at GIFT IFSC has already seen a 167% jump in just 2 years.

SEBI NEW DISCLOSURE FRAMEWORK FOR ALL LISTED BANKS

- As per SEBI's new norm, if the additional provisioning of NPAs identified by RBI exceeds 10% of the reported profit before provisions and contingencies, then all the listed banks have to disclose to the stock exchanges divergences in the asset provisioning and classification.
- Earlier, the threshold for the NPAs provisioning was 15% of the reported profit.
- It also added that if the additional gross NPAs accessed by the RBI exceed 15% of the published incremental gross NPAs, then the disclosure will be mandatory.

CENTRE REJECTED SEBI'S PROPOSAL OF REVIEW

- The finance Bill, 2019 which will amend the SEBI Act has been passed by the Lok Sabha on 18th July 2019.
- The finance bill is a money bill, it means once passed by the Lok Sabha, it would become law unchanged even if the Rajya Sabha wants to amend it.

- SEBI chairman Ajay Tyagi has said it a premature step, as the issue is under discussion in the Financial Stability and Development Council.
- With the amendment, SEBI has to take the government's approval for expanding its organisational capacity, IT infrastructure and other soft and physical infrastructure.

WORLD BANK DECIDES NOT TO FUND AMRAVATI PROJECT

- The World Bank along with Asian Infrastructure Investment Bank (AIIB) was to provide a share of \$715 million of critical funding for infrastructure development of the City.
- The construction of Amravati city is the brainchild of former CM, N. Chandrababu Naidu and PM Modi laid the foundation for the project in 2015.
- The World Bank was considering the project under Amravati sustainable Infrastructure and Institutional Development Project and Amravati Sustainable Capital City Development Project.
- A.P. was split in 2014, and Hyderabad was shared as the capital by both states (Telangana and A.P.) for 10 years.

ADB'S INFLATION FORECAST FOR INDIA

- Asian Development Bank (ADB) has lowered the inflation forecast for India to 4.1% in FY 2020.
- ADB has supplemented Asian Development Outlook (ADO) 2019 which said that India will be the main driver to lower the inflation for the south Asian region.
- The inflation forecast for South Asia for 2019 was lowered from 4.7% to 4.5%, mainly due to lowered forecast for India.
- RBI has raised the retail inflation forecast marginally to 3-3.1% for the 1st half of fiscal in its last monetary policy review in June.

RBI LAUNCHED UTKARSH 2022

- RBI Governor Shaktikanta Das launched UTKARSH 2022, a medium-term strategy framework in line with the evolving macro-economic environment in the country.
- The framework's objective is to achieve excellence in the performance of RBI's mandates and improve regulation, supervision of the central bank and to avoid future crisis.
- A sub-committee of the central board will periodically monitor its implementation and progress.
- In April 2015, A formal strategic management framework was launched to re-articulate the core purpose, values and vision statement of the RBI.

VIRAL ACHARYA EXIT FROM RBI

- Acharya's three-year term at the RBI was to end on 23rd January 2020.
- He was a strong believer in the central bank's autonomy and the health of lenders.
- According to him, the government must adopt the recommendation of the 14th Finance Commission and the FRBM Review Committee (2016-17) to establish an independent "fiscal council" and fiscal deficit should be contained at 3 per cent of the GDP.

IBBI NEW NORMS FOR RESOLUTION PROFESSIONALS

- Insolvency and Bankruptcy Board of India (IBBI) tighten norms for resolution professionals with a cap on their age and relative's involvement.
- Now, Resolution professionals cannot take up insolvency assignments once they attain the age of 70.
- From January 1 2020, insolvency professionals are eligible to take up assignments only if they have obtained an 'Authorisation for Assignment' from an Insolvency Professional Agency (IPA).

NCLT GAVE 2 MONTHS TO LEELAVENTURE

- The NCLT has asked the company to make additional disclosures to shareholders for proceeding with its sale to Brookfield for Rs 3,950 crore.
- The NCLT also warned JM Financial ARC (creditor with 26% shares) of adjudication proceedings against it for failing to comply with takeover norms.
- NCLT is a quasi-judicial body established on 1st June 2016 under the Companies Act,2013 based on the recommendation of the Justice Eradi Committee to adjudicate issues relating to Indian Companies mainly for insolvency resolution process of companies.

SBI'S WAREHOUSE AGREEMENT WITH SLCM

- State Bank of India (SBI) has made an agreement with the New Delhi-based Agri services solutions firm Sohan Lal Commodity Management Pvt. Ltd. (SLCM).
- The agreement is made for upkeeping mortgaged commodities as SLCM provides modern and scientific collateral management, warehousing and commodity testing services.
- As per this, SLCM will now act as custodian of the SBI's Agri commodities that it has taken as security against loans.
- The SLCM will help in mitigating the risk of the bank by managing the quantity and quality of the collateral.

IBBI NORMS FOR INSOLVENCY RESOLUTION AND LIQUIDATION

- Now, the Committee of Creditors (CoC) while approving a resolution or deciding liquidation of the corporate debtor, may approve a plan for meeting the liquidation costs.
- The CoC may recommend the sale of the corporate debtor or sale of the business of the corporate debtor in the process of liquidation.
- The IBBI has also specified the maximum time of 90 days from the order of liquidation for completion of compromise/arrangement.
- If the corporate debtor does not have adequate liquid resources to complete liquidation, financial creditors, who are financial institutions, will have to contribute towards the liquidation cost.

SEBI EXPERT PANEL PROPOSES FRAMEWORK FOR PROXY ADVISORY FIRMS

- The recommendations of the panel were aimed at managing conflict of interest and ensuring independence to proxy advisory firms.

- A proxy advisory firm provides voting recommendations on resolutions of listed companies to their minority shareholders.
- The panel has suggested that SEBI should be the platform to handle disputes between proxy advisory firms and listed companies.
- The panel has said that the board of proxy advisors shall be independent of shareholders to avoid a serious conflict of interests.

RBI RELAXED ECB NORMS FOR CORPORATES AND NBFCs

- RBI has liberalised the External Commercial Borrowings (ECBs) both for corporates as well as non-banking finance companies (NBFCs) lenders for easing liquidity.
- ECBs having a minimum 7 years average maturity period can now be availed for repayment of rupee loans availed domestically for capital expenditure and for on-lending NBFCs for the same.
- As per RBI, ECBs with minimum 10 years average maturity period can be used for general corporate purposes, working capital purposes and borrowing by NBFCs.

