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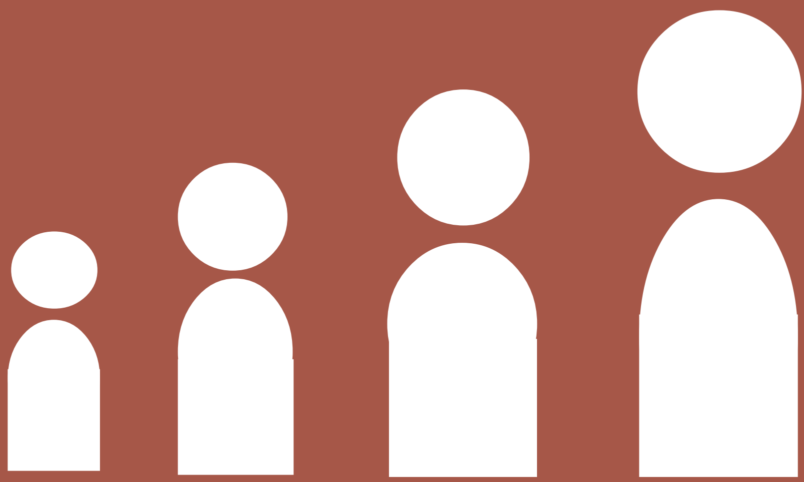
Banking events Update



Those who win, are those, who think they can

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BANKING POLICY

Discontinuance of LoU / LoC

Further to RBI Circular dated Jan 01, 2016, on the issuance of LoUs/ LoCs/ guarantees for Trade Credits for imports into India under delegated powers of AD banks, on a review of the extant guidelines, RBI decided (13.03.2018) to discontinue the practice of issuance of letter of undertaking or letter of comfort (LoU/ LoC) for Trade Credits for imports into India by AD Category –I banks with immediate effect.

Letters of Credit and Bank Guarantees for Trade Credits for imports into India may continue to be issued subject to compliance with the provisions, contained RBI circular dated 01.07.2015.

Review of Limits of Way & Means Advances of States

As per report of Advisory Committee on Ways & Means Advances (WMA) Scheme for State Governments, 2016 (Chairman: Sumit Bose), a review on the current WMA limits was undertaken by RBI. Based on the trends in the utilisation of WMA facilities, RBI decided (26.03.18) that the existing limits of WMA will be retained till the review of the limits by the next committee effective from 2020-21 taking into account the then fiscal positions of the States.

WMA Limit for Government of India for the first quarter of the Financial Year 2018-19

In consultation with the Govt of India, RBI decided (27.03.18) that the limits for WMA for the first quarter of the financial year 2018-19 (April 2018 to June 2018) will be Rs.60,000 crore.

RBI may trigger fresh floatation of market loans when Govt. utilises 75% of the WMA limit. RBI retains the flexibility to revise the limit at any time, in consultation with the Govt. of India, taking into consideration the prevailing circumstances.

The interest rate on WMA/overdraft will be:

a. WMA: Repo Rate

b. Overdraft: Two percent above the Repo Rate

Limit for 2nd quarter of FY 2018-19 will be fixed in Jun 2018.

Taking over of valuation of Govt. Securities (G-Sec) by Financial Benchmark India Pvt. Ltd. (FBIL)

During Feb 2018, RBI had proposed that FBIL would assume the responsibility for administering the valuation of Government securities (issued by both the Centre and States) currently being done by FIMMDA.

FBIL has been advised by RBI (on 31.03.18) to assume the responsibility for administering valuation of Government securities w.e.f. March 31, 2018. From that date, FIMMDA ceases to publish prices/yield of Govt. securities and this role has been taken over by FBIL. FBIL will commence publication of the G-Sec and SDL valuation benchmarks based on the extant methodology. FBIL can undertake a comprehensive review of the valuation methodology.

RBI regulated entities, including banks, non-bank financial companies, Primary Dealers, Co-Operative banks and All India Financial Institutions valuing Govt. securities, using prices published by FIMMDA as per current directions, may use FBIL prices with effect from March 31, 2018. Other market participants who have been using Govt. securities prices/yields published by FIMMDA may use the prices/yields published by FBIL for valuation of their investment portfolio.

Submission of returns by Government-owned Non-Banking Financial Companies

RBI decided (15.03.18) to apply the Master Direction – NBFC Returns (RBI) Directions, 2016 dated Sept 29, 2016 to all the Non-Banking Financial Companies, being Govt. Companies and registered with RBI u/s 45IA of RBI Act.

All such NBFCs shall put in place a reporting system for filing periodic returns with RBI, as detailed in the aforesaid Master Directions, to the extent applicable to them (as per their size and whether they accept public deposits). The returns should be compiled on the basis of the figures available in the books of accounts of such NBFCs and filed with the RBI on-line (using the COSMOS software package) by an authorised official of the NBFC, who shall be specifically authorised in this regard by Board of such NBFC concerned. The name of the authorised official may be informed to RBI.

The first set of returns should be filed w.e.f. (i) last Friday of Dec 2017 for the weekly return; (ii) quarter ended - Dec 31, 2017 for the quarterly returns; (iii) half-year ending March 31, 2018 for the half-yearly returns; and (iv) year ending March 31, 2018 for the annual returns. All weekly, quarterly returns upto Dec 31, 2017 shall be submitted by April 15, 2018. Thereafter, these returns shall be submitted within the timeline stipulated in the Master Direction on returns to be submitted by NBFCs.

Separate limit of Interest Rate Futures (IRFs) for Foreign Portfolio Investors

Currently, FPI limit for Govt. Securities (G-secs) is fungible between investments in G-secs and investment in IRF. FPI long positions in IRF are not allowed on G-sec limit utilisation reaching 90%. To facilitate further market development and to ensure that access of FPIs to IRFs remains uninterrupted, RBI decided (01.03.18) to allocate FPIs a separate limit of

Rs. 5,000 crore for long position in IRFs.

Accordingly FPIs, registered with SEBI, can purchase or sell Interest Rate Futures subject to the following conditions:

(i) the aggregate long position of all FPIs, each of whom has a net long position in any IRF instrument, shall not exceed Rs. 5000 crore, aggregated across all IRF instruments, and

(ii) the total gross short (sold) position of any Foreign Portfolio Investor shall not exceed its consolidated long position in Govt. securities and Interest Rate Futures, at any point in time".

Review of Currency Distribution & Exchange Scheme (CDES)

The RBI has been providing several incentives to banks, from time to time for installation of various machines by them to encourage technology absorption in their currency operations for improved customer service.

On a review on 01.03.2018, RBI decided to withdraw the incentives which were being given to the banks for installation of Cash Recyclers and ATMs dispensing only lower denomination notes as per circular dated 20.07.16.

Priority Sector Lending – Targets and Classification

In RBI circular dated 23.04.15, it was stipulated that the sub-targets for lending to small and marginal farmers and micro enterprises shall be made applicable for foreign banks with 20 branches and above, post 2018 after a review in 2017.

Accordingly, after undertaking a review of the priority sector lending profile of these banks and to create a level-playing field within banks, RBI decided (01.03.18) that the sub-target of 8% of Adjusted Net Bank Credit (ANBC) or Credit Equivalent Amount of Off-Balance Sheet Exposure (CEOBE), whichever is higher, shall become applicable for foreign banks with 20 or more branches, to lend to small and marginal farmers from FY 2018-19. Further, the sub-target of 7.50% of ANBC or CEOBE, whichever is higher, for bank lending to the Micro Enterprises shall also become applicable for the foreign banks with 20 branches and above from FY 2018-19.

Additionally, in the light of feedback received from various stakeholders and in line with the increasing importance of services sector in our economy, RBI decided to remove the currently applicable loan limits of Rs. 5 crore and Rs. 10 crore per borrower to Micro/ Small and Medium Enterprises (Services) respectively, for classification under priority sector. Accordingly, all bank loans to MSMEs, engaged in providing or rendering of services as defined in terms of investment in equipment under MSMED Act, 2006, shall qualify under priority sector without any credit cap.

Agency commission payable to banks for operating Special Deposit Scheme (SDS)

RBI decided (15.03.18) that agency commission claims on SDS related transactions (where mirror accounts are maintained in RBI) will be settled at Central Accounts Section (CAS), Nagpur and not in respective Regional Offices of RBI, with immediate effect. Accordingly, all agency banks handling SDS have been advised to submit their agency commission claims related to SDS transactions to CAS, Nagpur on quarterly basis.

The agency banks will continue to claim reimbursement of interest paid and withdrawal from SDS accounts from the respective Regional Offices of RBI in which the mirror accounts are maintained. ●

RBI Monetary Policy 2018-19

RBI released the 1st Bi-monthly, Monetary policy Statement 2018-19 on April 05, 2018. The summary is provided.

Monetary Policy Committee (MPC) decided to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6%. Consequently, the reverse repo rate under the LAF remains at 5.75%, and the marginal standing facility (MSF) rate and the Bank Rate at 6.25%.

I. Regulation and Supervision

1. Mandatory Loan Component in Working Capital Finance: RBI decided to stipulate a minimum level of 'loan component' in fund based working capital finance for larger borrowers.

2. Countercyclical Capital Buffer: Based on the review and empirical testing of CCCB indicators, RBI decided is that it is not necessary to activate CCCB at this point in time.

3. Deferment of Indian Accounting Standards (Ind AS) implementation: Scheduled Commercial Banks (SCBs), excluding Regional Rural Banks (RRBs), were required to implement Indian Accounting Standards (Ind AS) from April 1, 2018. It is proposed to defer implementation of Ind AS by one year by when the necessary legislative changes are expected.

4. Storage of Payment System Data: RBI decided that all payment system operators will ensure that data related to payment systems operated by them are stored only inside the country within a period of 6 months.

II. Financial Markets

5. Access for Non-residents into the Rupee Interest Rate Swap (IRS Market): With a view to develop a deep IRS market that accommodates divergent participants, RBI proposed to permit non-residents access to the Rupee IRS market in India.

6. Introduction of Rupee Swaptions : RBI proposed to permit interest rate swaptions in Rupees so as to enable better timing flexibility for those seeking to hedge interest rate risk.

7. Review of Separate Trading of Registered Interest and Principal Securities (STRIPS) directions : RBI proposes to review the April, 2010 guidelines.

8. Legal Entity Identifier (LEI) for Non-individual Market Participants: RBI proposed to implement the LEI mechanism for all financial market transactions undertaken by non-individuals, in interest rate, currency or credit markets.

9. Introduction of Single Master Form for Reporting of Foreign Direct Investment in India: RBI plans to introduce an online reporting by June 30, 2018 via a Single Master Form which would subsume all reporting requirements, irrespective of the instrument through which the foreign investment is made.

10. Reporting by Authorised Dealers: RBI decided to put in place a system for daily reporting of individual transactions by banks under LRS. This will enable the AD Banks to view the remittances already sent by an individual before allowing further remittance thus obviating the possibility of a remitter breaching the LRS limit by approaching multiple AD banks.

III. Currency Management

11. Central Bank Digital Currency: An inter-departmental group has been constituted by RBI to study and provide guidance on the desirability and feasibility to introduce a central bank digital currency. The Report will be submitted by end-June 2018.

12. Ring-fencing regulated entities from virtual currencies: RBI decided that, with immediate effect, entities regulated by RBI shall not deal with or provide services to any individual or business entities dealing with or settling VCs. Regulated entities which already provide such services shall exit the relationship within a specified time.

IV. Financial Inclusion and Literacy

13. Tailored Financial Literacy Content : RBI is in the process of developing tailored financial literacy contents for five specified target groups' viz. Farmers, Small entrepreneurs, School children, Self Help Groups and Senior Citizens, that can be used by the trainers. The contents of 5 booklets will be released within 15 days.

14. Revamping of the Lead Bank Scheme: RBI constituted a "Committee of Executive Directors" of the Bank to study the efficacy of the Scheme and suggest measures for its improvement, which has since submitted its recommendations. RBI decided to realign the Lead Bank Scheme based on the recommendations to make it more relevant. Instructions on the revised scheme would be issued to the banks within 15 days.

V. Data Management

15. Creation of RBI Data Sciences Lab : RBI decided to gainfully harness the power of Big Data analytics by setting up a Data Sciences Lab within the RBI that will comprise experts and budding analysts, internal as well as lateral, who are trained inter alia in Computer Science, Data Analytics, Statistics, Economics, Econometrics and/or Finance. It is envisaged that the unit will become operational by December 2018.

Summary edited by : Arundeep Toor (Sydney - Australia) (Source RBI Website).

Key Tax changes affecting individuals from 1.4.2018

The President gave assent to Finance Act 2018, which introduced a no. of changes relating to direct tax for individuals and companies. A summary of these changes is given:

Increase in Education and Health Cess : Finance Act 2018 prescribes hike in cess on income tax from 3% to 4%, thus increasing the tax payable by all categories of tax payers. The tax liability for highest tax bracket (assuming Rs 15 lakh income) goes up by Rs 2625, for the middle income tax payers (between Rs 5 lakh and Rs 10 lakh) and tax liability increases by Rs 1125 and for the lowest bracket (Rs 2.5 lakhs to Rs 5 lakhs) by Rs 125.

Interest Income for Senior Citizens:

Section 80TTB has been introduced for senior citizens. The current amount of interest income on FD and RD of Rs10,000 per financial year, that is allowed to be exempted, has been raised to Rs.50,000 in case of senior citizens. TDS will not be deducted on interest income of upto Rs 50,000 per FY in case of senior citizens. Interest income from savings account will continue to be tax-free for amount upto Rs 10000.

Health Insurance for Senior Citizens:

The senior citizens will benefit from higher limit of deduction for health insurance premium and medical expenditure up to Rs 50,000, as against Rs 30,000 till 31.03.2018, under section 80D of the I-T Act.

Medical Treatment for senior citizens:

Exemption for medical treatment for senior citizens has been raised to Rs.1 lakh from Rs.60,000 ad Rs.80,000 for senior citizens and very senior citizens, respectively.

Standard deduction for salaried and the pensioners

Finance Act 2018 prescribes a standard deduction of Rs 40,000 in lieu of transport allowance and medical reimbursement. Presently, no tax is applicable on Rs 19,200 of transport allowance and medical expenditure of up to Rs 15,000. This has been subsumed (included) into the standard deduction of Rs 40,000.

Pradhan Mantri Vaya Vandana Yojana (PMVVY)

PMVVY, a pension scheme for senior citizens, is offered by Life Insurance Corporation of India (LIC) with existing investment limit of Rs.7.50 lac. This has been increased to Rs15 lakh. The scheme offers pension at a guaranteed return of 8 per cent over the period of 10 years

Companies and investors:

1) Long term capital gains(LTCG) on equity:

Long term capital gains amounting to Rs 1 lac and above shall be taxed at 10%, on the sale of equities and equity mutual funds if they are sold any time after one year of their purchase. If an investor sells his equity on April 02 or after, he will be liable to pay the tax @ 10% on account of LTCG. The tax will not have indexation benefits.

The indexation benefit for computing tax liability on sale of shares listed after January 31 will be available.

2) Corporate tax rate: Corporate tax rate, currently 30%, has been reduced to 25%, for those corporate entities that have a annual turnover of upto Rs 250 crore.

Prudential Norms for Investment Portfolio-MTM Losses

As per extant guidelines of RBI, banks are to mark to market (MTM) the individual scrips in Available for Sale (AFS) at quarterly/more frequent intervals and Held for Trading (HFT) at monthly/more frequent intervals and provide for net depreciation, if any.

With a view to addressing the systemic impact of sharp increase in the yields on Govt. Securities, RBI decided (02.04.18) to grant banks, the option, to spread provisioning for MTM losses on investments held in AFS and HFT for quarters Dec 31, 2017 and Mar 31, 2018. The provisioning for each of these quarters may be spread equally over up to four quarters, commencing with the quarter in which the loss is incurred.

Banks utilising this option shall make suitable disclosures in their notes to accounts/ quarterly results providing details of:

(a) provisions for depreciation of investment portfolio for the quarters ended Dec 2017 and Mar 2018 made during quarter/year and

(b) the balance required to be made in the remaining quarters.

Further, for building up of adequate reserves to protect against increase in yields in future, banks have been advised to create an Investment Fluctuation Reserve (IFR) with effect from the year 2018-19, as under:

1) An amount not less than lower of following:

(a) net profit on sale of investments during the year

(b) net profit for the year less mandatory appropriations

shall be transferred to the IFR, until the amount of IFR is at least 2% of the HFT and AFS portfolio, on a continuing basis. Where feasible, this should be achieved within a period of 3 years

2) A bank may, at its discretion, draw down the balance available in IFR in excess of 2%, for credit to the balance of profit/loss as disclosed in the profit and loss account at the end of any accounting year. In the event, the balance in the IFR is less than 2%, a draw down will be permitted subject to the following conditions:

(a) The drawn down amount is used only for meeting the minimum CET1/Tier 1 capital requirements by way of appropriation to free reserves or reducing the balance of loss, and

(b) The amount drawn down is not more than the extent the MTM provisions made during the aforesaid year exceed the net profit on sale of investments during that year.

3) IFR shall be eligible for inclusion in Tier 2 capital.

Revised Credit Guarantee Scheme for MSEs

Credit Guarantee Fund Trust for MSEs (CGTMSE) was set up by Govt. of India and SIDBI in August 2000.

Eligible institutions: All scheduled commercial banks and specified RRBs, NSIC, NEDFI, SIDBI *(called Member Lending Institutions (MLIs).*

Eligible borrowers: New & existing MSE units as per MSME Dev Act 2006 OR in IT and software industry services or credit facilities to select activities under Agri-Clinics and Agri-Business Centres.

Collateral free loans (fund and non-fund) extended by banks and/or financial institutions jointly and/or separately to eligible borrower up to a maximum of Rs.200 lakh (Rs.50 lac for RRBs and select FIs) per borrower subject to ceiling amount of individual MLI are elgible. Rate of interest including guarantee fee, should not be more than 14% pa.

Collateral security: If collateral is obtained to cover part amount of the loan, remaining part of loan up to Rs.200 lac can be covered by CGTMSE guarantee.

Guarantee for retail trade loans: Loans of Rs.10 lac to Rs.100 lac are eligible where annual guarantee fee @2%. Guarantee cover is 50%.

Rehabilitation cases : For the units covered under CGTSI and becoming sick due to factors beyond the control of management, assistance for rehabilitation extended by the lender could also be covered within the overall cap of Rs.200 lac.

Extent of guarantee cover: For loans sanctioned/ renewed on or after 1.4.2018, the extent will be as under:

	Women NE States	Other MSEs	Other A/c
For loan up to Rs.5 lac	85%	85%	-
Max amount Rs.	4.25 lac	4.25 lac	-
> Rs.5 lac up to Rs.50 lac	75%	80%,	75%
Max amount Rs.	40 lac	37.50 lac	37.50 lac
> 50 lac to 200 cr	75%	75%	75%
Total max amount	Rs.100 lac	Rs.100 lac	Rs.100 lac

Guarantee cover is % of amount in default.

Time limit for obtaining guarantee cover: Within a quarter, next to the quarter, during which the loans are sanctioned.

Standard Rate of Annual Guarantee Fee (AGF) for loans sanctioned/renewed on or after 1.4.18:

Annual Guarantee Fee	Women/NE States/MSEs	Others
For loan up to Rs.5 lac	1.00% p.a.	1.00% p.a.
Above Rs.5 lac up to Rs.50 lac	1.35% p.a.	1.50% p.a.
Above Rs.50 lac up to Rs.200 lac	1.80% p.a.	1.80% p.a.

AGF to be charged on guaranteed amount for 1st year and on o/s balance for remaining period of loan.

If fee is not paid on time, CGTMSE may allow payment of fee with interest at bank rate + 4%

Invocation of guarantee

Guarantee can be invoked if

(a) account is classified as NPA as per RBI guidelines

(b) suit has been filed and (c) guarantee is in force

Time limit for invocation:

(a) 3 years from date of NPA if account became NPA after lock in period or (b) 3 years from date of completion of 18 month lock in period where account became NPA before completion of lock-in period.

Lock-in period of 18 months starts from the date of last disbursement of the loan or the date of payment of the guarantee fee, whichever is later.

Payment of the claim amount : The trust shall pay 75 % of the guaranteed amount on preferring of eligible claim by the lending institution, within 30 days. For *delay beyond 30 days*, trust shall pay interest on the eligible claim amount at the prevailing Bank Rate. The balance 25 % will be paid on conclusion of recovery proceedings by the lending institution. *The time gap between initial payment and final payment shall be minimum 3 years.*

Sharing of recovery: Recovery shall be first appropriated towards cost of recovery, then for recovery of fee and other charges of CGTMSE and balance amount shall be shared on prorata basis.

Delay in sharing the amount recovered : If any amount due to the trust remains unpaid beyond a period of 30 days from the date on which it was first recovered, interest shall be payable to the trust at the rate which is 4% above bank rate for the period for which payment remains outstanding after the expiry of the said period of 30 days.

Cap on Claim Settlement: CGTMSE introduced a cap on total claim settlement (i.e. settlement of 1st and 2nd installments of claim). Claims of the respective MLI will be settled to the extent of 2 times of the fee including recovery remitted during the previous financial year. Any claim lodged / received exceeding 2 times of the total fee including recovery remitted by MLI will be suspended till such time the position is remedied i.e. payout is brought well within the payout cap limit.

Waiver of legal action : CGTMSE waived initiation of legal proceedings as a pre-condition for invoking guarantee where aggregate outstanding amount of all credit facilities to the borrower does not exceed Rs.50000.

Compilation : Sapandeep Toor (in Sydney - Australia) (Source CGTMSE Website).

Practical Problems based on Banking Ombudsman Decisions

1) A partnership firm had sought refund of pre-payment charges with service tax and other incidental charges levied by the bank for takeover of their credit facilities by other bank. One of the conditions of the initial Credit Arrangement Letter was levy of penal interest at 2% on the sanctioned limits in case of a takeover by another bank / financial institution. The limits were further renewed subsequently for enhanced limits with a condition to levy pre-payment penalty of 2% on the entire facility in case of a takeover by another financial institution / bank. The firm had not accepted this, but continued to utilize the limits in the interim, even after the expiry of renewal date. When the other bank took over the credit facilities, the bank levied pre-payment charges of 2% with service tax and other incidental charges.

Perusal of the documents revealed that as the validity of initial sanction limit had expired, the undertaking agreed upon in the first Credit Arrangement Letter also automatically expired. Further, the new Credit Arrangement Letter for enhanced limit had not been signed by the firm. The bank had, therefore, not adhered to the Guidelines on Fair Practices Code for Lenders, which stipulates that the lender should convey to the borrower, the credit limit along with the terms and conditions thereof and keep the borrower's acceptance of these terms and conditions, on record. The bank was, therefore, advised to refund the pre-payment charges with service tax and incidental charges recovered along with interest at SB rate from the date of levy of such charges till date of refund.

2) The complainant submitted that the bank had reduced the contracted interest rate on NRE Fixed Deposit from 9.75% to 9.25%. In response, the bank attributed this to a directive from RBI that the rate of interest offered should not exceed the rate of interest offered for domestic deposits. The complainants maintained that a Fixed Deposit being a legal contract, bank was supposed to honour the same.

The bank, in its submission before the BO submitted that the complainant had placed various NRE deposits at an interest rate of 9.75% based on RBI circular dated Nov.29, 2013 which gave freedom to banks to offer higher ROI on incremental NRE deposits with maturity of 3 years and above without any ceiling. The bank admitted to have missed the fact that the above instructions were valid up to Feb 28, 2014 and that effective March 1, 2014 the interest rate ceiling was to revert to the position prior to Aug 14, 2013, i.e., interest rate offered by banks on NRE deposits could not exceed the interest on comparable domestic rupee deposits. Hence, the offered interest rate of 9.75%, which was higher than that offered on comparable domestic deposits, was not in order. To correct the mistake, bank advised complainants to return the deposit receipts to the bank for necessary correction.

The Banking Ombudsman observed that in terms of Banking Law and Practices, fixed deposits are accepted for specific periods at specified interest rates as mutually agreed between the depositor and the banker at the time of opening the account. Since the interest rate on the deposit is contractual, it cannot be altered even if the interest rate fluctuates - upward or downward - during the period of the deposit. Therefore, even though the bank had erred in issuing FDRs at a higher rate of interest in violation of instructions of RBI, yet keeping in mind the principles of Practice and Law of Banking, the complainant could not be made to suffer because of bank's fault.

In view of the aforesaid, the bank was directed to reinstate the contracted rate or rectify its act of omission/inadvertence with mutual agreement with the complainant. As the complainants did not agree for any change in the contracted rate of interest, the bank paid interest at the contracted rate. ●

Hedging of Commodity Price Risk and Freight Risk in Overseas Market

On recommendations of Working Group to review the guidelines for Hedging of Commodity Price Risk by Residents in overseas markets (Chairman: Shri Chandan Sinha), RBI issued the Hedging of Commodity Price Risk and Freight Risk in Overseas Markets (Reserve Bank) Directions, 2018 on March 12, 2018.

Eligible Commodities:

- For direct exposures to commodity price risk: All commodities (except Gold, Gems and precious stones)
- For indirect exposures to commodity price risk: Aluminum, Copper, Lead, Zinc, Nickel, and Tin. List of eligible commodities would be reviewed annually.

Permitted Products - Permitted products include:

a. Generic Products

- Futures and forwards
- Vanilla options (call option and put option)
- Swaps

b. Structured Products

- Products which are combination of either cash instrument and one or more generic products
- Products which are combination of two or more generic products

Hedging of Commodity Price Risk: Eligible entities having exposure to commodity price risk for any eligible commodity may hedge such exposure in overseas markets using any of the permitted products.

Hedging of Freight Risk: Eligible entities having exposure to freight risk may hedge such exposure in overseas markets by using any of the permitted products.

Other Operational Guidelines:

i. Banks may permit eligible entities to hedge commodity price / freight risk overseas using permitted products and may remit outside India foreign exchange in respect of such transactions after satisfying themselves that :

- The entity has exposure to commodity price risk or freight risk, contracted or anticipated.
- The quantity proposed to be hedged and the tenor of the hedge are in line with the exposure.
- In case of OTC derivatives, the requirement to undertake OTC hedges is justified.
- In case of hedging using a benchmark price other than that of the commodity exposed to, the requirement to undertake such hedges is justified.
- Such hedging is taken up by the management of the entity under a policy approved by the Board of Directors of a company or equivalent forum for other.
- The entity has the necessary risk management policies in place.
- The entity has reasonable understanding of the utility and likely risks associated with the products proposed to be used for hedging.

ii. OTC contracts shall be booked with a bank or with non-bank entities, permitted to offer such derivatives by their regulators. For this purpose, a list of acceptable jurisdictions shall be specified by FEDAI.

iii. Structured products may be permitted to eligible entities who are (a) listed on recognized domestic stock exchanges or (b) fully owned subsidiaries of such entities or (c) unlisted entities whose net worth is higher than INR 200 crores, subject to the condition that such product are used for the purpose of hedging.

iv. All payments/receipts related to hedging of exposure to commodity price risk and freight risk shall be routed through a special account with the bank for this purpose.

v. Banks to keep on their records full details of all hedge transactions and related remittances made by entity.

vi. Banks shall obtain an annual certificate from the statutory auditors of the entity, confirming that the hedge transactions and the margin remittances are in line with the exposure of the entity. The statutory auditor shall also comment on the risk management policy of the entity for hedging exposure to commodity price risk and freight risk and the appropriateness of the methodology to arrive at the quantum of these exposures.

vii. Banks shall undertake immediate corrective action in case of any irregularity or misuse of these directions. All such cases should be reported to Chief General Manager, Financial Markets Regulation Department, RBI.

Standby Letters of Credit (SBLC) / Guarantees (BG) - Banks can issue SBLC / BG, for a maximum period of one year, on behalf of their clients in lieu of making a remittance of margin money for commodity hedging transactions entered into by their customers. Banks should ensure that these SBLCs / BG are used by their clients for the intended purposes.

Realisation and repatriation of foreign exchange - Realisation and repatriation of forex due or accruing to an eligible entity resulting from permitted transactions under shall be guided by the provisions of the Foreign Exchange Management (Realisation, repatriation and surrender of foreign exchange) Regulations, 2015.

Report to RBI - Banks shall submit a quarterly report to RBI, in the prescribed format in the form of an excel file to email. In case of no transactions, a "Nil" report may be submitted by the bank.

Compilation : Manjot Kaur Toor (Sydney - Australia) (Source RBI website).

- **CCEA APPROVES CONTINUATION OF PMEGP SCHEME:** The Cabinet Committee on Economic Affairs (CCEA) has approved the continuation of the Prime Minister's Employment Generation Programme (PMEGP) for three years till 2020 with a total outlay of rs.5500 Crore. The PMEGP, for which the Khadi and Village Industries Commission (KVIC) is the Nodal Implementation Agency at the National Level, is estimated to create additional employment opportunities for 15 Lakh people. Under the scheme, each district in the country will award a minimum of 75 projects that will help traditional artists and unemployed youth in rural as well as urban areas to set up micro-enterprises.
- **GOVT. DIRECTS PSBs TO CONSOLIDATE OVERSEAS OPERATIONS:** The Government has directed the Public Sector Banks (PSBs) to consolidate their overseas operations against the backdrop of the Rs.127 Billion Letters of Undertakings (LOUs) fraud in Punjab National Bank. Consolidation would be based on business assessment and would include options of swapping assets and liabilities with other Indian Banks , scaling down presence in some places from branches to representative offices and shutting down operations in cases of non-viability.
- **GOVT. TO IDBI BANK ON STAFF DESIGNATION & SALARY STRUCTURE:** The Government has asked IDBI Bank to align with other nationalised banks in terms of designations and salary structure. Presently, the designations of staff and their salary structure are quite different as compared to their counterparts. Senior executives will be redesignated down as DMDs to become EDs and EDs to become GMs. The redesignation will open up more posts at the senior level. IDBI Bank employees to get Industry-level salaries while currently they are being paid more than their counterparts in most banks. Now the government has also asked the IBA to make sure that IDBI Bank's wages are on par with other banks.
- **UNION CABINET APPROVES FUGITIVE ECONOMIC OFFENDERS BILL:** The Union Cabinet has approved a stringent law to confiscate the assets of those who flee the country to escape being brought to account and also cleared setting up of an independent regulator for auditors that are already permitted under the company law. The fugitive Bill when passed by the Parliament will apply with retrospective effect to all such persons as soon as it comes into force. It will cover the cases in which total value is Rs.100 Crore or more to ensure less significant ones don't

Financial Events

overburden the special courts that will hear them.

- **FIVE MORE BANKS TO FACE PCA:** RBI has so far put 11 Banks under the Prompt Corrective Action (PCA) framework. Now 5 more banks may face the PCA of RBI. The new banks are PNB, Union Bank of India, Andhra Bank, Canara Bank and Punjab & Sindh Bank. According the Rating Agency, ICRA, their Net NPAs rose above 6% in December 2017. RBI puts Bank under PCA Framework on the basis of minimum requirements of Capital Adequacy Ratio (PAR) or Net NPAs rise above 6% or the Return on Assets (ROA) is negative for two years. Breach of any one condition is seen as sufficient to trigger PCA.
- **CBEC CLARIFICATION ON GST TO BEAR BY BANKS ON PSLCs:** The Central Board of Excise and Customs (CBEC) has clarified that the Priority Sector Lending Certificates (PSLCs) would not be treated as Securities but as Goods, hence it would attract GST of 18%. However, there is one relief. The GST payable on the Certificates would be available as Input Tax Credit to the lenders who are buying these certificates. Banks are eligible for only 50% of Input Tax Credit and hence the remaining 50% would become their cost.
- **SUPREME COURT IMPOSED PENALTY ON UCO BANK:** (Case- Rajinder Shankar VS. UCO Bank) Mr. Rajinder Shankar was dismissed on the eve of superannuation, denied pension and subsistence allowance and the bank

appealed three times when it lost its case in courts against him. He was not given a fair chance of defending himself during the departmental proceedings. When case came in the Supreme Court, it imposed a penalty of Rs.1 Lakh on UCO Bank for "Unnecessarily litigating against an employee who had superannuated". The Apex Court further stated that by starving Rajinder Shankar, a former manager, of all financial sources, the bank in fact, had denied him access to justice.

- **BANKS BOARD BUREAU TO BE REVAMPED:** The Bank Board Bureau, which started to function in April 2016, was set up for a period of two years with Chairman Vonod Rai. It was initially given the mandate to recommend candidates for the top post in state-run banks and financial institutions. Later its role was expanded to help banks in developing strategies and capital raising plans. Now the government is looking to revamp the Board and may select a successor for Vinod Rai if he does not want to continue. It has further been confirmed that as of now, there is no plan to scrap the Banks Board Bureau.
- **FINMIN SETS UP PANEL ON FINETECH SECTOR:** The Finance Minister has set up an Expert Panel on Finetech Sector under the Chairmanship of Subhash Chandra Garg. The Panel would consider the issues related to development of financial technology space in India to make related regulations more flexible and generate enhanced entrepreneurship. Further apart from reviewing the developments in the sector globally and in India, the Panel would analyse the regulator regime spread over different entities that has impacted the growth of Finetech in India.
- **GOVT. CLEARED RELIEF PACKAGE FOR TELECOM SECTOR:** The Union Cabinet cleared a relief package for the debt-laden telecom sector and approved also to raise the ceiling for spectrum holding to 35%. Currently, the cap on spectrum stands at 25%. Telecom Service Providers (TSPs) collectively face a debt burden of Rs.4.6 Lakh Crore. The Cabinet has also decided to restructure the deferred payment liabilities of TSPs for spectrum. TSPs can thus opt to pay for spectrum bought in auctions in 16 annual instalments instead of the current 10 instalments.
- **TRANSPARENT RULE IN NEW REGULATORY BODY-NFRA:** The Centre's new body to regulate accounting and professionals, the National Financial Regulatory Authority (NFRA) will not have any representation from chartered or cost accountants. This could be a body run by retired bureaucrats. This is mainly aimed to ensure that regulation is not marred by any conflict of interest. If a practicing chartered accountant becomes part of the NFRA, he or she would have to surrender licence and leave the profession. The rules are being framed to maintain his or her transparency and fair play in investigations.
- **NCLAT RULING ON GUARANTORS' OWN ASSETS:** In a landmark judgment, the National Company Law Appellate Tribunal (NCLAT) has ruled that personal assets of guarantors, who in most cases are promoters, can not be liquidated in companies facing corporate insolvency resolution process under Insolvency Bankruptcy Code (IBC). The moratorium on sale of assets applies not just to corporate debtors but also personal guarantors under the IBC.
- **AT1 BONDS RECALL BY SOME BANKS AFFECTS PERPETUAL INSTRUMENTS:** With four banks recalling their additional Tier-1 bonds (AT1) issued as quasi-equity under Basel-III regulations, the stage is set for a slow death of these perpetual instruments in the investor community. To date, Rs.761.14 billion of these bonds have been issued in the local markets. Out of the 11 banks undergoing PCA of RBI, four banks namely Bank of Maharashtra, OBC, Dena Bank and IDBI Bank have recalled Rs.109 billion worth of these bonds from the market after the Government prompted to do so.
- **GOVT. SIMPLIFIED E-WAY BILL RULES:** The Government has simplified the rules for E-way Bill under GST Regime, giving more relief to smaller businesses, FMCG, Courier and e-commerce companies. Under the new rules, in the case of inter-state movement of goods, there will be no need for e-way bill if the consignment's total value is over Rs.50, 000 but the individual consignment is valued at less than Rs.50, 000, giving relief to e-commerce and courier companies that move packages for delivery. Further, if both exempted and taxable goods are moved, only the value of the taxable supply will be considered for the purpose of generating the e-way bill.
- **SEBI TO OPEN DEPOSITORY SERVICES TO CORPORATES:** In a bid to end the dominance of NSDL and CDSL, the two Central Demat Service Providers, SEBI Appointed Panel is likely to propose allowing corporate houses or private outfits into the segment. The Panel was set up in 2017 under the chairmanship of R. Gandhi, former RBI Dy. Governor. Panel is likely to tell SEBI that an anchor investor or a promoter should be allowed to hold as little

as 15% in a depository and the stake of the NSE and BSE in their respective clearing corporations should come down to 51% from the current 100%. Both these measures could curtail the influence of a few banks and stock exchanges and encourage competition in highly regulated environment.

- **RBI INITIATES SPECIAL AUDIT OF PSBS IN TRADE FINANCE:** RBI has initiated special audit of state-owned lenders with focus on trade financing activities, especially relating to issuance of "Letters of Undertakings" (LOUs) by them. In addition, RBI has asked all banks for details of the LOUs they had written including the amounts outstanding, and whether the banks had pre- approved credit limits or kept enough cash on margin before issuance of the guarantees.
- **IBA TO RBI TO RELAX RSOLUTION PROCESS OF NPAs:** The Indian Banks Association (IBA) has requested RBI for relaxation in its revised framework for resolution of stressed assets . It has emphasized that RBI's zero tolerance towards even a day's delay in loan repayment could seriously jeopardize lending to the infrastructure sector, which is a priority area for the government. While banks have no issue in reporting an account to the Central Repository of Information on Large Credits (CRILC) even if there is a day's delay in loan repayment, they want the account resolution process involving restructuring to kick-in only after 60 days and not on the first day of default.
- **SUPREME COURT RULING ON MORTGAGE:** (Case- Dwarika Prasad VS. State of Uttar Pradesh) Supreme Court has ruled that a mortgage can be redeemed before the date fixed for sale or transfer by the secured creditor but not after that. It is only where the dues of the secured creditor are tendered together with costs, charges and expenses before the date fixed for sale that the secured assets are not to be sold or transferred.
- **FUGITIVE ECONOMIC OFFENDERS BILL INTRODUCED :** The Economic Offenders Bill 2018 has been introduced in the Lok Sabha to empower the authorities to confiscate and sell assets of economic offenders especially bank fraudsters and scamsters who have fled the country. The Bill paves the way for confiscation of all assets including benami assets both within and outside the country of declared economic offenders. The proposed law will apply for the economic offenders with monetary value in excess of Rs.100 Crore. All cases under the proposed law will be tried under the PMLA Act and the administrator will sell the fugitive's properties to pay off the lenders.
- **RBI DISALLOWS HEDGING OF PRICE RISK IN GOLD, GEMS:** RBI has revised its directions on "Hedging of Commodity Price Risk and Freight Risk in Overseas Markets" whereby it has excluded gold, jewelry and precious stones from the list of commodities whose price risk can be hedged. The development comes in the backdrop of the Rs.12, 600 Crore Fraud case of Neerav Modi in Punjab National Bank. Hedging is the activity of undertaking a derivative transaction to reduce an identifiable and measurable risk. Under the new directives, commodities whose price risk can be hedged in the case of direct exposure include gold, gems and precious stones.
- **SEBI TO IMPOSE RESTRICTIONS ON ALGO TRADE:** SEBI is planning to impose restrictions on algorithmic trading by introducing a congestion charge for a prescribed slab that will be levied on traders. The move is aimed at ensuring that algorithmic trading does not give market participants an unfair advantage over those with no access to such technology. If the curbs are implemented, SEBI will be the among First to do so globally.
- **SUPREME COURT RULING ON FOREIGN LAW FIRMS:** Supreme Court has ruled that the Foreign Law Firms can not set up offices in India nor can Foreign Lawyers practice in Indian Courts. They can only give advice to the Indian Clients on a "Fly in-Fly out" basis. And if they so on regular basis, it would amount to practice of law. The Apex Court also directed the Central Government and

the Bar Council of India to frame rules in this regard.

- **GOVT. FOR INFLATION INDEXATION FOR UNLISTED SHARES:** In a significant relief for those holding unlisted shares in Startups or other companies, the government is proposing to provide benefit of inflation indexation while computing the long term capital gains tax announced in the Union Budget. This will substantially increase the acquisition cost of these unlisted shares in line with inflation over the holding period, reducing the capital gains amount and the tax levied on the gains. Indexation benefit would be available to those shares that were unlisted as on January 31, 2018 and get listed subsequently bringing some relief to the initial public offer market.
- **ICICI BANK UNVEILS ONLINE OVERDRAFT FACILITY FOR MSMEs:** ICICI Bank has launched instant overdraft facility for micro, small and medium enterprises (MSMEs) customers in a completely online and paperless manner. Customers can get overdraft facility of up to Rs.15 Lakh a year anytime, anywhere using the bank's internet and mobile banking app. The new facility will enable pre-qualified current account customers of the bank running into a few lakhs, to instantly get the facility without visiting the branch and submitting physical documents.
- **RBI GOVERNOR TO GOVT. ON DILUTION OF RBI POWERS:** In a broadside against the government, which has been critical of the role of the banking regulator in failing to spot the massive fraud at PNB , RBI Governor Urjit Patel said that RBI had "very limited authority" over public sector banks as its powers to govern have been curtailed. RBI is actually helpless, as neither it has power to replace the Board of PSBs or force a merger, nor it can revoke licence of a bank for any activity undertaken, as a series of amendments of the Banking Regulation Act by the Government has taken away all the powers of RBI in favour of the Government. Patel has further said that RBI had more powers over Private Sector Banks than over Public Sector Banks and added that a level field should be created for regulations so that PSBs were in the same league as their private peers.
- **BANKS PLAN TIGHTER LENDING NORMS:** All Chief IT Officers, Chief Risk Officers and Executive Directors of Public Sector Banks met for a three days workshop to prepare a roadmap that banks can follow to strengthen their risk mechanism systems. PSBs will discourage multiple banking arrangements for companies with exposure of more than Rs.2.5million in the banking system and will move all such loans to the consortium mode for better monitoring. In case of multiple banking arrangements there is no discipline. Existing accounts will also be consortium lending. PSBs have also decided to further tighten lending to corporates by asking promoters to give equity upfront and assessing the quality of equity by verifying the loss absorption capacity of firms. The banks will need approval from their respective boards to implement the measures agreed upon
- **ED TO HAND OVER FLYING DEFAULTERS' PROPERTIES TO NBCC:** The Enforcement Directorate (ED) would hand over the attached properties including Neerav Modi and Vijaya Mallya to the State-owned Construction Company National Buildings Construction Corporation (NBCC) which will rent out these properties for commercial residential purposes. There is no provision under the Prevention of Money Laundering Act (PMLA) for renting seized properties to earn revenue. The PMLA Act is to be amended on a priority basis to enable putting immovable assets on rent. The NBCC has a subsidiary for properties that it takes over from the Government and other state-owned companies. As per the Plan, the NBCC will get a 20% share from the rent and a commission from the auction.
- **NCLAT RULING ON VIDEO CONFERENCING FACILITY:** National Company Law Appellate Tribunal (NCLAT) has ruled that it is mandatory for companies to provide Video Conferencing facilities for Board Meetings if a director requests for such a facility. It is not the company's sole prerogative to decide whether video conferencing facility should be provided or not. As per framed rules of the Companies Act 2013, companies cannot deny the director's right of participation in Board Meeting via video conferencing.
- **SUPREME COURT RULING ON COMPANY MERGER:** (Case- India-bulls Housing Finance Ltd. VS. Deccan Chronicle Holdings) Supreme Court has ruled that if a non-banking finance company merges with another company, the borrowers of the former become the borrowers of the new company. The new company can invoke the provisions of Securitisation (SARFAESI) Act against the borrowers if they default in repayment of loans.

GENERAL AWARENESS

- While India has 170 Billionaires and US has 571 Billionaires in 2017, the Country which has topped the Hurun Global Rich List with 819 Billionaires- **China.**
- Bank which has launched a User Friendly Feature on its new Corporate Website to search online for locker availability in any branch and user may apply also- **OBC.**
- Financial Services Platform which has emerged as the Largest UPI Transaction Platform- **PAYTM.**
- NHAI to deploy "All Women Toll Collecting Staff" in day shift on at least one toll plaza close to city area in every state on March 8 which is celebrated as- **International Women Day.**
- Bank which tightens Project Financing by not funding Interest payments – **SBI.**
- Bidder with whom the Bankers to proceed while deciding on Resolution Plans for Big Stressed Assets under IBC- **Highest Bidder.**
- Country which has been replaced by China and India as Top Oil Importer- **US.**
- Bank on which RBI has imposed penalty of Rs.3 Crore for violating of various regulations on NPA- **AXIS Bank.**
- Bank on which RBI has imposed penalty of Rs.2 Crore for violating KYC Norms- **Indian Overseas Bank.**
- Bank which has become the First Bank in India to launch a Home Loan Product linked to Treasury Bill Benchmark Rate- **City India**.
- Best Picture which has been awarded at the "90th Oscars Award Ceremony"- **The Shape of Water.**
- Mumbai's Chhatrapati Shivaji International Airport and Delhi's IGI Airport have been jointly adjudged as- **World's Best Airports.**
- Bank on which RBI has imposed a penalty of Rs.40 Lakh for non-compliance of its guidelines relating to Detection and impounding of counterfeit notes- **SBI.**
- A Panel has been reconstituted by SEBI for developing the Corporate Bond Market in India whose Chairman is- **Harun R Khan, Former RBI Dy. Governor.**
- Industrialist who has been ranked at 19th Position in Forbe's Global Billionaires List 2018- **Mukesh Ambani.**
- While Samprada Singh, Chairman of Alkem Laboratories is the Oldest (92-year old) in Forbe's Global Billionaires list 2018, the Youngest Billionaire (39 –year old) is- **Paytm Founder Vijay Shekhar Sharma.**
- City in India which ranks 16th among the top 20 Costliest Cities in the World- **Mumbai.**
- Union Territory which has become the First Energy Surplus UT of India and to run 100% on Solar Power- **Daman & Diu.**
- Payment Bank on which RBI has imposed penalty of Rs.5 Crore for violating it's KYC Guidelines- **Airtel Payment Bank.**
- Great Indian Leaders whose signed vintage photo has been sold at US Auction for $41, 806 more than four times the expected amount- **Mahatma Gandhi walking alongside Madan Mohan Malviya.**
- State which has become the IInd State in the country after Andhra Pradesh to have its "e-Budget"- **Assam.**
- Krishna Kumari Kohli has been sworn as Senator in Pakistan-

First-ever Hindu Dalit Woman.

- Country's Largest Commodity Exchange which will launch for the First Time Future Trading in Brass and will go Live on trading from March 26- **MCX.**
- Country which unveiled plans to merge Banking and Insurance Regulators to reduce risks to its financial system from a rapid build-up in debt- **China.**
- Scheme under which the balance has crossed the Milestone of Rs.75, 000 Crore for the First time since its inception- **Pradhan Mantri Jan Dhan Yojana (PMJDY)**
- Loan Defaulters for whom the Govt. asked banks to "name and shame" them by publishing their photographs and other details in newspapers- **Wilful Defaulters.**
- Bank which, following the regulatory discomfort on crypto currencies, blocked its Cards from being used to purchase or trade in such instruments- **HDFC Bank**.
- Office Market in India which has emerged as the Third Most Expansive Office Market in the AsiaPacific Region- **Connaught Place in New Delhi.**
- Award which Federation of Karnataka Chamber of Commerce won in the large-size chamber of category (More than 500 members) – **International Chamber of Commerce Award 2018**.
- Centre has approved the maximum speed limit at 70km per hour for cars, 60 kmph for cargo carriers and 50 kmph for two wheelers on- **Urban Roads.**
- As per 2018 World Happiness Report, World's Happiest Country is- **Finland.**
- Bank which declared Vellore Village near Coimbatore as "Digital Village" where its residents can have access to banking services at their doorstep- **Bank of India.**
- Universities of the Country in which World's Best-Paid MBA Graduates are- **US Universities.**
- Despite weak secondary market conditions, Bank whose IPO subscribed 14.6 times- **Bandhan Bank.**
- All banks and payment providers were instructed to reject UPI transactions generated from non-compliant apps by- **National Payments Corporation of India**.
- While Austria's Capital Vienna is unbeatable as Word's Most Liveable City, Iraq's Capital which is still Worst- **Baghdad.**
- Mission which has been cleared by the Union Cabinet- **National Health Protection Mission "Ayushman Bharat".**
- Bank which expects losses of Rs.14, 500 Crore in this financial year- **PNB.**
- National Industry Body in which Anant Goenka, MD of CEAT has been unanimously elected as- **Chairman of Automotive Tyre Manufactures' Association.**
- Act under which the Govt. has enhanced the ceiling of gratuity amount to Rs.20 Lakh from existing Rs.10 Lakh- **Payment of Gratuity Act.**
- India has been ranked at 109th position in- **Mobile Internet Download Speed.**
- Scheme under which Govt. to contribute Employer's full admissible contribution to Employees Pension Scheme for first three years from date of registration of new employee- **Pradhan Mantri Rojgar Protsahan Yojana.**
- India's Biggest Farmers' Coopeartive which becomes debt-free after repaying Rs.4.78 billion- **National Agricultural Cooperative Marketing Federation of India**.
- Bank which has been penalised and slapped with a Fine of Rs.59 Crore by RBI for violating Bond Sale Norms- **ICICI Bank**.
- Sector which reported 12533 frauds aggregating to Rs,18,170 Crore in 2017- **Domestic Banking Sector.**
- India leads the Asia-Pacific Region in –**Data Literacy.**
- Three Airlines on whom Competition Commission of India collectively imposed a fine of Rs.54 Crore for allegedly fixing and revising fuel surcharge- **Jet, IndiGo and SpiceJet Airways.**
- Small Finance Bank on which RBI has imposed a penalty of Rs.10 Lakh for noncompliance of one of its licencing conditions- **Equitas Small Finance Bank.**
- State whose government departments have emerged as the Biggest Power Defaulters in the country with the total outstanding to touch Rs.107 billion this financial year- **UP.**
- Bank which has introduced a new Remittance Service in which resident Indians can remit money online globally- **DCB Bank.**
- Bank which has reduced the penalty for non-maintenance of Minimum Balance by up to 75%- **SBI.**
- Bank on whom Monetary Authority of Singapore imposed penalties of $3.95 million for anti-money laundering breaches – **Standard Charterd Bank.**
- Court which pronounced that IBPS may draw up Reserve List but not to fill vacancies without permission.- **Bombay High Court.**
- Customers for whom SBI and India Mortgage Guarantee Corporation signed pact to offer Mortgage Guarantee Scheme- **Non-salaried and Self-employed Home Loan Customers.**

MOCK-TEST PAPER

01 Initiation of legal proceeding as a pre-condition for invoking of guarantees, is waived by CGTMSE in respect of those credit facilities covered under CGS, where the aggregate outstanding amount considered eligible for claim settlement by CGTMSE does not exceed ____ per claim.

a Rs.50000
b Rs.75000
c Rs.1 lac
d Rs.2 lac

02 The lending institution under CGTMSE guarantee, may invoke the guarantee in respect of credit facility within a maximum period of ____ years subject to certain other conditions.

a one year
b two years
c three years
d 5 years

03 Under a claim cap conditions, the claims of the respective member lending institution under CGTMSE guarantee scheme, will be settled to the extent of ____ times of the fee including recovery remitted during the previous financial year.

a equal to
b two times
c three times
d half of

04 Any claim lodged / received exceeding prescribed limit in CGTMSE guarantee scheme :

a will be referred to RBI for approval
b will be suspended till payout is brought within the cap limit.
c will be rejected outrightly
d will be settled

05 Under CGTMSE credit guarantee scheme, the standard rate of annual guarantee fee for loans to women, micro enterprises or loans in North Eastern States, up to Rs.5 lac, after 1st year, is ___ , for loans sanctioned or renewed on or after 1.4.2018?

a 0.75% of sanctioned amount
b 0.75% of outstanding balance
c 1.00% of sanctioned amount
d 1.00% of outstanding amount

06 Under CGTMSE credit guarantee scheme, the standard rate of annual guarantee fee for loans other than to women, micro enterprises or loans in North Eastern States, up to Rs.5 lac, during 1st year, is ___ , for loans sanctioned or renewed on or after 1.4.2018?

a 0.75% of sanctioned amount
b 0.75% of outstanding balance
c 1.00% of sanctioned amount
d 1.00% of outstanding amount

07 Under CGTMSE credit guarantee scheme, the standard rate of annual guarantee fee for loans other than to women, micro enterprises or loans in North Eastern States, up to above Rs.5 lac to Rs.50 lac, after 1st year, is ___ , for loans sanctioned or renewed on or after 1.4.2018?

a 1.35% of sanctioned amount
b 1.50% of outstanding balance
c 1.00% of sanctioned amount
d 1.00% of outstanding amount

08 Under CGTMSE credit guarantee scheme, the standard rate of annual guarantee fee for loans to women, micro enterprises or loans in North Eastern States, up to above Rs.5 lac to Rs.50 lac, during 1st year, is ___ , for loans sanctioned or renewed on or after 1.4.2018?

a 1.35% of outstanding amount
b 1.50% of outstanding balance
c 1.00% of sanctioned amount
d 1.00% of outstanding amount

09 Under CGTMSE credit guarantee scheme, the standard rate of annual guarantee fee for loans to women, micro enterprises or loans in North Eastern States, up to above Rs.50 lac to Rs.200 lac, during 1st year, is ___ , for loans sanctioned or renewed on or after 1.4.2018?

a 1.35% of outstanding amount
b 1.50% of outstanding balance
c 1.80% of sanctioned amount
d 1.80% of outstanding amount

10 Under CGTMSE credit guarantee scheme, the standard rate of annual guarantee fee for loans other than to women, micro enterprises or loans in North Eastern States, up to above Rs.50 lac to Rs.200 lac, after 1st year, is ___ , for loans sanctioned or renewed on or after 1.4.2018?

a 1.35% of outstanding amount
b 1.50% of outstanding balance
c 1.80% of sanctioned amount
d 1.80% of outstanding amount

11 In respect of credit facilities sanctioned or renewed on or after 1.4.2018, CGTMSE provides guarantee cover @ ___ of amount in default, where the amount is Rs. 50 lac or above?

a 50%
b 75%
c 80%
d 85%

12 Under CGTMSE credit guarantee

scheme, the retail trade loans in MSE are guaranteed to the extent of __ if sanctioned or renewed on or after 1.4.2018:
a up to Rs.200 lac
b Rs.10 lac to Rs.200 lac
c up to Rs.100 lac
d Rs.10 lac to Rs.100 lac

13 Under CGTMSE credit guarantee scheme, the guarantee fee for 1st year for retail trade loans in MSE is ___ if sanctioned or renewed on or after 1.4.2018:
a 1.35% of outstanding amount
b 1.50% of outstanding balance
c 2.00% of sanctioned amount
d 1.00% of outstanding amount

14 Under CGTMSE credit guarantee scheme, the guarantee cover for retail trade loans in MSE is ___ of amount of default, if sanctioned or renewed on or after 1.4.2018:
a 50%
b 75%
c 80%
d 85%

15 According to current RBI guidelines, which of the following can be issued by banks:
a letter of undertaking
b letter of credit
c letter of comfort
d none of the above

16 The ways and means advance limit for the 1st quarter of FY 2018-19, has been fixed RBI for Central Govt. at:
a Rs.60000 cr
b Rs.55000 cr
c Rs.50000 cr
d Rs.40000 cr

17 If there is overdraft in case of Ways and Means advance, RBI charges interest at :
a Repo rate
b Reverse repo rate
c repo rate + 2%
d bank rate + 2%

18 Responsibility of administering the valuation of govt. securities, w.e.f. 1.4.2018 is done by:
a Indian Banks Association
b Reserve Bank of India
c Financial Benchmark India Pvt Ltd
d FIMMDA

Recalled Questions

19 As per RBI guidelines, a borrower can obtain his credit report from a Credit Information Company free of charges:
a once in a period of two year
b once in a period of one year (April to March)
c once in a period of one year (January to December)
d twice in a period of one year (April to March)

20 Mr. D is having one overdraft account with us. He is also having three other accounts with us, (namely) his personal SB Account, Joint account with his wife and one u/gship account with his son. Bank can use right of set off in which of these accounts.
a right is available for all the three accounts
b right available in the joint account and SB account
c right available in u/gship account and personal SB account
d right available in u/gship account and joint account
e right available in personal SB account

21 In which of the following deposit accounts, the interest payment is subject to TDS:
a if interest on FDR payment exceeds Rs.10000 in a financial year
b if interest on RD exceeds Rs.10000 in a financial year
c any amount of interest payment, on NRO saving bank account
d all the above

22 Bank allowed an advance under KVI Sector. This will be classified as:
a micro enterprise irrespective of the amount of original investment in plant and machinery
b micro enterprise if the investment in plant and machinery is within the ceiling for micro enterprises
c small enterprise
d such advances are not priority sector advance

23 The banks can determine their actual lending rates on loans and advances with reference to:
a base rate
b marginal cost based lending rate
c benchmark prime lending rate
d bank rate

24 As per exposure ceiling guidelines of RBI, the maximum exposure for a company engaged in infrastructure activities is restricted to:
a 15% of paid up capital
b 15% of net worth
c 20% of net worth
d 20% of capital fund

25 As per Section 269-T of Income Tax, the cash payment of FDR can be made for an amount:
a up to Rs.20000 excluding interest
b up to Rs.20000 including interest
c less than Rs.20000 excluding interest
d less than Rs.20000 including interest

26 The term 'accrued' in financial parlance, means :
a what has been received or paid during a financial period
b what has become due for receipt or payment during a financial period

c what is outstanding for receipt or payment during a financial period

d what is due for receipt or payment during a financial period but not received or paid

27 A and B maintain a saving bank account as former or survivor. A requests bank to add the name of C. The bank:

a Should not accept the request

b Can accepts the request because he is responsible for the operations in the account.

c In joint accounts bank should act on the request from both but here B has no right to operate the account.

d Bank can add if B also consents

e: a and d

28 As per Issuance of Non-Convertible Debentures (Reserve Bank) Directions, 2010, Non-Convertible Debenture (NCD) means a debt instrument issued by a corporate (including NBFCs) with maximum original or initial maturity ___ and issued by way of _____:

a up to one year, private placement

b up to 6 months, private placement

c up to one year, public issue

d up to one year, rights issue

29 The amount of education loan that can be classified as priority sector is restricted to ____:

a education in India Rs.20 and education abroad Rs.10 lac

b education in India Rs.10 and education abroad Rs.10 lac

c education in India Rs.10 and education abroad Rs.20 lac

d education in India Rs.20 and education abroad Rs.20 lac

30 B wants to nominate his wife and son for his saving bank account.

a Bank will accept the nomination as they are his family members

b Bank will accept if their share is decided before hand

c Bank will not accept as it is proposed to be made in favour of two persons

d a and b

31 A draft presented for payment through clearing is unsigned. The bank:

a Should not pay as it is not an operative instrument at all

b Will not pay the draft as there is risk

c bank to pay as bank has received the value

d a and b

32 Under NEFT, in order to streamline the system and complete the processing cycle on a near-real-time basis, the concept of return within ____ of completion of a batch has been introduced :

a T+1

b last batch of the same day

c two hours (B+2)

d first batch of the next date

33 While rescheduling the short term crop loan in case of crop loss, the banks may allow a maximum period of repayment of up to ____ years (including the moratorium period of 1 year) if the loss is between 33% and 50%.

a one year

b two years

c three years

d five years

34 The term apiculture stands for:

a Rearing of earth worm

b Rearing of honey bees

c Cultivation of mushroom

d Rearing of earth worm

35 X has proposed that in his deposit account one of the following should be accepted as a nominee. Which one of these will not be accepted

a a minor with age of only 5 year

b a senior citizen with age of 110 years

c a person who has recently been declared insolvent

d a trust, of whose X is a trustee

36 Which of the following risk has been included under provisions of Basel-2, while it was not included in Basel-1:

a settlement risk

b market risk

c credit risk

d none of these

37 In which of the following components, the total working capital fund based limit (called maximum permissible bank finance) is segregated in case of Loan System of Credit Delivery:

a cash credit and bills portion

b cash credit and term loan components

c cash credit and demand loan components

d bills portion and demand loan component

38 The business correspondent is :

a agent for the customer

b trustee for the bank

c agent of the bank

d creditor of the bank

39 Mismatched note is a note:

a which is formed by joining a half note of one note to a half of anoth-er note

b which as alternation has been made

c which has been divided vertically near the centre

d a portion of which is missing

40 Loans granted by banks to distressed poor who have to prepay their debt to the informal sector against appropriate collateral or group security, can be classified by banks, in their books as:

*a weaker section advance

indirect finance to agriculture

c direct finance to agriculture

d self-help groups

41 Your branch has received a letter of credit from an overseas Bank, in favour of M/s Rama Exports which provides for allowing the exporter the advance at pre-shipment stage. Which among the following is the classification of this letter of credit?

a Transferable letter of Credit

b Stand by letter of credit

c Back to back letter of credit

d Red Clause letter of Credit

e Green Clause letter of credit

42 Hari and Mohan are maintaining a joint saving bank account and bank receives garnishee order in Hari's name where the balance in the account is Rs. 10000.

a The order will be applicable to the share of Hari which is 50%

b The order will be applicable to the whole of the amount.

c The order will not be applicable at all, in joint account as account is not in the same name and capacity.

d withy receipt of order, operations would be stopped

43 Contribution in break even point is equal to:

a selling price – fixed cost

b fixed cost – variable cost

c variable cost + fixed cost

d selling price + fixed cost

e selling price – variable cost

44 What is the maximum deposit that could be accepted under the Senior Citizen Scheme?

a Rs.05.00 lac

b Rs.07.50 lac

c Rs.10.00 lac

d Rs.12.50 lac

e Rs.15.00 lac

45 If nothing is mentioned in the letter of credit about insurance, the insurance will be for:

a no insurance

b equal to the value of goods

c 110% of CIF value

d 100% of FOB value

46 Digital signatures means:

a a coded confirmation of drawer in electronic form attached to an electronic record

b a coded signature with digital equipment

c a signature with handwriting subsequently scanned

d a confirmation with electronic and digital media

e a code.

47 Bank has an account in the name of Master Sunil under guardianship of his father Naresh Kumar, who changes his religion. Who will operate this account and why.

a father, since he is still guardian

b father, since he is still alive

c his mother being the guardian, as after change of religion father ceases to be a guardian

d father, since bank has nothing to do with the change of religion of the father or mother.

Answers

01 a	02 c	03 b	04 b	05 d
06 c	07 b	08 a	09 c	10 d
11 b	12 d	13 c	14 a	15 b
16 a	17 c	18 c	19 c	20 e
21 d	22 a	23 b	24 d	25 d
26 b	27 e	28 a	29 b	30 c
31 c	32 c	33 b	34 b	35 d
36 d	37 c	38 c	39 a	40 a
41 d	42 c	43 e	44 e	45 c
46 a	47 c			

Electoral Bonds

Government notified the scheme on 2 January 2018.

Electoral Bond is a financial instrument for making donations to political parties. These are issued by Scheduled Commercial banks upon authorisation from the Central Government, to intending donors, only against cheque and digital payments (purchase by paying cash is not allowed).

These bonds shall be redeemable in the designated account of a registered political party within the prescribed time limit from issuance of bond.

Type of instrument : The bonds are in the nature of promissory notes. The identity of the donor will not be known to the receiver.

The political party can convert these bonds back into money via their bank accounts. The bank account used must be the the account notified to the Election Commission. The bonds have to be redeemed within a prescribed time period, which is 15 days.

Main Highlights of Electoral Bonds:

It is an interest free banking instrument issued on a non-refundable basis. It is not available for trading.

- No loan is provided against these bonds.
- A citizen of India or a body incorporated in India is eligible to purchase the bond.
- It would be issued/purchased for any value, in multiples of Rs.1,000, Rs.10,000, Rs.1,00,000, Rs.10,00,000 and Rs.1,00,00,000 from the Specified Branches of the State Bank of India (SBI).
- The purchaser would be allowed to buy Electoral Bond(s) either singly or jointly with other individuals, only on due fulfilment of all the extant KYC norms and by making payment from a bank account either using a cheque or electronically.
- The bond does not carry the name of payee.
- The Bond has a life of only 15 days during which it can be used for making donation only to the political parties registered under section 29A of the Representation of the Peoples Act, 1951. These parties should have secured minimum 1% of the votes polled in the last general election to the House of the People or a Legislative Assembly.
- The Bonds shall be available for purchase, for a period of 10 days each, in the months of January, April, July and October.
- An additional period of 30 days shall be specified by the Central Government in the year of the General election to the House of People.
- The Electoral Bond(s) shall be encashed by an eligible political party only through a designated bank account with the authorised bank.
- No payment shall be made to any payee political party if the bond is deposited after expiry of the validity period and the bond deposited by any political party to its account shall be credited on the same day.
- The information furnished by the buyer shall be treated confidential by the authorised bank and shall not be disclosed to any authority for any purposes, except when demanded by a competent court or upon registration of criminal case by any law enforcement agency.
- No commission, brokerage or any other charges for issue of bond shall be payable by the buyer against purchase of the bond.

Compliance, Filing of Returns and Taxability

- In accordance with the suggestion made by the Election Commission, the maximum amount of cash donation that a political party can receive is stipulated at Rs. 2000/- from one person, pursuant to the announcement in Union Budget 2017-18.
- Every political party would have to file its return within the time prescribed in accordance with the provision of the Income-tax Act.
- As per Section 29C(1) of The Representation of People Act, 1951, the political party needs to disclose the details of non-governmental corporations and persons who donate more than Rs. 20,000 to it in a financial year.
- Vide the Finance Bill 2017, it has been specified that no report needs to be prepared in respect of the contributions received by way of an electoral bond.
- This reform is expected to bring about greater transparency and accountability in political funding, while preventing future generation of black money.

SHADOW BANKING

Shadow banking comprises a diverse set of institutions and markets that, collectively carry out traditional banking functions—but do so outside, or in ways only loosely linked to, the traditional system of regulated depository institutions. Examples of shadow banking system include securitization vehicles, asset-backed (ABCP) conduits, money market mutual funds, markets for repurchase agreements (repos), investment banks, and mortgage companies.

National Financial Reporting Authority (NFRA)

Union Cabinet approved the establishment of NFRA on March 01, 2018. The decision to set up NFRA, came in the wake of various auditing lapses in the banking sector, including the Rs. 12,700 crore fraud at Punjab National Bank. NFRA shall function as independent regulator for the auditing profession, as per Section 132 of Companies Act 2013. It is an oversight body for auditors and its jurisdiction would extent to all listed companies as well as large as unlisted public companies.

Composition of NFRA

NFRA, with HQ in New Delhi, would have a Chairperson and 3 full-time members, in addition, to a secretary (provision is there for 15 members).

Functions of NFRA

i. To recommend to Central Govt. on the formulation and laying down of accounting and auditing policies and standards.

ii. To monitor and enforce the compliance with accounting standards and auditing standards

iii. To oversee the quality of service of the professions associated with ensuring compliance with such standards, and suggest measures required for improvement in quality of service.

Power of NFRA

1. Will notify accounting standards to the government which audit companies need to monitor as well as adhere to.
2. Enforce such policies and standards into practices by auditors and companies.
3. Assess the service quality of the auditing profession and their compliance with the laid down policies and standards.
4. In case of disciplinary misconduct by CA professionals, it will have the authority to either penalize (minimum Rs.1 lac to Rs.10 lac) or debar CA or the firm for upto 10 years.
5. It shall be entrusted with same powers as vested with a civil court.
6. It can issue summons and examine the concern on oath.
7. It can order inspection in respect of any book, documents registers of any of the professional firm being probed.

As per the draft National Reporting Authority rules, unlisted companies with net worth not less than Rs. 500 crores or paid-up capital not less than Rs. 500 crores or annual turnover not less than Rs. 1,000 crores as on 31st March of immediately preceding financial year and companies having securities listed outside India, will be under jurisdiction of NFRA

NFRA and jurisdiction of the ICAI

Institute of Chartered Accountants of India (ICAI) is currently entrusted with the task of taking disciplinary action against the financial auditors. Some of these powers will be vested in NFRA.

ICAI would continue to monitor its members in general and specifically with respect to audits pertaining to private limited companies, and public unlisted companies below the threshold limit to be notified in the rules. It will also continue to make recommendations on accounting and auditing standards and policies to the NFRA.

DATA COLUMN

Business of Banks

(Rs.in cr)	Mar31'17	Mar16'18
Aggregate deposits	10805150	11060750
Cash in hand/RBI	570490	516850
Investments	3043660	3347700
Bank Credit:	7881890	8377450
-Food	53930	42170
-Non-Food	7827960	8335280
Cash-Deposit Ratio	5.27	4.70
Investment-Deposit	28.14	30.29
Credit-Deposit	72.95	79.36

Money Stock

(Rs.in cr)	Mar31'17	Mar16'18
M3 (Out of which)	12791940	13683750
(a) Currency with public	1264120	1752850
(b) Demand deposits-Banks	1396740	1296870
(c) Time Deposits - Banks	10109980	10613050
(d) Other deposits with RBI	21090	20980

Sources of Money Supply

(a) Net Bank credit to Govt	3856610	4003680
(b) Bank credit to Comrcl sector	8411490	8959510
(c) Net Forex assets of Banks	2558230	2860900

Important Banking Indicators

Statutory Liquidity Ratio	19.50%	(10.10.2017)
Cash Reserve Ratio	04.00%	(15.02.2013)
Overnight LAF (of NDTL)	0.25%	
14-days term Repo(of NDTL)	0.75%	
Reverse Repo Rate	05.75%	(02.08.2017)
Repo Rate	06.00%	(02.08.2017)
MSF Rate	06.25%	(02.08.2017)
Bank Rate	06.25%	(02.08.2017)

Small Savings Interest Rates

PPF	7.6%	(01.04.2018)
NSC	7.6%	(01.04.2018)
Sukanya Smridhi	8.1%	(01.04.2018)
Senior Citizen Saving	8.3%	(01.04.2018)

Capital & Money Market Indicators

Parameter	end-Mar17	end-Mar18
Dollar-spot TT (Rs.)	66.73	64.99
BSE - Sensex (points)	28832	32947
NSE - Nifty(S&P CNX)	8898	10218
Foreign reserves (Million $)	362793	422533
Gold /Oz in USD)	1238	1343

INDIAN ECONOMY-IMPORTANT PARAMETERS

RBI's growth estimate for 2017-18	: 7.6%
GDP growth-2016-17 (revised estimate)	: 7.1%
GDP@constant mkt prices (cr)2017.18	: 12985363
GVA@2011-12 basic prices (cr) 2017-18	: 11871321
GDP projected by Govt. for 2018-19	: 18722302
Fiscal Deficit Target (2018-19) 3.3% of GDP	: 624276 cr
Revenue Deficit Target (2018-19) 2.2% of GDP	: 416034 cr
Wholesale Price Index	: 1.5%
Money Supply (M3) expansion	: 12.9%
Exports during 2016-17	: 274.0 bn
Imports during (2016-17)	: 379.6 Bn
Export target - 2017-18 (in $)	: 310 bn
India's share in world merchandise export	: 1.70%
India's currency rating (S&P)	: BB Postv
India's external debt (Jun 2017) US $	: 485.8 Bn
Tax-GDP ratio (2014-15)	: 9.93%
Apr- Feb18:Export $ 273.7 bn$ Imports	: 416.9 bn
Per capita Income 2017-18 (Rs.)	: 111782
Indian economy's ranking in PPP terms	: 3rd
Indian economy's ranking in world in value:	10th

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