

**Banking and
Financial
Awareness
Digest August
2019**

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BANKING AND FINANCIAL AWARENESS DIGEST: AUGUST 2019

SEBI EXAMINING FEASIBILITY OF INTANGIBLES

- SEBI will examine the feasibility of allowing **derivative contracts based on intangibles** (like weather or freight) in Indian commodity segment.
- SEBI will also look into an **exchange-traded fund** (ETF is market security that tracks an index, bond, basket of assets or commodity, In this case, ETF is a commodity).
- After which SEBI will forward selected proposal to **Commodity Derivatives Advisory Committee (CDAC)** for final screening after which it will be submitted to SEBI board.

RBI 'FIT AND PROPER' CRITERIA FOR ELECTED DIRECTORS OF PSB

- **All the banks are required to constitute a Nomination and Remuneration Committee** consisting of a minimum of three non-executive directors, of which not less than one-half shall be independent directors.
- The committee should include **at least one member from the risk-management committee** of the board to establish 'fit & proper' status of applicants.
- The **Government of India nominee director and the nominee director on behalf of the RBI shall not be part of the committee.**
- An elected director **shall hold office for three years** and shall be eligible for re-election: Provided **that no such director shall hold office for a period exceeding six years, whether served continuously or intermittently.**

RBI SLAPPED 11 BANKS WITH RS 8.50 CRORE FINE

- The banks are fined for violating provisions of RBI norms on **"frauds classification and reporting by commercial banks and select Financial Institutions"**.
- The monetary penalty is **imposed on** the Oriental Bank of Commerce (**Rs 1.5 crore**), Indian Overseas Bank, Punjab & Sind Bank, United Bank of India and UCO Bank (**Rs 1 crore each**), Bank of Baroda, Federal Bank, Corporation Bank, Punjab National Bank, Jammu & Kashmir Bank and State Bank of India (**Rs 0.5 crore each**).
- The RBI observed that the banks didn't report fraud in the backdrop of **Central Bureau of Investigation (CBI) criminal proceedings** resulting in non-compliance with RBI's directions.

LIC LAUNCHED 'JEEVAN AMAR'

- The plan provides two death cover options, the first is the **level sum assured** insurance in which death benefit remains the same throughout the term of the policy.
- The second one is **increasing sum assured** in which the death benefit first increases after 5 years than after 10 years and then 15 years or till the end of the policy term.
- The plan offers policy term from **10 years to maximum 40 years**, with a maximum age of maturity at **80 years** and is available for the **18-65 age group**.

RBI'S MONETARY POLICY REVIEW

- RBI said in its '**Statement on Developmental and Regulatory Policies**' to cover all repetitive bill payments under the **Bharat Bill Payment System (BBPS)** that includes **5 segments**- electricity, telecom, gas, direct-to-home, and water bills.
- RBI has extended the working hour of retail payment system **National Electronic Funds Transfer (NEFT)**, which is used for fund transfer up to Rs 2 lakh, from 8 am to 7 pm to **24x7 round-the-clock fund transfers** to promote digital transactions.
- The MPC lowered its **growth forecast (GDP) to 6.9% now from 7%** of June policy owing to demand and investment slowdown.

RBI MADE JANA SMALL FINANCE BANK A SCHEDULED BANK

- RBI gave the **Bengaluru-headquartered** Jana Small Finance Bank Ltd, the status of a scheduled bank on 8th August 2019.
- The Jana Bank was established in **2009** as a **financial services company** and opened its **banking operations in 2018**.
- The government has put the bank on the list of banks included in the **second schedule of RBI Act 1934**.

COMPUTATION OF ADJUSTED NET BANK CREDIT

METHOD TO CALCULATE ADJUSTED NET BANK CREDIT:-

Bank Credit in India (As prescribed in item No.VI of Form 'A' (Special Return as on March 31st) under Section 42 (2) of the RBI Act, 1934.	I
Bills Rediscounted with RBI and other approved Financial Institutions	II
Net Bank Credit (NBC)	III (I – II)
Investments in Non-SLR categories under HTM category + other investments eligible to be treated as priority sector.	IV
Adjusted Net Bank Credit	III + IV

Read an in-depth article on [Adjusted Net Bank Credit here](#)

CLASSIFICATION OF MICRO, SMALL AND MEDIUM ENTERPRISES

Enterprises	Annual Turnover
Micro Enterprises	Does not exceed 5 crore rupees
Small Enterprises	More than 5 crore rupees but does not exceed 75 crore rupees
Medium Enterprises	More than 75 crore rupees but does not exceed 250 crore rupees

PRIORITY SECTOR LENDING

- A large portion of the population in India doesn't have access to funds. Therefore RBI has adopted Priority Sector Lending norms which relaxes the lending norms for poor and small businesses.

PRIORITY SECTOR INCLUDES THE FOLLOWING CATEGORIES:

- Agriculture
- Micro, Small and Medium Enterprises
- Export Credit
- Education
- Housing
- Social Infrastructure
- Renewable Energy
- Others



Categories	Domestic scheduled commercial banks and Foreign banks with more than 20 branches in India
Total Priority Sector	40 per cent of Adjusted Net Bank Credit or Credit. Equivalent Amount of Off-Balance Sheet Exposure , whichever is higher.
Agriculture	18 per cent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher. Within the 18 percent target for agriculture, a target of 8 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher is prescribed for Small and Marginal Farmers.
Micro Enterprises	7.5 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.
Advances to Weaker Sections	10 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher

FOREIGN BANKS WITH LESS THAN 20 BRANCHES

Total Priority Sector	40 per cent of Adjusted Net Bank Credit or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher, to be achieved in a phased manner by 2020.
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RBI PROPOSED EASING OF RULES FOR SANDBOX

- Sandbox is an infrastructure that helps **FinTech companies** live to test their products or solutions, before getting the necessary regulatory approvals for the actual launch.
- RBI has proposed to grant regulatory relaxation for board composition, financial soundness and track record, liquidity requirements and management experience in its final '**Enabling Framework for Regulatory Sandbox**'.
- RBI has said that as per the latest audited balance sheet, the entity should have a minimum net worth of **Rs 25 lakh**.

DEBT WAIVER FOR 'SMALL DISTRESSED BORROWERS'

- The Corporate affairs secretary **Injeti Srinivas** said that the waiver would be given as part of individual insolvency for small distressed borrowers from the **economically weaker section (EWS) only**.
- The proposed waiver would be offered as part of '**Fresh Start**' provisions under the IBC Code.
- IBC consists of various thresholds for 'Fresh Start', including that the gross annual income of the debtor does not exceed **Rs 60,000**.

GOVT REMOVED DRR FOR HFCS, NBFCS AND LISTED FIRMS

- The Government has removed the **Debenture Reserve Requirement (DRR)** for issuance of debentures by **HFCs, NBFCS and listed firms** to reduce the cost for raising capital.
- The finance ministry has removed the requirement for a **DRR of 25 per cent of the value of outstanding debentures** issued by NBFCS, listed firms and Housing Finance Companies (HFCs)
- For **unlisted companies**, the DRR requirement has been **reduced from 25% to 10%** of the outstanding debentures.

SEBI PUTS PENALTY ON VIOLATION OF DISCLOSURE NORMS

- SEBI has put a penalty of **Rs 20,000** per day on companies for violating certain provisions of **Issue of Capital and Disclosure (ICDR) Regulations**.
- In the case where **shareholders' approval** for making the bond issue is **not required**, the fine will be applied if the bond issue is delayed beyond **15 days** (from date of approval) after the board of directors have issued.
- In the case where **shareholders' approval** for making the bond issue is **required**, the fine will be applied if the bond issue is delayed beyond **2 months** from the date of the meeting of the board of directors.

FINMIN CONDUCTS “BOTTOM-UP CONSULTATIVE PROCESS” FOR PSBS

- Some of the **national priorities to which banks need to align include** Jal Shakti Mission, doubling farm income, housing for all, ease of living, corporate social responsibility, education loans, and financial inclusion.
- The **State-level Bankers’ Committee** will discuss the issues received from the feedback and it will be followed by a **national-level interaction** in September.
- The exercise, termed as “**bottom-up consultative process**” for PSBs, will also provide a direction to the banks for the next five years.

CREDIT SUISSE REPORT

- **As per the Credit Suisse Report**, Growth in loans by non-banking finance companies (NBFCs) and private banks has slowed down due to a slump in economic growth, consumption demand, etc.
- A dip of **11% y-o-y** has been seen for **NBFCs** and **15% y-o-y dip** for **private banks** loan’s growth.
- RBI to encourage banks to lend more in these sectors has recently reduced the risk weight on unsecured personal loans and individual vehicle loans from **125% to 100%**.

DIRECT TAX CODE (DTC) REPORT

- The Income Tax Act was enacted in **1961**, and the proposal for a new DTC is to modernise India’s direct tax system.
- The task force was under **Arbind Modi initially** and was expected to submit its report by 31st May, which was later extended by then FM Arun Jaitley for 2 months.
- The Finance Ministry has appointed the **Akhilesh Ranjan** who is the member (Legislation) of the Central Board of Direct Taxes in **November 2018**, as the convenor of the task force.

CENTRAL VIGILANCE COMMISSION SET UP ABBF

- The ABBF has been formed in consultation with the RBI and is constituted to examine bank fraud of **over 50 crore rupees** and recommend action.
- Former Vigilance Commissioner **T M Bhasin** (also former CMD of Indian Bank) will be the head of ABBF, which will be a **four-member board**.
- The board’s jurisdiction is confined to cases of an allegation of fraud involving **officers of General Manager Level and above in the PSBs**.
- ABBF is the reconstituted version of the previous panel of **the Advisory Board on Bank, Commercial and Financial Frauds**.

CBDT'S CLARIFICATION TO AVAIL TAX HOLIDAY

- The tax holiday for small startups provides a deduction for **100% of the income** of an eligible start-up **for 3 years** out of 7 years from the year of its incorporation.
- A start-up recognised by **DPIIT (Department for Promotion of Industry and Internal Trade)** has to fulfil the conditions specified in Section 80-IAC for claiming this deduction.
- The turnover limit for small start-ups to be eligible for deduction is to be determined by the provisions of **Section 80-IAC of the Act** and **not from the DPIIT notification**.

ENHANCED SURCHARGE WITHDRAWN BY THE GOVERNMENT

- To encourage investors in the capital market, the government has withdrawn surcharge **on tax payable on the transfer of certain assets**.
- Only the **Foreign Institutional Investors (FPI) derivatives** are treated as capital assets and gains from it are subjected to the special rate of tax as per the provision of **section 115AD of Act**.
- Thus the surcharge on tax payable at a special rate on long-term & short-term capital gains arising from the transfer of equity share shall be withdrawn for **both domestic as well as foreign investors**.

BANDHAN BANK TIE UP WITH STANDARD CHARTERED BANK

- **Zarin Daruwala, SCB India CEO** has said that under the partnership, they will issue credit cards to Bandhan Bank's customers.
- Bandhan Bank's growth of the **current account and savings account (CASA)** over the past 4 years is the deciding factor for the collaboration. CASA accounts for nearly **36% of Bandhan Bank's total deposit base** of about Rs43,000 crore.
- Standard Chartered Bank has been growing at **15-20% on a y-o-y basis** and has 100 branches in India.

RBI WILL TRANSFER RS 1.76 LAKH CRORE TO THE GOI

- RBI to transfer Rs1.76 Lakh crore to Government of India under '**Surplus Distribution Policy**' that include interim dividend of Rs28,000 crores paid on February 2019.
- Surplus distribution policy was recommended by the **Bimal Jalan committee** which was formed by RBI to review its economic capital framework and suggest the quantum of excess provision to be transferred to the Government of India.
- RBI board **accepted all recommendation of Bimal Jalan Committee**.

CABINET DECISION TO ATTRACT FDI

- The cabinet has relaxed the **requirement of 30%** by allowing it to be calculated over the first **five years** of operation.

- It has been decided that all procurements made from India by the **SBRT (single-brand retail trade) entities**, irrespective of whether the goods procured are sold in India or exported, that single brand shall be counted towards **local sourcing**.
- The cabinet has decided to **allow 100% FDI** under the automatic route in **contract manufacturing** in India which was only for the manufacturing sector earlier.

RBI DATA ON DEPOSIT INSURANCE

- RBI annual report data showed that Deposit insurance covers **92% of total accounts in India** but constitutes only **28% of total banking deposits**.
- The number of such accounts stood at **200 crores** at the end of March 2019, which is 92% of the total number of accounts, whereas the **international benchmark is 80%**.
- Thus at the end-March 2019, the **total insured deposit was of Rs 33.7 lakh crore** constituting 28% of assessable deposits of Rs 120 lakh crore, against the **international benchmark of 20% to 30%**.

GOVT. ANNOUNCED MEGA MERGER OF 10 PSBS

- 1st merger will be among **Punjab Nation Bank, oriental bank of commerce and united bank of India**. This will amalgamate will be called Punjab Nation Bank and this merger will make PNB the 2nd largest PSB with a total business of Rs 18 lakh crore.
- 2nd merger will be between **Canara Bank and Syndicate bank**. It will be named Canara bank. This will make it 4th largest PSB with the net business of Rs 15.2 lakh crore.
- 3rd merger will be among **Union Bank, Andhra Bank and Corporate Bank**. This merger will be named Union bank. It will be 5th largest PSB with the net business of Rs 14.6 lakh crore.
- 4th merger will be between **Indian Bank and Allahabad Bank**. This merger will name Indian Bank and it will make it 7thlargest PSB with the net business of Rs 8.08 lakh crore.