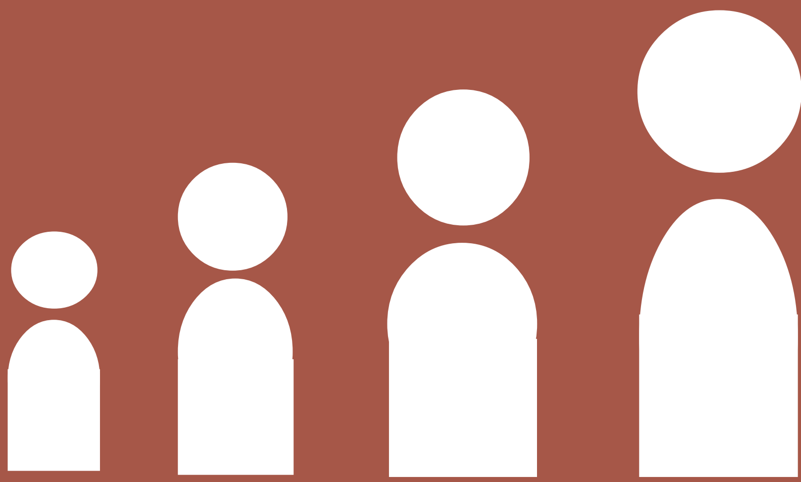
Banking events Update



Those who win, are those, who think they can

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BANKING POLICY

Payment of Interest - DEA Fund

In circular dated 26.042014, RBI had specified that the rate of interest payable by banks to the depositors/claimants on the unclaimed interest bearing deposit amount transferred to the DEA Fund shall be 4% simple interest p.a. until further notice.

The rate of interest has been reviewed by RBI on 07.06.18 and it decided that the rate of interest payable by banks to the depositors/ claimants on the unclaimed interest bearing deposit amount transferred to the Fund shall be 3.5% simple interest per annum with effect from July 01, 2018. The settlement of all claims received by the banks on or after July 01, 2018 will be at this rate, until further notice.

Priority Sector Lending – Targets and Classification

In terms of extant Master Directions, loans to individuals up to Rs.28 lakh in metropolitan centres (with population of ten lakh and above) and Rs. 20 lakh in other centres, are eligible to be classified under priority sector, provided that the cost of dwelling unit does not exceed Rs.35 lakh and Rs.25 lakh, respectively.

As per RBI circular dated 19.06.18, with a view to bringing convergence of the Priority Sector Lending guidelines for housing loans with the Affordable Housing Scheme, and to give a filip to low-cost housing for the Economically Weaker Sections and Low Income Groups, the housing loan limits for eligibility under priority sector lending have been revised to Rs.35 lakh in metropolitan centres (with population of ten lakh and above), and Rs.25 lakh in other centres, provided the overall cost of the dwelling unit in the metropolitan centre and at other centres does not exceed Rs.45 lakh and Rs.30 lakh, respectively.

Furthermore, the existing family income limit of Rs.2 lakh per annum, prescribed in the Master Directions, for loans to housing projects exclusively for the purpose of construction of houses for Economically Weaker Sections (EWS) and Low Income Groups (LIG), has been revised to Rs.3 lakh per annum for EWS and Rs.6 lakh per annum for LIG, in alignment with the income criteria specified under the Pradhan Mantri Awas Yojana.

Portfolio by Banks – Spreading of MTM losses and creation of Investment Fluctuation Reserve (IFR)

In view of the continuing rise in the yields on Government Securities, as also the inadequacy of time to build investment fluctuation reserve (IFR) for many banks, RBI decided on 15.06.18, to grant banks the option to spread provisioning for their mark to market (MTM) losses on all investments held in AFS and HFT for the quarter ending June 30, 2018 as well. The provisioning required may be spread equally over up to four quarters, commencing with the quarter ending June 30, 2018.

Banks that utilise the above option shall make suitable disclosures in their notes to accounts/ quarterly results providing details of -

(a) the provisions made for depreciation of the investment portfolio for the quarter ending June 2018 and

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

Customer Service provided by agency banks to pensions

RBI received complaints from various quarters that pensioners are not being treated with due consideration by bank officials, specifically the old pensioners, when they come to the branches for pension related transactions.

On 21.06.18, RBI advised all agency banks disbursing pension , to provide considerate and sympathetic customer service to the pensioners, specially to those pensioners who are of old age.

Liberalised Remittance Scheme – Harmonisation of Data and Definitions

On 19.06.18, RBI decided that furnishing of Permanent Account Number (PAN), which hitherto was not to be insisted upon while putting through permissible current account transactions of up to USD 25,000, shall now be mandatory for making all remittances under Liberalised Remittance Scheme (LRS).

Further, in the context of remittances allowed under LRS for maintenance of close relatives, RBI, in consultation with Government, decided to align the definition of 'relative' with the definition given in Companies Act, 2013 instead of Companies Act, 1956.

Basel III Framework on Liquidity Standards - Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and LCR Disclosure Standards

Presently, the assets allowed as the Level 1 High Quality Liquid Assets (HQLAs) for the purpose of computing the LCR of banks, inter alia, include (a) Government securities in excess of the minimum SLR requirement and, (b) within the mandatory SLR requirement, (i) Government securities to the extent allowed by RBI under Marginal Standing Facility (MSF) [presently 2 per cent of the bank's NDTL] and (ii) under Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR) [presently 9 per cent of the bank's NDTL].

RBI decided on 15.06.18, to permit banks, with effect from the date of this circular, to reckon Government securities held by them up to *another* 2 per cent of their NDTL, under

FALLCR within the mandatory SLR requirement, as Level 1 HQLA for the purpose of computing their LCR. Hence, the carve-out from SLR, under FALLCR will now be 11 per cent, taking the total carve out from SLR available to banks to 13 per cent of their NDTL.

For the purpose of LCR, banks shall continue to value such government securities reckoned as HQLA at an amount not greater than their current market value (irrespective of the category under which the security is held, i.e., HTM, AFS or HFT).

Section 23 of the Banking Regulation Act, 1949 – Branch Authorisation Policy – Left Wing Extremism affected districts – Revised List

As per extant instructions (18.05.17) a list of 106 Left Wing Extremism (LWE) affected districts in the country was furnished, which was based on Government of India notification dated February 24, 2016.

As the Government of India has revised the list to 90 LWE affected districts, banks have been advised by RBI to follow the revised list.

Foreign Investment in India -Reporting in Single Master Form

On 05.04.18, Reserve Bank, with the objective of integrating the extant reporting structures of various types of foreign investment in India, will introduce a Single Master Form (SMF). The SMF would be filed online.

SMF would provide a facility for reporting total foreign investment in an Indian entity as also investment by persons resident outside India in an Investment Vehicle.

Prior to the implementation of the SMF, Reserve Bank would provide an interface to the Indian entities, to input the data on total foreign investment in a specified format. RBI on 07.06.18 indicated that the interface was available on RBI website from June 28, 2018 to July 12, 2018. Indian entities not complying with this pre-requisite will not be able to receive foreign investment (including indirect foreign investment) and will be non-compliant with Foreign Exchange Management Act, 1999 and regulations made thereunder.

External Commercial Borrowings (ECBs) – Monthly reporting through ECB 2 Return

Master Direction dated 01.01.16, inter alia, stipulates the reporting arrangement for ECBs through ECB-2 Return.

RBI on 07.06.18, decided to capture the details of the hedges for ECBs through a simplified format of ECB 2 Return. Part E of the Return, accordingly, has been modified so as to include only standard information on hedged/unhedged ECB exposure. Details of hedging in Part E.1 of the Return and foreign exchange earnings and expenditure in Part E.2 of the Return should be furnished in additive format.

RBI informed (07.06.18) that revised monthly reporting format of ECB 2 Return would be applicable from month-end June 2018. RBI reiterated that any lapse at the time of reporting through this return and / or failure to adhere to the time line of its submission and / or any lapse at the time of reporting through Form 83, is a contravention of the provision of Foreign Exchange Management Act, 1999 (42 of 1999).

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Enforcement Action Framework for Statutory Auditors for lapses in the statutory audit of Commercial banks

Statutory Auditors (SAs) of banks play an important role in contributing to financial stability when they deliver quality bank audits which foster market confidence in banks' financial statements. Quality bank audits are also a valuable input in the supervisory process of the Reserve Bank of India (RBI) for commercial banks.

In the interest of improving audit quality and with a view to instituting a transparent mechanism to examine accountability of Statutory Auditors in a consistent manner, RBI decided (29.06.18) to put in place a graded enforcement action framework to enable appropriate action by the RBI in respect of the banks' Statutory Auditors for any lapses observed in conducting a bank's statutory audit. The framework would cover, inter alia, instances of divergence identified in asset classification and provisioning during the RBI inspection vis-à-vis the audited financial statements of banks above the threshold specified as under as per RBI circular dated 18.04.17:

(a) the additional provisioning requirements assessed by RBI exceed 15 percent of the published net profits after tax for the reference period or

(b) the additional Gross NPAs identified by RBI exceed 15 percent of the published incremental Gross NPAs[1] for the reference period, or both.

The **salient features** of the framework are as under:

Various statutes, viz., Banking Regulation Act, 1949, Banking Companies (Acquisition and Transfer of Undertaking) Act 1970/1980 and State Bank of India Act, 1955 stipulate that commercial banks shall obtain previous approval of the Reserve Bank of India (RBI) before appointing any Statutory Auditors (SA).

In exercise of these statutory powers, in case of those auditors whose audit quality or conduct is not found satisfactory by the RBI, it decides on enforcement action against them by way of not approving their appointments for undertaking statutory audit in commercial banks for a specified period.

Further, the RBI may also not approve auditor/s, who have been debarred by other regulators/law-enforcement agencies/government agencies.

As regards the cases pending against auditors with the aforesaid agencies, the RBI would debar such audit firms, provided the case is of serious nature, where public interest is involved and it is established, prima facie, that the firm is culpable, either by the RBI or by the above entities and brought to the RBI's notice.

Types of lapses to be considered:

a) Lapses in carrying out audit assignments resulting in misstatement of a bank's financial statements;

b) Wrong certifications given by the auditors with respect to list of certifications as advised by the RBI to banks;

c) Wrong information given in the Long Form Audit Report (LFAR);

d) Issues related to misconduct by auditors in respect of their bank audit assignments; and

e) Any other violations/lapses vis-à-vis the RBI's directions/guidelines regarding the role and responsibilities of the SAs in relation to banks.

Process of enforcement

The determination of actionable lapses on the part of the banks' Statutory Auditors would be made on a case-specific basis, based on the following two dimensions:

a) the fact of lapse; and

b) the materiality of the lapse.

Parameters to determine the fact of lapse : The fact of the lapse would be determined based on the existence of the following parameters:

a) Statutory provision and directive/guideline issued thereunder and violation thereof; and /or

b) Variance between the figures/statements as appearing in audited financial statements/ certifications/LFAR given by the Statutory Auditor of the bank and the actuals, as determined later by the RBI; and/or

c) Non-adherence to/violation of the RBI's instructions/ guidelines, etc.; and/or

d) Any other lapse/violation like misconduct of the SA.

Aspects related to determination of materiality : The materiality of lapse would be determined based on the following aspects:

a) the **extent** of the violation, i.e., by what degree or percentage the figures in audited financial statements/ certifications/LFAR given by SAs vary, vis-à-vis the actual figures, as determined later by the RBI, on account of the lapse/violation;

b) the **frequency** of the lapse/violation; and

c) the **impact** of the lapse/violation:

The impact of the violation would be assessed in terms of impact on a bank's Capital to Risk Weighted Assets Ratio (CRAR) considering the amount involved in the violation for divergence-related cases, and in case of other lapses, the impact would be calculated as the effect on the bank's business area concerned.

d) Aggravating factors such as repeated or persisting violations and wrong compliance, if any, would also be

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

taken into account.

The adjudication process

For the purpose of providing a reasonable opportunity of being heard before adjudging the enforcement action, a notice in writing will be served on the Statutory Auditor by the RBI, requiring them to show cause, in writing, as to why the action as indicated in the Show-Cause Notice (SCN) should not be taken. A period of 15 working days would be given to the audit firms to reply to the SCN.

The RBI would provide a reasonable opportunity to the audit firm concerned for presenting its views in the matter, including through oral hearing, if it so desires or at the request of the audit firm.

Based on the above, enforcement action, if any, would be taken by way of a Speaking Order served on the audit firm containing details of the lapses, written and oral submissions made by the audit firm, and findings and decision of the RBI.

The quantum of enforcement action

The quantum of enforcement action shall be determined based on the materiality of lapses/violations by audit firms. Lapses/violations that are determined to be **not material enough** would lead to the issuance of a Cautionary Advice to the audit firm. In case of a **violation determined to be material**, the enforcement action could be the RBI not approving the audit firm for undertaking statutory audit assignments of banks for such periods as may be decided by the RBI.

Debarment by other regulators/law enforcement agencies and cases pending with them

In case of violations/lapses identified by any other regulators/ enforcement agencies/ judicial or government authorities, etc., the RBI would deny audit to such firms, provided the case is of serious nature, where public interest is involved and it is established, prima facie, that the firm is culpable, either by the RBI or by the above entities, and such violation / lapse is brought to the RBI's notice. Further, the RBI would also deny audit assignments to such audit firms as are blacklisted by the above entities and brought to RBI's notice, until the time their name is cleared by them.

Disclosure of enforcement action

Any enforcement action, including issuance of Cautionary Advice, on an audit firm will be communicated to the Institute of Chartered Accountants of India (ICAI), the professional body of the audit community, as and when such action is taken. The fact of such communication to the ICAI will also be placed in the public domain by the Reserve Bank of India.

Project Sashakt : 5-point plan to fight NPAs

The high-level Sunil Mehta committee on restructuring of stressed assets and creating more value for public sector banks has suggested a transparent market-based solution with a focus on asset turnaround to ensure job protection. The resolution process, named as Project Sashakt, focuses on creating a wider market for the speedy sale or resolution of stressed loan assets.

Govt. has accepted the recommendations, considered to be fully compliant with RBI regulations. Govt. also clarified that there is no proposal to create a “bad bank”.

The committee has suggested a 5-pronged resolution process which outlines (1) an SME resolution approach,)2) bank-led resolution approach, (3) AMC/ AIF led resolution approach, (4) NCLT/IBC approach and, (5) asset-trading platform

The resolution process will cover:

(a) smaller assets - exposure up to Rs.50 crore,

(b mid-size assets - Rs.50 crore to Rs.500 crore,

(c) large assets - Rs.500 crore and more.

The resolution route is also applicable to larger assets before National Company Law Tribunal (NCLT) and any other asset whose resolution is still pending.

It will cover performing and non-performing assets.

For the resolution of SMEs, the committee suggested the setting up of a steering committee by banks for formulating and validating the schemes, with a provision for additional funds. The resolution should be complete within 90 days. The resolution shall be under a single bank's control, to customise it.

For loans between Rs.50 crore and Rs.500 crore, the committee called for a bank-led resolution approach, with the resolution being achieved in 180 days. The resolution plan has to be approved by lenders holding at least 66 per cent of the debt.

The independent steering committee appointed by the Indian Banks Association (IBA) has to validate the process within 30 days. The key challenge would be to arrive at a consensus, as the exposure is held by multiple banks/lenders.

For loans above Rs.500 crore, an independent asset management company (AMC) will be set up.

The committee recommended an alternative investment fund (AIF) to raise funds from institutional investors. Banks would be given an option to invest in this fund if they wish. AIFs can also bid for assets in NCLT.

The lead bank can discover price discovery through the open auction route. Security receipts have to be redeemed within 60 days.

Control Measures for ATMs

On 21.06.18, RBI drawn attention of banks to its circular dated April 17, 2017 highlighting concerns about the ATMs running on Windows XP and/or other unsupported operating systems. A reference was also invited to RBI advisories dated March 06, 2017 and dated November 1, 2017 wherein the banks were advised to put in place, with immediate effect, suitable controls enumerated in the illustrative list of controls.

The slow progress on the part of the banks in addressing these issues has been viewed seriously by the RBI. The vulnerability arising from the banks' ATMs operating on unsupported version of operating system and non-implementation of other security measures, could potentially affect the interests of the banks' customers adversely, apart from such occurrences, if any, impinging on the image of the bank.

In order to address these issues in a time-bound manner, banks and White-Label ATM Operators have been advised by RBI to initiate immediate action in this regard and implement the following control measures as per the prescribed timelines indicated there against:

a. Implement security measures such as BIOS password, disabling USB ports, disabling auto-run facility, applying the latest patches of operating system and other softwares, terminal security solution, time-based admin access, etc. : By August 2018

b. Implement anti-skimming and whitelisting solution: By March 2019

c. Upgrade all the ATMs with supported versions of operating system. Such upgrades shall be carried out in a phased manner to ensure that in respect of the existing ATMs running on unsupported versions of operating system:

i. Not less than 25% of them by September 2018

ii. Not less than 50% of them by December 2018

iii. Not less than 75% of them by March 2019

iv. All of them shall be upgraded by: June 2019

RBI desired that a copy of this circular may be placed before the Board of Directors in the bank, at its ensuing meeting, along with the proposed action plan for implementation of these measures. A copy of the Board-approved compliance/action plan in respect of aforesaid control measures may be sent to RBI latest by July 31, 2018. The progress made in implementation of these measure should be closely monitored to ensure meeting the prescribed timelines. As the implementation of the foregoing control measures would also require field visit(s) to the ATMs, banks should plan and implement these measures in an optimal manner.

Draft Guidelines on Loan System of Delivery of Bank Credit

On Jun 11, 2018, RBI released the draft guidelines for public comments. The salient features are as under:

With a view to enhance credit discipline among the larger borrowers enjoying working capital facility from the banking system, it is proposed to modify the system for delivery of bank credit for such borrowers as follows:

1. Minimum level of 'loan component' and Effective date : In respect of borrowers having aggregate fund based working capital limit of Rs. 150 crore and above from the banking system, a minimum level of 'loan component' of 40% be effective from Oct 1, 2018. Accordingly, for such borrowers, the outstanding 'loan component' must be equal to at least 40% of sanctioned fund based working capital limit, including ad hoc credit facilities. Hence, for such borrowers, drawings up to 40% of the total fund based working capital limits shall only be allowed from the 'loan component'. Drawings in excess of the minimum 'loan component' threshold may be allowed in the form of cash credit facility.

2. Sharing of Working Capital Finance

The ground rules for sharing of cash credit and loan components may be laid down by consortium, wherever formed, subject to above guidelines on bifurcation. All lenders in the consortium shall be individually and severally responsible to make sure that at the aggregate level, the 'loan component' meets the above mentioned requirements. Under Multiple Banking Arrangements (MBAs), each bank shall ensure adherence to these guidelines at individual bank level.

3. Amount and tenor of the loan

The amount and tenor of the Working Capital Demand Loan (WCDL) may be fixed by banks in consultation with the borrowers, subject to the tenor being not less than 7 days. Banks may decide to split the loan component with different maturity periods as per the need of the borrowers.

4. Repayment/Renewal/Rollover of Loan Component: Banks/consortia/syndicates will have the discretion to stipulate repayment of the 'loan component' in instalments or by way of a "bullet" repayment, subject to IRAC norms.

5. Risk weights for undrawn portion of cash credit limits: With effect from 01.04.2019, undrawn portion of cash credit/ overdraft limits to such large borrowers, irrespective of whether unconditionally cancellable or not, shall attract a credit conversion factor of 20%.

6. 40% loan component will be revised to 60%, with effect from April 1, 2019.

Compilation : Sapandeep Toor (in Sydney - Australia) (Source different websites).

Practical Problems based on Banking Ombudsman Decisions

1) The Managing Trustee of a Trust complained that his bank had allowed fraudulent transactions to the tune of Rs. 20.00 lakh through net banking, even though this facility was not opted for.

The bank submitted that the complainant had agreed for the “Net Banking activation” option in the Account Opening Form and the same was activated only after confirmation calls were made to the mobile number provided in the application form. Further, the trust account was opened in compliance with KYC norms and account opening form was duly signed by the trustees. The bank stated that all the disputed transactions were carried out in the normal course of business and were duly authenticated by the complainant through confidential card details. Besides, SMS alerts were also sent in respect of all disputed transactions to the mobile number provided by the complainant, e-mail alerts were also sent at e-mail address provided in application form.

Perusal of the copy of Account Opening Form confirmed the fact that the complainant had opted for Net Banking facility. However, the mobile number mentioned in the Account Opening Form of both the trustees was that of their Finance Manager who had made the fraudulent withdrawals and that there was some cancellation in the mobile number column. The e-mail id mentioned was different from the official e-mail id of the Trust. The complainant denied bank’s submission about confirmation calls and e-mail alerts. The complainant also stated that the mobile number and e-mail id mentioned in application form were not correct. It was established that PIN for Net Banking was delivered to a 3rd party, not authorized to receive it. The bank had also failed to monitor the operations in account as the disputed transactions were not in line with the activities mentioned in the trust deed.

On the complainant’s side, the main reason for the fraud was that the entire financial operations of the trust were carried out by the Finance Manager, without proper checks and balances. Further, the complaint was raised after a considerable lapse of time.

In view of the above, the BO ordered that the loss may be shared between the bank and the complainant in the ratio of 75: 25.

2) The complainant alleged that her SB Account was fraudulently debited to the tune of Rs.7 lakh for various transactions and SMS alerts in respect of the disputed transactions were not received. She also stated that she had not registered for net banking.

It was observed that the transactions were done online. The bank submitted that there were 209 fraudulent transactions to the tune of Rs.5,19,100/- of which four transactions of Rs.2500/- each had been refunded. The bank had not clarified the basis of their decision to refund four transactions. The bank had not been able to provide the original application / online log of the complainant for usage of internet banking. Although the bank said that it had sent SMS alerts for all the debit transactions, the complainant alleged that it was not her registered mobile number. Further, the bank had not taken any note of repetitive transactions which prima facie looked suspicious and should have alerted the customer. The bank had also failed to submit the necessary electronic log and report relating to the disputed transactions. In view of the above deficiencies, BO advised the bank to pay the entire disputed amount to the complainant. ●

Interest Rate Options (Reserve Bank) Directions 2018

These directions issued by RBI on 14.06.18, came into force with effect from June 15, 2018. The directions are applicable to exchange traded Interest Rate Options and Over-the-Counter (OTC) Interest Rate Options.

Definitions: For the purpose of these directions

(i) An **interest rate option** is a financial derivative contract whose value is based on Rupee interest rates.

(ii) An interest rate **call option** is an interest rate derivative in which the holder (or buyer) has the right but not the obligation to receive an interest payment based on a variable interest rate, and simultaneously pay an interest payment based on a fixed interest rate.

(iii) An interest rate **put option** is an interest rate derivative in which the holder (or buyer) has the right but not the obligation to pay an interest payment based on a variable interest rate, and simultaneously receive an interest payment based on a fixed interest rate.

(iv) An option which could be exercised by the buyer on the expiration date is called a **European option**.

(v) An **interest rate cap** is a series of interest rate *call options* (called caplets) in which buyer of option receives a payment at end of each period when underlying interest rate is above a rate agreed in advance (strike rate).

(vi) An **interest rate floor** is a series of interest rate *put options* in which the buyer of the option receives a payment at the end of each period when the underlying interest rate is below the strike rate.

(vii) An **interest rate collar** is a derivative contract where a market participant simultaneously purchases an interest rate cap and sells an interest rate floor on the same interest rate for the same maturity and notional principal amount.

(viii) A **reverse interest rate collar** is a derivative contract which involves simultaneous purchase of an interest rate floor and sale of an interest rate cap on same interest rate for same maturity and notional principal amount.

(ix) An **interest rate swap** is a financial contract between two parties exchanging or swapping a stream of interest payments for a 'notional principal' amount on multiple occasions during a specified period. Such contracts generally involve exchange of 'fixed to floating' or 'floating to floating' rates of interest.

(x) **Interest rate swaptions** are options on interest rate swaps. A swaption gives the buyer the right, but not the obligation, to enter into an interest rate swap.

Introduction of a contract in an Interest Rate Option on a recognized stock exchange shall be subject to obtaining prior approval of the Reserve Bank by the exchange.

Products permitted: An eligible entity may transact in the following European Interest Rate Options:

1. Interest Rate Call and Put Options
2. Interest Rate Caps
3. Interest Rate Floors
4. Interest Rate Collars or Reverse Collars
5. Interest Rate Swaptions

Underlying : FIMMDA is to publish a list of objective and transparent Rupee money or debt market rates or instruments that may be used as underlying for Interest Rate Option contracts in the OTC market and recognized stock exchanges.

Eligible Entities Participation in the OTC market for Interest Rate Options shall be limited to (a) Users and (b) Market Makers.

1. Market Makers: The following entities may offer Interest Rate Options in the OTC market as market makers:-

(i) Banks, subject to meeting the following criteria: - (a) net worth of not less than ₹ 500 crore, and (b) CRAR of not less than 9%.

(ii) Standalone Primary Dealers.

(iii) Other regulated institutional entities subject to the prior approval of their respective regulators.

2. Users: All entities with underlying interest rate risk may participate as 'users' i.e., they may enter into Interest Rate Option contracts for hedging underlying risk. 'Users' shall not be permitted to run net short position in Interest Rate Options.

Reporting of OTC transactions

A market maker shall report all OTC transactions in Interest Rate Options, within 30 minutes of entering into the transaction, to the Trade Repository of Clearing Corporation of India Ltd. (CCIL).

Settlement of transactions in OTC

1. OTC transactions executed among market makers shall be settled bilaterally or through any clearing arrangement approved by RBI for the purpose.

2. Settlement basis and other market conventions for OTC transactions in Interest Rate Options will be specified by FIMMDA, in consultation with market participants.

Other Conditions

The Comprehensive Guidelines on Derivatives issued by RBI, including the requirement for a Board approved 'Suitability and Appropriateness Policy' shall be complied with, mutatis mutandis, by all market makers.

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

Financial Events

- **INDIA AND WORLD BANK INK LOAN PACT FOR PMGSY PROJECT:** India signed a loan pact of Rs.33.71 billion with World Bank to provide additional financing for Pradhan Mantri Gram Sadak Yojana (PMGSY) Rural Road projects. The loan has a 3-year grace period and a maturity period of 10 years. The World Bank has supported PMGSY since its inception in 2004. So far, it has invested over $1.8billion in loans and credits mostly in the economically weaker and hill states across North India.
- **GOVT. PLANS TO IMPORT GOLD ON BOND BASIS:** The Government is mulling a proposal to import gold from Russia to help gems and jewellery exporters provided they agree to ship out the entire consignment after value addition. Under the "Bond Basis Imports Scheme" the duty free consignment will not be allowed for domestic use and the entire gold will have to be exported after value addition. The scheme is expected to help save foreign exchange and cut the country's import bill in US dollar terms.
- **HIGH COURT STAYS RBI MOVE ON POWER NPAs:** As of now, commissioned plants worth thousands of megawatts are under severe financial stress and on the brink of becoming NPA. This is due to fuel shortage, sub-optimal loading and untied capacities. Further, in February, RBI mandated banks to classify even a day's delay in debt servicing as default. The notification mandates resolution proceedings for stressed loan accounts to be completed within 180 days. The Allahabad High Court, hearing a petition by the Independent Power Producers Association of India against insolvency proceedings has directed the Finance Ministry to conduct a meeting with stakeholders and work out a possible solution in a month. The high court has further said that simply applying the RBI guidelines mechanically by banks, financial institutions and joint lender forums will push these plants further into trouble and without any hope of recovery.
- **BANKS TO GET CREDIT GST PAYOUTS ON PSLCs:** The Government has now brought Priority Sector Lending Certificates (PSLC) under the reverse charge mechanism for GST. The Finance Ministry has notified that the supply of PSLCs by any registered person would now be under the reverse charge. In effect, this would mean that the bank buying the PSLC can pay the tax and take credit based on the bill or challan. Prior to this change, GST paid on purchase of these certificates used to become a cost on account of the buyer being unknown to the seller; with reverse charge liability, the credit can be claimed by banks.
- **UIDAI RELAXES DAILY AaDHAR UPDATION TARGET:** The target which was so far pegged at 16 daily enrolments or updations per branch has been relaxed in view of the progress made by banks in meeting the target to set up Aadhar centers and the field difficulties being cited by the banks. In a major relief to banks, the UIDAI has halved the daily minimum Aadhar enrolment/updation target for stipulated bank branches to eight from July1. The bank branches with Aadhar facility will have to raise the minimum number of Aadhar enrolments and updations to 12 per day per branch from October 1 and to 16 from January 1, 2019 onwards.
- **RBI CRITICISES PSBs ON LEAD BANK SCHEME:** The Lead Bank Scheme was started for providing adequate banking and credit in rural areas through an area-approach with one bank assigned for one area. RBI has criticised the Public Sector Banks (PSBs) for poor implementation of the Lead Bank Scheme for Financial Inclusion. There is huge discrepancy in the data supplied at the State Level Bankers Committee (SLBC) and that available through the Core Banking System (CBS). The Bankers said that one of the biggest problems that banks face at the district level is the lack of trained manpower for feeding of data. Hence there is a need to outsource data entry operators for which RBI is considering the issue.

- **HIGH COURT RULING ON SARFAESI ACT: (**Case-Mackeil VS. SBI) In this case the bank had taken possession of some of properties against which the company moved the High Court on various grounds. The High Court said that a borrower against whom action has been taken under the Securitisation (SARFAESI) Act, should approach the Debt Recovery Tribunal (DRT) and not file a writ petition in the High Court.
- **SEBI LENS ON FPIs UNDER NRI CONTROL:** SEBI has asked the custodians of Foreign Portfolio Investors (FPIs) to identify offshore funds that are controlled by Non Resident Indians (NRIs). SEBI has reiterated that it is not in favour of NRIs using FPI's vehicles to trade on Indian Stock Exchanges. This is due to the suspicion that the Resident Indians have been using NRI friends and relatives to bring back and legitimise undisclosed funds parked abroad through fund structures that are registered as FPIs with the capital markets regulator. It is widely perceived that the Government is trying to minimise the inflow of money through round-tripping in the run-up to the 2019 General Elections.
- **CBEC CLARIFICATION ON "GST ON FREE BANKING SERVICES":** Tax authorities have made it clear that free service –such as certain number of ATM Withdrawals, issuance of cheque book or account statement provided by banks will not attract GST. But charges for late payment of credit card dues and additional interest charged in case of default in EMI payment will attract GST.
- **SEBI TO EASE CORPORATE INSOLVENCY RESOLUTION PROCESS:** SEBI plans to amend its "Take-over Code" to remove capital infusion hurdles in companies with approved resolution plans under the Insolvency and Bankruptcy Code. The latest change will enable acquirers of shares under approved resolution plan to go beyond the maximum permissible non-public shareholding which is 75%. Hitherto, the Take-over code barred acquirers of shares in a company from entering into any transaction that would take their aggregate shareholding above the maximum permissible non-public shareholding limit. SEBI also exempted listed companies from having to comply with its delisting regulations if such delisting is part of a resolution plan approved by NCLT.
- **SUPREME COURT ALLOWS SC/ST QUOTA IN PROMOTIONS:** Supreme Court has allowed the Government to continue with reservations in promotions in Government Jobs wherever it is allowed under existing laws. The arrangement will continue until a Constitution Bench of the Supreme Court hearing a case on the constitutional validity of reservations in promotions gives its verdict.
- **SEBI ISSUES NEW NORMS ON CREDIT RATING AGENCIES:** SEBI has issued new rules for Credit Rating Agencies (CRAs) in which their Net Worth Requirement has been raised to Rs.25 Crore from existing Rs.5 Crore and also disallowed having a seat on the rival's Board. Further, CRA will not, directly or indirectly, has more than 10% of shareholding or voting rights in another CRA. SEBI's prior approval would also be needed for acquisition of shares or voting rights in a CRA that results in change in control.
- **GOVT. APPROVES NEW NORMS FOR SICK PSUs:** The Government has approved revised guidelines on time-bound closure of sick and loss-making Central Public Sector Enterprises (CPSEs) and disposal of their movable and immovable assets. The move is expected to reduce delays in the implementation of closure plans for loss-making Public Sector Undertakings. The guidelines afford first priority for the utilisation of available land parcels of CPSEs under closure for affording housing. Further a Uniform Policy has been laid down to give workers VRS at 2007 notional pay scale irrespective of the pay scale in which they are working.
- **PRESIDENT PROMULGATES ORDINANCE ON IBC:** The President has given his nod to promulgate "Insolvency and Bankruptcy Code Amendment Ordinance 2018". The Ordinance has brought significant relief to the Home-buyers, recognising them as financial creditors and make them an integral part of the decision making process. Further the amended Code does not disqualify the promoter of an MSME Firm to bid for his enterprise undergoing Corporate Insolvency Resolution Process provided he is not a willful defaulter and does not attract other disqualifications not related to default. The new Code will now also allow withdrawal of application with the approval of 90% of members of Committee of Creditors .
- **RBI EASES MSME REPAYMNET NORMS:** RBI Did not relax the bad loan norms for the corporates but it made a concession to Micro, Small and Medium Enterprises (MSMEs) to help them transition to the formalised sector. RBI in

its Policy extended to all MSMEs a relief that was so far available only to small businesses that were registered under GST. In February 2018, RBI had allowed GST-registered MSMEs having credit facilities of up to Rs.25 Crore, up to 180 days (as against 90 days) to repay loans without being classified as NPAs.The was done with a view to ease the transition of MSMEs to the formalised sector after their registration under the GST and also keeping in mind that these are employment-generated sectors.

- **RBI INITIATES WORK ON PUBLIC CREDT REGISTRY:** RBI has decided to set up a Public Credit Registry (PCR) in a modular and phased manner to provide a single-point and real-time source for financial liabilities of a person or entity. The setting up of the PCR is significant as the financial information about borrowers exists at present in silos and often impacts the time taken to get a loan as well as the quantum of loan sanctioned.
- **RBI TO TAKE OVER J&K BANK AUDIT FROM CAG:** RBI has informed the Comptroller and Auditor General (CAG) of India that henceforth RBI alone will audit the Jammu and Kashmir Bank (J&K Bank). J&K bank was the only bank which the CAG was auditing. If one goes strictly by precedence then all banks are under the ambit of RBI. J&K Bank was a special case and it has always been seen as a Government Bank. The Bank has been drawing flak from the CAG for various issues such as corporate governance and non-disclosure of NPAs, among others.
- **SEBI ALLOWED CRAs TO WITHDRAW RATINGS:** SEBI has allowed the Credit Rating Agencies (CRAs) to withdraw the ratings assigned to a financial instrument and provide reasons for such a move. This is aimed at strengthening the accountability and functioning of CRAs. This is subject to the credit rating agency having rated the instrument continuously for five years or 50 % of the tenure of the instrument, whichever is higher. Further, the rating agency should receive an undertaking from the issuer that a rating is available on that instrument.
- **AUDITING REGULATOR NFRA TO BE SET UP:** The proposed National Financial Reporting Authority (NFRA) was first recommended by the Standing Committee on Finance in its 21st Report. Rules for NFRA were notified in March-end by the Ministry of Corporate Affairs. The Authority will hold more powers than its counterparts around the world. It will have a Chairperson, three full-time members and nine part-time members. NFRA will be an independent regulator overseeing the auditing profession. It will oversee listed and large unlisted companies. It is expected that NFRA will start working before the end of September.
- **GOVT. TO WITHDRAW ADJUCATING POWERS FROM CCI:** The Government is considering taking away the adjucating powers from the Competition Commission of India (CCI). Presently, the Regulator investigates and penalises cartels apart from ensuring that mergers do not lead to monopoly. The latest move would mean that the Commission would work like a Regulator only and not like Tribunal or Court. It is possible that the adjucating powers may go to the Corporate Affairs Ministry.
- **POSTAL PAYMENTS BANK BEING LAUNCHED:** The Department of Posts was one of the 11 entities to get in-principle nod from RBI in 2015 for setting up Payments Bank. Many other entities including Airtel and Paytm have launched services. India Post Payments Bank (IPPB) is presently running pilot services in Raipur and Ranchi. To launch its commercial service, it needs the go-ahead from RBI for the software platform used for systems integration. Now KMPG has provided third-party certification to the banking platform which is being tested since March and RBI is likely to give the green signal soon. For the Pilot Project, IPPB used the platform of Punjab National Bank but as the bank has now developed its own platform RBI needs to certify it. It takes four to six months to secure certification from RBI.
- **REFUND SYSTEM FOR FOREIGN**

TOURISTS ON LOCAL PURCHASES: The Revenue Department is working on a mechanism to refund taxes paid by Foreign Tourists on local purchases. Foreign Tourists may get to claim GST refunds at airports at the time of exit. Initially, only purchases made by tourists from big retailers would be eligible for GST refund at airports when the tourist is leaving India. In several countries VAT or GST is refunded to the tourists for purchases made beyond a prescribed threshold.

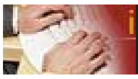
- **GOVT. OPENS LATERAL ENTRY FOR JOINT-SECRETARY LEVEL POSTS:** The Centre has opened ten "Joint-Secretary Level" posts for lateral entry in as many ministries and departments. Any private sector professional over 40 years of age and with 15 years of work experience in any of the 10 fields like economic affairs, commerce etc. may apply. This lateral entry exercise is aimed at bringing in fresh ideas and new approaches to governance and also to augment manpower. The selected candidates will be given three years contracts extendable to five years based on performance in Key ministries and given the pay scales of a joint secretary which is from Rs.1.44 Lakh to Rs.2.18 Lakh per month. plus other perks.
- **GOVT. ISSUES MOBILE APPS GUIDELINES FOR MINISTRIES:** To standardise the mobile apps that various ministries and departments operate, Government has issued guidelines that focus on making the applications user-friendly and stress on security and privacy measures. The size of apps should be kept minimum as large size could desist people from downloading them. The apps should not drain the battery and must work with bare minimum features in areas as where the network strength may be weak.
- **NEW ACCOUNTING RULES FOR REAL ESTATE COMPANIES:** The new accounting standards took effect from April1 this year. Under IND-AS 115 in line with international norms, listed real estate companies will have to write back about Rs.20000 Crore from their net worth in the current fiscal itself. Such companies will have to switch over to the Project Completion Method from the existing Percentage Completion Method. Under the previous norm, home buyer payments towards the purchase of under construction flats were declared as turnover by companies and net income generated from such projects was treated as profit. Now the developers would need to write back the profit booked till date on all the ongoing projects which are not 100% complete under the new rule. Thus such companies would have to write back profits made over the past few years from all projects that are not complete.
- **NCLT RULING ON IBC RULE BARRING PROMOTERS IN DEFAULT:** National Company Law Tribunal, Mumbai ruled that the law banning promoters in default from bidding for their own company can not be applied in cases filed before November 23, 2017. Previously, the Centre had introduced a new section to the Insolvency and Bankruptcy Code on November 23, 2017 through an Ordinance. Section 29-A prescribed that an entity that is connected to the promoters or the management of the company going through insolvency process can not submit a bid.
- **ITAT RULING ON TAX ON INTEREST-FREE LOAN:** The Income Tax Appellate Tribunal (ITAT) has ruled that interest-free loans extended by an employer are taxable in the hands of an employee as a perquisite. However, the valuation of the taxable benefit or perquisite which forms part of the salary income of the employee can not be done in an ad-hoc manner and has to be computed as per the prescribed formula under the Income Tax Act.
- **SEBI SETS UP EXPERT PANEL FOR DIRECT OVERSEAS LISTING:** SEBI has proposes to allow direct listing of Indian Companies on overseas bourses and foreign firms on Indian ones and has set up an expert panel to look into it. The Committee will examine in detail the economic case for permitting a direct listing of Indian Companies overseas and vice versa. Besides, it will examine the various legal, operational and regulatory constraints in facilitating companies incorporated in India to directly list their shares abroad and vice-versa. Thus Indian Companies may be able to list their equity shares on overseas exchanges directly.
- **CENTRE PLANS AMALGAMATION OF RRBs AT STATE LEVEL:** This is the third round of RRB restructuring that is being undertaken. The first round was in 2005 when RRBs of the same sponsor bank within a state were consolidated. This reduced the number of RRBs drastically from 196 to 82. In the second phase of consolidation in 2012, which were near each other (even if they belonged to different sponsor banks) were brought together. This further reduced the number to 56. Now the Centre is planning to bring down the RRBs from 56 to 38 at the "State Level". The exercise is being done in consultation with NABARD.

GENERAL AWARENESS

- Company which has overtaken the ONGC to become India's Most Profitable State -owned Company- **Indian Oil Corporation.**
- Report according to which cumulative losses of PSBs were large enough to wipe out almost all of the Govt's capital injections of Rs.13 billion in 2017-18- **FITCH Ratings.**
- As per clarification given by Labour Ministry, enhancement in the limit from Rs. 10 Lakh to Rs. 20 Lakh which will be effective from prospective date i.e. March 29, 2018- **Gratuity Limit**.
- JP Morgan Chase & Co. dethrones Citigroup and becomes- **World's Biggest Currency Trader.**
- For US Business the Bank which has been put on a Federal Reserve List of Problem Banks – **Deutche Bank.**
- Hotel for which e-Auction has been okayed by the Supreme Court- **Taj Mansingh Hotel.**
- Fugitive Businessman who has been debarred by SEBI from the Securities Market for 3 years and also from holding directorship in Listed Companies for 5 years- **Vijay Mallya.**
- Centre's Act which the West Bengal Government has finally decided not to implement it-**Real Estate (Regulation and Development) (RERA)Act.**
- Scrapping and Recycling Unit which has been set up in Greater Noida – **India's First Automated and Organised Vehicle.**
- M.K.Jain, MD&CEO of IDBI Bank has been appointed as- **Deputy Governor of RBI.**
- Event which RBI has launched on 4^{th} across the country with focus on creating awareness about financial products and services and going digital- **Financial Literacy Week.**
- Company which has reached the Milestone of producing 20 million units since starting production in December 1983 in just 34 years in India breaking the record of 45 years in Japan- **Suzuki Motor Corporation.**
- Australia's Largest Bank which has agreed to pay the Penalty of 700-million Australian Dollar due to failing to comply with measures to prevent money laundering and terrorism financing- **Commonwealth Bank of Australia.**
- Country which has emerged as the Top Export Destination for India with $47.9 billion worth of shipments last fiscal followed by UAE and Hong Kong- **USA.**
- Bank which will be the First to pilot WhatsApp Enterprise Solution to customers- **Kotak Bank.**
- Investment Limit which has been doubled by SEBI from Rs.5 Crore to Rs.10 Crore in Venture Capital Undertakings- **Angel Funds.**
- Institute which has signed a "Mutual Recognition Agreement" with South African Institute of Chartered Accountants for greater mobility of Professionals at either end- **CA Institute of India**.
- Insurance Company which, for the First Time has reported a Net Profit of Rs.5 Crore in 2017-18 since the launch of operations in 2006- **Bharti AXA Life Insurance**.
- Regulator which has amended

its "Employees Regulations" in which no employee would be sent on Deputation or on External Assignment against their Will- **SEBI.**

- Rate which has for the First Time in Four years has been hiked by RBI from 6% to 6.25%- **REPO Rate.**
- Bank which has got the RBI Approval for Merger of Capital First – **IDFC Bank.**
- Company which has issued 20,000 Job Offers to Fresh Graduates and another 4000 to Non-freshers this year- **Tata Consultancy Services.**
- Bank which has been penalised by UK Financial Sector Regulator with a fine of £896,100 on its London Branch for not adhering to Anti-Money Laundering Regulations- **Canara Bank.**
- Five Petroleum Products which are outside the GST purview – **Petrol, Diesel, ATF, Crude Oil and Natural Gas**.
- Industry for which the Govt. has approved a Package of Rs.7000 Crore to pay the arrears of the Cane Grovers- **Sugar industry.**
- Marriages solemnised in India which would have to be registered within 48 hours as being no law in this respect so far- **NRI Marriages.**
- Transition which RBI has allowed of Urban Cooperative Banks into Small Finance Banks: Voluntary Transition
- To study the Country's Special Economic Zones (SEZ) Policy and suggest further measures, a Panel constituted by the Govt. which is to be headed by-**Baba Kalyani.**
- Only Bank in the Country which is audited by Comptroller and Auditor of India- **J&K Bank.**
- Despite challenges posed by drought in 9 out of 14 Districts in the State, Grameen Bank, which has retained the Number One Position during 2017-18 in India - **Kerala Grameen Bank.**
- Companies which will have to keep their shares in dematerialised form- **Unlisted Companies**.
- Institute which has emerged as the Top-ranked and jumped 17 places to 162nd Position as per QS World University Rankings 2019- **Indian Institute of Technology Bombay**.
- Court which has ruled that Video-sharing Platform "YouTube" is liable for Copyright breaches in videos uploaded by its users and it is no longer playing the role of a Neutral Intermediary- **Australian Court.**
- A Committee, which has been set up by the Finance Minister to go into the details of forming "Bad Bank" to take over bad loans of PSBs, to be headed by –**Sunil Mehta, Chairman of PNB.**
- Country's Largest Stock Exchange, which is to launch a Commodity Exchange on October1-**NSE**.
- Currently, Largest Commodity Exchange with over 90% share of the non-farm commodity futures market- **MCX.**
- Scheme for which the Govt. has asked the states to combine their own insurance programmes with National One in a way that key features of both are retained- **Ayushman Bharat Scheme.**
- The details which are to be registered with Registrar of Companies (ROCs) by the promoters and directors of all companies- **Passport Details**.
- Former NIA Chief Sharad Kumar has been appointed by the Govt. as- **Vigilance Commissioner of CVC**.
- Umbrella Organisation of independent factoring companies around the World- **Factors Chain International**
- Small Finance Bank which has got RBI's approval for NRI operations- **ESAF Small Finance Bank.**
- Scheme under which Centre is to consider raising the Pension Limit to Rs.10, 000 from existing Rs.5000- **Atal Pension Yojana.**
- Stock Exchange which has launched a "Tri-Party Repo Market Platform" for Corporate Bonds- **National Stock Exchange.**
- Banks for which FITCH Ratings has downgraded the viability ratings by one notch to bb+ and bb respectively- **State Bank of India and Bank of Baroda.**
- Bank on which Hong Kong Regulator has stepped-up supervision after RBI imposed additional actions on it- **Allahabad Bank.**
- Railway Station whose name has been changed to Deen Dayal Upadhyay Railway Station- **Mughal Sarai Railway Station.**
- Degree which has become Mandatory from mid-2021 for teaching in Universities- **Doctoral Degree**.
- Rating Agency which has downgraded rating for ICICI Bank from "2" to "3" (Stable) and revised the outlook on AXIS Bank to "Negative" from "Stable"- **FITCH**
- Countries which signed Historic Pact after ending World's Longest Diplomatic Dispute on declaration of independence of Small Balkan Nation and renamed it to "Republic of North Macedonia"- **Greece and Macedonia.**
- Country which has overtaken China and US in investing in Indian Start-Ups- **Japan.**
- Amazon Founder and CEO Jeff Bezos has become the Richest Man in the World with a net wealth of Rs.141.9 billion- **Forbes World's Billionaires.**



MOCK-TEST PAPER

Questions on RBI Policy

01 Rate of interest which bank are required to pay to customer on balance in their account transferred to Depositor Education Awareness Fund, w.e.f. 1.7.2018 is___ % p.a. simple:

a 3%
b 3.5%
c 4%
d at bank discretion

02 For a home loan to be classified in priority sector lending, the cost of house in metro centres (population 10 lac and above) is restricted to:

a Rs.50 lac
b Rs.45 lac
c Rs.40 lac
d Rs.35 lac

03 For a home loan to be classified in priority sector lending, the amount of loan in metro centres (population 10 lac and above) is restricted to:

a Rs.50 lac
b Rs.45 lac
c Rs.40 lac
d Rs.35 lac

04 For a home loan to be classified in priority sector lending, the cost of house in non-metro centres (population below 10 lac) is restricted to:

a Rs.20 lac
b Rs.25 lac
c Rs.30 lac
d Rs.35 lac

05 For a home loan to be classified in priority sector lending, the amount of loan in non-metro centres (population below 10 lac) is restricted to:

a Rs.20 lac
b Rs.25 lac
c Rs.30 lac
d Rs.35 lac

06 For a housing projects for economically weaker section (EWS) and low income group (LIG), to be included in priority sector lending, the annual family income in respect of EWS can be:

a Rs.2 lac
b Rs.3 lac
c Rs.5 lac
d Rs.6 lac

07 For a housing projects for economically weaker section (EWS) and low income group (LIG), to be included in priority sector lending, the annual family income in respect of LIG can be:

a Rs.2 lac
b Rs.3 lac
c Rs.5 lac
d Rs.6 lac

08 For the purpose of remittance in Liberalized Remittance Scheme of RBI for maintenance of close relative, the definition of 'relative' is same as in case of:

a Indian Sucession Act
b Majority Act
c Companies Act 2013
d Companies Act 1956

09 If RBI intends to take enforcement action against a Statutory Auditor for deficiency, it can do so by giving a show cause notice of :

a 30 days
b 25 days
c 20 days
d 15 days

10 As per RBI schedule for upgrading of ATMs, all ATMs are to be upgraded latest by:

a Sep 2019
b Jun 2019
c Mar 2019
d Dec 2018

11 As per changes proposed to be carried in Loan System of Credit Delivery, the eligible working capital fund based loan means credit limit of Rs.___ and above.

a Rs.150 cr
b Rs.100 cr
c Rs.50 cr
d Rs.10 cr

12 As per changes proposed to be carried in Loan System of Credit Delivery, for eligible working capital fund based loan, the loan portion, to start with, shall be ___% of limits:

a 80%
b 60%
c 50%
d 40%

13 As per changes proposed to be carried in Loan System of Credit Delivery, for eligible working capital fund based loan, the minimum period of loan portion, shall be:

a 7 days
b 15 days
c 30 days
d 90 days

14 Under Golden Monetization Scheme as amended in Jun 2018, short term bank deposit can be with a maturity of:

a 1 to 3 years
b 1 to 5 years

c 1 to 3 years with broken period

d 1 to 5 years with broken period

15 Under Golden Monetization Scheme as amended in Jun 2018, medium term govt. deposit can be with a maturity of:

a 3 to 5 years

b 5 to 7 years

c 3 to 5 years with broken period

d 5 to 7 years with broken period

16 Under Golden Monetization Scheme as amended in Jun 2018, how much commission is payable to agency banks:

a 1%

b 1.5%

c 1.75%

d 2%

Recalled Questions

17 Bank granted a loan to an MSE in other than NE States and other than Women enterprise and balance in the account is Rs.90 lac. In case the loan becomes NPA, what is the amount of guarantee cover that would be available to this loan:

a Rs.65 lac

b Rs.62.50 lac

c Rs.60.00 lac

d Rs.57.50 lac

18 What is the income ceiling for DRI loan eligibility:

a Rs.12000 for rural areas and Rs.15000 for urban areas

b Rs.15000 for rural areas and Rs.20000 for urban areas

c Rs.18000 for rural areas and Rs.20000 for urban areas

d Rs.18000 for rural areas and Rs.24000 for urban areas

19 Where a bank is having un-reconciled inter-branch entries old than ____, it has to make provision at ___%

a 6 months, 100%

b 6 months, 75%

c 12 months, 100%

d 18 months, 100%

e no provision is required, entries being intra-bank

20 A doubtful NPA account is purchased by Bank-B from Bank-A. What classification would be given by the Bank-B to this account:

a to be treated as substandard account

b to be treated as doubtful up to 12 months category irrespective of its classification with Bank-A

c to be treated in the same category in which it had been classified by Bank-A

d to be treated standard account for initial period of 90 days

e to be treated standard account for 12 months.

21 Accumulated losses are shown by a joint stock company, in its balance sheet as:

a footnote of the balance sheet

b deduction from the paid up capital

c deduction from the net worth

d intangible asset

e non-current asset

22 In case of collection of cheques and bills, the relationship of the banker with the customer is that of:

a Bank as agent and customer trustee

b Bank as trustee and customer debtor

c Banker as debtor and customer creditor

d Banker as bailor and customer bailee

e bank as agent and customer principal

23 The following categories of loans can be priced without being linked to MCLR as the benchmark for determining interest rate: (1) Advances to banks' depositors against their own deposits. (2) Advances to banks' own employees including retired employees. (3) Advances granted to the Chief Executive Officer / Whole Time Directors. (4) Loans linked to a market determined external benchmark.

a 1 only

b 1 and 3 only

c 1 to 4 all

d 1, 3 and 4 only

24 Banks are to review and publish their Marginal Cost of Funds based Lending Rate (MCLR) of different maturities every ___ on a pre-announced date with the approval of the Board or any other committee to which powers have been delegated.

a fortnight

b month

c quarter

d six months

25 On comparison of balance sheet of firm for two years, it is observed that its debt equity ratio has increased from 1.5:1 to 2:1 but its current ratio and the total of balance sheet has not changed. Which of the following is possibly true in this regard

a only the amount of net worth has increased

b only the amount of long term liabilities has declined

c only the amount of intangible assets has decreased

d the amount of long term liabilities has increased or amount of net worth had declined or amount of intangible assets has increased

26 At the time of renewal of working capital limits of a partnership firm, it was observed by the appraising officer that the quick ratio of the firm has declined substantially but the current ratio has not changed. Which among the following could be true:

a the amount of stocks has declined

b the firm has become slow in recovery of its book debts

c the firm's stocks as percentage of current assets have increased

d the firm's receivables as percentage of current assets have declined

e c and d above

27 What is the maximum amount that can be remitted outside India, from NRO account, representing sale proceeds of the immovable property in India

a Rs.10 lac in a calendar year

b Rs.1 lac in a calendar year

c 1 lac US $ per financial year

d 1 million US $ per financial year

e no such remittance is allowed.

28 Hindi day is observed on :

a Jan 26 b Jun 22

c Sept 14 d Nov 11

29 The minimum paid up capital of a new Private Universal Bank has to be:

a Rs.100 cr b Rs.200 cr

c Rs.300 cr d Rs.400 cr

e Rs.500 cr

30 Loan under which of the following scheme/purpose, can be allowed within the DRI financing of 4%:

a housing loans up to Rs.20000 to poor families

b housing loans up to Rs.20000 under National Housing bank Scheme

c housing loans up to Rs.20000 under Indira Awas Yojna

d all the above

31 What is the maximum amount that banks can levy as penal charges for non-maintenance of minimum balances in any inoperative account.

a no charges can be levied

b within the ceiling rate fixed by RBI

c not more than 1%

d at bank discretion under Board approved procedure and policy

32 HUF cannot be a partner in a partnership firm as per Supreme Court Judgments. The judgments is based on the premise that **:**

a HUF is a legal person with Karta as its head, but other coparceners are not liable

b HUF is not a legal person and cannot enter into such agreement that makes it liable for the action of others.

c HUF is not competent to enter into any contract with outsiders and make it liable for the actions of others

d HUF cannot enter into any contract with outsiders

33 A company has to make payment of dividend to large no. of its shareholders through electronic medium. It should use:

a RTGS system

b EFT system

c SWIFT system

d ECS – Debit clearing system

e ECS – Credit clearing system

34 A firm has obtained a term loan of Rs.12 lac and its capital is Rs.4 lac. The firm has created general reserve of Rs.3 lac while it has been showing pre-paid expenses of Rs.1 lac in its balance sheet. The debt equity ratio of the firm is:

a 1.71:1

b 1.89:1

c 2.00:1

d data incomplete. Calculation not possible

35 Data Storage unit of a computer is called

a random access memory

b hard disk

c memory unit

d compact disk

36 X makes a request to the bank to write the name of his nominee on his pass book.

a This can be done as customer has given his consent

b This cannot be done, since it would amount to disclosure of customer account information

c This cannot be done, as it is a risk-prone proposal.

d Bank can make mention that it is a nomination account but name of the nominee cannot be written.

37 Which of the following is correct with regard to the interest on a saving bank deposited

a it is paid for the average balance maintained during the month, but from 1.4.2009 it is payable on a daily product basis

b it is paid for the minimum balance maintained during 10th day to last day of the month, but from 1.4.2009 it is payable on a daily product basis

c it is paid for the maximum balance maintained during the month, but from 1.4.2009 it is payable on a daily product basis

d from 1.4.2010 it is payable on a daily product basis

38 When book debts are recovered by a firm and amount credited to bank account, what is the effect:

a current ratio increases

b current ratio decrease

c quick ratio increase

d quick ratio decreases

e there is no effect

39 A bank has an oversold position in foreign exchange on a particular day. It has to square its position at the end of the day. The foreign exchange rates are increasing:

a the bank will gain substantially

b the bank will gain marginally

c there will be no effect on the bank

d the bank will incur loss

40 Form 15-H (in terms of Income Tax Act) is used in which of the following cases:

a issue of tax deduction certificate by the banks

b declaration by senior citizen for non-deduction of tax at source

c declaration by ordinary customer for non-deduction of TDS

d exemption for non-quoting of PAN

e: None of the above

41 Under RTGS the transactions time 8 am to 4.30 pm is in respect of which of the following category of transactions:

a inter-bank transactions

b intra-bank transactions

c all transactions

d customer transactions

42 What is the time period of the notice which is required to be given by a bank for sale of security charged to the bank after taking possession under the provision of Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002:

a 15 days b 30 days

c 45 days d 60 days

e 90 days

43 As per extant instructions of RBI, what is the maximum amount limit that the bank can fix up to which minors may be allowed to operate their deposit accounts independently.

a max Rs.2 lac

b max Rs.1 lac

c max Rs.50000

d at discretion of banks

44 In a loan account, the Central Govt. has given guarantee. The loan account is overdue for the last 2 years and 5 months. What is the provision %age on the loan:

a 0.40% b 10%

c 20% d 30%

e: No provision is to be made.

45 A loan is guaranteed by the Guarantee of State govt. and it is running irregular for the last 5 months. The loan will be classified as ___:

a standard account

b special mention account

c sub-standard unsecured account

d sub-standard secured account

e: None of the above

46 A monetary ceiling of Rs.20 lac has been imposed for entertaining cases by which of the following:

a Consumer Courts

b Lok Adalat

c District Courts

d all the above

47 Which of the following in general, is eligible, as a borrower, under National Rural Livelihood Mission (NRLM)?

a SC/ST women and non-SC/ST women

b women self help groups

c SC/ST and non-SC/ST men

d any of the above

Answers

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

Gold Monetization Scheme 2015 - Amendments June 2018

Some amendments were notified by RBI on 07.06.18 :

1. Short Term Bank deposits (STBD) : STBD shall be treated as bank's on-balance sheet liability and can be for a period of 1-3 years.

Deposits can be for broken periods (e.g. 1 year 3 months etc.).

The rate of interest for broken period deposits shall be calculated as sum of interest for completed year plus for number of remaining days @ D/360*ARI.

Where, ARI= Annual Rate of Interest and D= Number of days

2. Medium and Long Term Government Deposit (MTLGD)

Medium Term Government Deposit (MTGD) can be made for 5-7 years and Long Term Government Deposit (LTGD) for 12-15 years.

Deposits can be for broken periods (e.g. 13 years 4 months 15 days; etc.).

(c) The periodicity of interest payment: It is annual and shall be paid on 31st March every year. A depositor will have an option to receive payment of simple interest annually or cumulative interest on maturity, with annual compounding. Option shall be exercised at the time of deposit.

(d) Interest on premature withdrawal

The amount payable to the depositor on premature withdrawal after lock-in period shall be calculated as a sum of (A) and (B), as indicated below:

(A) Actual market value of the gold deposit on the day of withdrawal.

(B) Interest payable on the value of the gold at the time of deposit as under:

MTGD : Lock in period 3 years

(a) If deposit run for > 3 years to less than 5 years: Applicable ROI at the time of deposit *less* 0.375%.

(b) If deposit run for 5 years to less than 7 years: Applicable ROI at the time of deposit *less* 0.250%.

LTGD : Lock in period 5 years

(a) If deposit run for > 5 years to less than 7 years: Applicable ROI at the time of deposit *less* 0.25%.

(b) If deposit run for 7 years to less than 12 years: Applicable ROI at the time of deposit *less* 0.375%.

(c) If deposit run for 12 years to less than 15 years: Applicable ROI at the time of deposit *less* 0.25%.

3. Denomination : In the case of MLTGD, the redemption of principal at maturity shall, at the option of the depositor, be either in Indian Rupee equivalent of the value of deposited gold at the time of redemption, or in gold. However, any pre-mature redemption of MLTGD shall be only in INR. Where the redemption of the deposit is in gold, an administrative charge at a rate of 0.2% of the notional redemption amount in terms of INR shall be collected from the depositor. However, the interest accrued on MLTGD shall be calculated with reference to the value of gold in terms of Indian Rupees at the time of deposit and will be paid only in cash."

4. Handling and commission:

Central Government has decided that with effect from November 5, 2016, designated banks will be paid handling charges (including gold purity testing, refining, transportation, storage and any other relevant costs) for MLTGD at a flat rate of 1.5% and commission at the rate of 1% of the rupee equivalent of the amount of gold mobilized under the scheme until further notice.

Interest Subvention Scheme (ISS) for Short Term Crop Loans for FY 2018-19

Ministry of Agriculture & Farmers Welfare, Govt. of India (GoI) initiated the process to continue Interest Subvention Scheme (ISS) 2018-19. As an **interim measure**, ISS will be implemented in 2018-19 on terms & conditions approved for 2017-18. All banks have been advised by RBI on 07.06.18, to take note and implement ISS for 2018-19 accordingly.

Further, from 2018-19 the ISS is being put on DBT mode on **'in-kind/ services' basis** and not on **'in-cash'** basis and all loans processed in 2018-19 are required to be brought on ISS portal/DBT platform.

As per Govt. circular of 16.08.2017, ISS as Plan-Non plan categorization of schemes will be dispensed with. Accordingly, ISS 2018-19 will be required to be settled as applicable in Plan Scheme viz. Scheduled Caste (SC), Scheduled Tribe (ST) and North East Region (NER) etc.

Hence, banks are required to capture category-wise data (General, Scheduled Caste (SC), Scheduled Tribes (ST), North Eastern Region (NER)-General, North Eastern Region (NER)-SC, North Eastern Region (NER)-ST) of beneficiaries under the Scheme for reporting of the same on ISS portal individual farmer wise to settle the claims arising from 2018-19 onwards. Till such time the DBT portal becomes functional, banks have been requested to submit their claims, category-wise as indicated above.

RBI in consultation with Govt. is working on the detailed modalities regarding categorisation of loans. Till finalization of modalities, banks may obtain category-wise data on self-declaration basis. There should however be no cap on the loans given under each category.

17th Financial Stability Report (FSR) of RBI

FSR reflects the overall assessment of the stability of India's financial system and its resilience to risks emanating from global and domestic factors. The Report also discusses issues relating to developments in and regulation of the financial sector. RBI released 17th FSR on 26.06.18.

Overall assessment of systemic risks

Global and domestic macro-financial risks

- Global growth outlook for 2018 remains positive despite recent softness.
- Spillover risk from advanced markets to emerging markets, has increased.
- Tightening of liquidity conditions in the developed markets alongside expansionary US fiscal policy and a strong US dollar have started to adversely impact emerging market currencies, bonds and capital flows. Firming commodity prices, evolving geopolitical developments and rising protectionist sentiments pose added risks.
- On the domestic front, economic growth is firming up. However, conditions that buttressed fiscal consolidation, moderation in inflation and a benign current account deficit over the last few years, are changing, thereby warranting caution.
- In the domestic financial markets, structural shifts are altering the pattern of credit intermediation and impacting market interest rates. These developments, while a healthy sign of diversified financing of the economy, call for greater vigilance of the system as a whole in order to safeguard financial stability.

Financial Institutions: Performance and risks

- The stress in the banking sector continues as gross non-performing advances (GNPA) ratio rises further.
- Profitability of SCBs declined, partly reflecting increased provisioning. While this has added pressure on SCBs' regulatory capital ratios, the provision coverage ratio has increased.
- Credit growth picked up during 2017-18 despite sluggish deposit growth.
- Macro-stress tests indicate that under the baseline scenario of current macroeconomic outlook, SCBs' GNPA ratio may rise from 11.6% in March 2018 to 12.2% by March 2019. The system-level capital to risk-weighted assets ratio (CRAR) may come down from 13.5% to 12.8% during the period; 11 public sector banks under prompt corrective action (PCA) framework may experience a worsening of their GNPA ratio from 21% in March 2018 to 22.3%, with 6 PCA PSBs likely experiencing capital shortfall relative to the required minimum CRAR of 9%.
- The capital augmentation plan announced by govt. is expected to go a long way in addressing the potential capital shortfall, while also playing a catalytic role in credit growth at healthier banks. In parallel, RBI's PCA framework, by preventing further capital erosion at weaker banks, is intended to help strengthen these banks to a point of resilience from where they can restart normal operations. In addition, governance reforms - if undertaken promptly and well - would not only improve the financial performance of the banking sector but also help reduce operational risks. Overall, the regulatory and supervisory measures bode well for allocative efficiency and financial stability in the medium term even if there is some short-term pain in the process.

DATA COLUMN

Business of Banks

(Rs.in cr)	Mar31'17	Jun08'18
Aggregate deposits	10805150	11404300
Cash in hand/RBI	570490	518890
Investments	3043660	3441030
Bank Credit:	7881890	8598700
-Food	53930	65670
-Non-Food	7827960	8533030
Cash-Deposit Ratio	5.27	4.57
Investment-Deposit	28.14	29.85
Credit-Deposit	72.95	75.06

Money Stock

(Rs.in cr)	Mar31'18	Jun08'18
M3 (Out of which)	1401141	14052200
(a) Currency with public	1759300	1873230
(b) Demand deposits-Banks	1492180	1274640
(c) Time Deposits - Banks	10736020	10881080
(d) Other deposits with RBI	23910	23250

Sources of Money Supply

(a) Net Bank credit to Govt	4014730	4333580
(b) Bank credit to Comrcl sector	9238900	9190020
(c) Net Forex assets of Banks	2894620	2922970

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	06.00%	(06.06.2018)
Repo Rate	06.25%	(06.06.2018)
MSF Rate	06.50%	(06.06.2018)
Bank Rate	06.50%	(06.06.2018)

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-Jun17	end-Jun18
Dollar-spot TT (Rs.)	64.47	68.74
BSE - Sensex (points)	31216	35645
NSE - Nifty(S&P CNX)	9625	10770
Foreign reserves (Million $)	382531	407816
Gold /Oz in USD)	1232	1263

INDIAN ECONOMY-IMPORTANT PARAMETERS

RBI's growth estimate for 2018-19	: 7.4%
GDP growth-2016-17 (revised estimate)	: 6.7%
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- May18:Export $ 54.8 bn$ Imports	: 83.1 bn
Per capita Income 2017-18 (Rs.)	: 111782
Indian economy's ranking in PPP terms	: 3rd
Indian economy's ranking in world in value	: 6th

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