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Banking events Update

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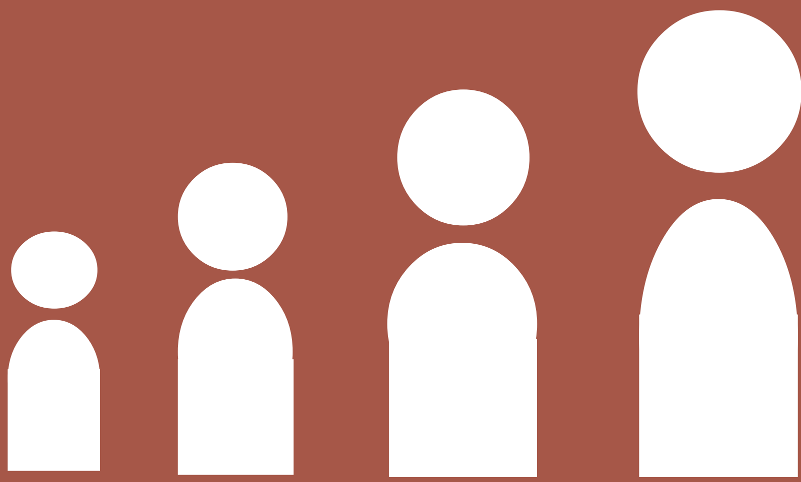

Those who win, are those, who think they can

Corporate & Distribution Office
1008, Sector 45-B, Chandigarh
Phone 0172 2665 623
eMail - bankingupdate123 @ gmail.com

www.bankingindiaupdate.com

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Executive Editor - S. Chand Singh

Editor in Chief - Sh. N S Toor

BANKING POLICY

Automation of IRAC (NPA) accounting

On 04.08.11, RBI had advised banks to have appropriate IT system in place for identification of Non-Performing Assets (NPA) and generation of related data/returns, both for regulatory reporting and bank's own MIS requirements. To ensure the completeness and integrity of the automated Asset Classification (classification of advances/investments as NPA/NPI and their upgradation), Provisioning calculation and Income Recognition processes, banks were advised by RBI on 14.09.20, to put in place / upgrade their systems by June 30, 2021.

Coverage:

1) All borrowal accounts, including temporary overdrafts, irrespective of size, sector or types of limits, shall be covered in the automated IT based system (System) for asset classification, upgradation, and provisioning processes. Banks' investments shall also be covered under the System.

2) Asset classification rules shall be configured in the System, as per regulatory stipulations.

3) Calculation of provisioning requirement shall also be System based as per pre-set rules for various categories of assets, value of security as captured in the System and any other regulatory stipulations issued from time to time on provisioning requirements.

4) In addition, income recognition/derecognition in case of impaired assets (NPAs/NPIs) shall be system driven and amount required to be reversed from the income account should be obtained from the System without any manual intervention.

5) The System shall handle both down-grade and upgrade of accounts through Straight Through Process (STP) without manual intervention.

Frequency: The System based asset classification shall be an ongoing exercise for both down-gradation and up-gradation of accounts. Banks should ensure that asset classification status is updated as part of day end process. Banks should be able to generate classification status report at any given point of time with actual date of classification of assets as NPAs/NPIs.

Exceptions:

1) Exceptions may be granted from System driven classification in certain circumstances, which are expected to be minimum and temporary. These exceptions are from automated classification and not from IRAC norms.

2) Banks shall not resort to manual intervention / over-ride in the System based asset classification process. In any exceptional circumstance where manual intervention is required to override the System classification, it must have *at least two level authorisation*. Such delegation of powers for authorising the exceptions should be as per the Board approved policy of the bank and preferably should be done from the centralised location and suitably documented. Further, any such intervention shall have appropriate audit trails and subjected to audit by concurrent and statutory auditors. Detail reports of such manual intervention shall be placed before the Audit Committee / Audit Head (banks having no Board) regularly.

3) Banks shall maintain logs for all exceptions i.e. manual interventions / over-rides including, but not limited to, the date and time stamp; purpose/reason; user-IDs, name and designation of those making such manual intervention and necessary account details. These logs shall also be stored for a *minimum period of three years* and not be tampered with during the storage period. These logs shall be system generated.

System Requirements and System Audit:

1) In case a separate application outside the CBS is used as the System for NPA/NPI identification and/or classification, the System must have access to the required data from the CBS and/or other relevant applications of the bank and the borrower/investment accounts shall be updated back into the CBS automatically, wherever applicable, through STP.

2) Banks shall keep the business logic and other parameters/configurations of the System updated to ensure that the System based identification, classification, provisioning and income recognition are strictly in compliance with the regulatory guidelines on an ongoing basis. There should be periodic system audit, *at least once in a year*, by Internal / External Auditors who are well versed with the system audit both on system parameters as also from the perspective of compliance to Income Recognition, Asset Classification and Provisioning guidelines.

General:

1) Banks may draw up their standard operating procedure (SOP) for System based

NPA classification for usage by the operating staff.

2) The adherence to these instructions will be examined as part of supervisory assessment of the banks and in case of non-compliance, suitable supervisory / enforcement action shall be initiated against the concerned bank.

Positive Pay System for Cheque Truncation

As per RBI directions dated 25.09.20, Positive Pay System shall be implemented from January 01, 2021.

The concept of Positive Pay involves *a process of reconfirming key details of large value cheques.* Under this process, the issuer of the cheque submits electronically, through channels like SMS, mobile app, internet banking, ATM, etc., certain minimum details of that cheque (like date, name of the beneficiary / payee, amount, etc.) to the drawee bank, details of which are cross checked with the presented cheque by CTS. Any discrepancy is flagged by CTS to the drawee bank and presenting bank, who would take redressal measures.

Threshold : National Payments Corporation of India (NPCI) shall develop the facility of Positive Pay in CTS and make it available to participant banks. Banks, in turn, shall enable it for all account holders issuing cheques for amounts of Rs.50,000 and above. While availing of this facility is at the discretion of the account holder, banks may consider making it mandatory in case of cheques for amounts of Rs.5,00,000 and above.

Only those cheques which are compliant with above instructions will be accepted under dispute resolution mechanism at the CTS grids. Member banks may implement similar arrangements for cheques cleared / collected outside CTS as well.

Banks have been advised by RBI to create adequate awareness among their customers on features of Positive Pay System through SMS alerts, display in branches, ATMs as well as through their web-site and internet banking.

WMA Limit for Govt. of India for 2nd half (October 2020 to March 2021) of Financial Year 2020-21

RBI and Govt., that limits for Ways and Means Advances (WMA) will be Rs.1,25,000 crore. The Reserve Bank may trigger fresh floatation of market loans when the Government of India utilises 75 per cent of the WMA limit. The Reserve Bank retains the flexibility to revise the limit at any time, in consultation with the Government of India, taking into consideration the prevailing circumstances.

The interest rate on WMA will be Repo Rate and on Overdraft: 2% above the Repo Rate

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MSME Sector - Restructuring of Loans

Further to RBI circular dated 11.02.20, in view of the continued need to support the viable MSME entities on account of the fallout of Covid19 and to align these guidelines with the Resolution Framework for COVID 19 – related Stress announced for other advances, RBI decided on 06.08.20, to extend the scheme permitted in terms of the aforesaid circular. Accordingly, existing loans to MSMEs classified as 'standard' may be restructured without a downgrade in the asset classification, subject to the following conditions:

1. The aggregate exposure, including non-fund based facilities, of banks and NBFCs to the borrower does not exceed Rs.25 crore as on March 1, 2020.

2. The borrower's account was a 'standard asset' as on March 1, 2020.

3. The restructuring of the borrower account is implemented by March 31, 2021.

4. The borrowing entity is GST-registered on the date of implementation of the restructuring. However, this condition will not apply to MSMEs that are exempt from GST-registration. This shall be determined on the basis of exemption limit obtaining as on March 1, 2020.

5. Asset classification of borrowers classified as standard may be retained as such, whereas the accounts which may have slipped into NPA category between March 2, 2020 and date of implementation may be upgraded as 'standard asset', as on the date of implementation of the restructuring plan. The asset classification benefit will be available only if the restructuring is done as per provisions of this circular.

6. As hitherto, for accounts restructured under these guidelines, banks shall maintain additional provision of 5% over and above the provision already held by them.

Resolution Framework for COVID-19-related Stress

RBI circulated the framework on 06.08.20, which is applicable to eligible personal loans and other loans. The following type of loans shall not be eligible under this framework:

a. MSME borrowers with aggregate exposure of Rs. 25 crore or less as on March 1, 2020.

b. Farm credit.

c. Loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi-Purpose Societies (LAMPS) for on-lending to agriculture.

d. Exposures to financial service providers.

e. Exposures to Central and State Governments; Local Government bodies (eg. Municipal Corporations); and, body corporates established by an Act of Parliament or State Legislature.

f. Exposures of housing finance companies where the account has been rescheduled.

The reference date for the outstanding amount of debt that may be considered for resolution shall be March 1, 2020.

Resolution plans : It may include (i) rescheduling, (ii) conversion of interest accrued / to accrue, into another credit facility, or (iii) granting of moratorium, subject to a maximum of two years. Correspondingly, the overall tenor of the loan may also get modified commensurately.

A. Resolution of Stress in Personal Loans

Eligible borrowers : Accounts were classified as standard, but not in default for more than 30 days with the lending institution as on March 1, 2020.

These accounts should continue to be classified as Standard till the date on which both the borrower and lending institution have agreed to proceed with a resolution plan.

Resolution may be invoked by Dec 31, 2020 and must be implemented within 90 days.

The resolution plan shall be deemed to be implemented only if all of the following conditions are met:

a. all related documentation, are completed;

b. the changes in the terms get duly reflected in the books of the lending institutions; and,

c. borrower is not in default with the lending institution as per the revised terms.

B. Resolution of Other borrowers

Eligible borrowers : Those borrower accounts which were classified as standard, but not in default for more than 30 days with any lender as on March 1, 2020. Further, the accounts should continue to remain standard till the date of invocation.

If there are multiple lending institutions, the resolution process shall be treated as invoked if lenders

Summary edited by : Arundeep Toor - Source RBI website.

representing 75% by value of the total outstanding loans (fund based & non-fund based), and min 60% of lenders by number agree to invoke the same.

Resolution may be invoked not later than December 31, 2020 and must be implemented within 180 days from the date of invocation.

In multiple lending institutions cases, inter-creditor agreement (ICA) to be signed by all lenders within 30 days from the date of invocation.

In cases where the resolution process has been invoked but lenders representing min 75% by value of the total outstanding loans (fund based & non-fund based) and min 60% by number, do not sign the ICA within 30 days from the invocation, the invocation will be treated as lapsed.

The resolution process cannot be invoked again under this framework.

Disputes if any, between signatories to the ICA shall be settled as per the provisions of the ICA and RBI will not intermediate any such disputes.

If any of the above timelines are breached at any point, the resolution process ceases to apply immediately in respect of the borrower concerned.

Expert Committee

RBI shall constitute an Expert Committee (with its secretariat at Indian Banks' Association) which shall recommend a list of financial parameters covering aspects related to leverage, liquidity, debt serviceability etc. The Committee shall also have the responsibility of vetting the resolution plans for all accounts where the aggregate exposure is Rs.1500 crore and above.

Permitted features of the resolution plan

The resolution plan may involve any action as above except compromise settlements. The resolution plan may also include sanctioning of additional credit facilities. The lenders may allow extension of the residual tenor of the loan by a period up to two years.

Conversion into other securities and valuation

The resolution plan may provide for conversion of a portion of the debt into equity or other marketable, non-convertible debt securities issued by the borrower subject to conditions. If the lenders convert any portion of the debt into any other security, the same shall collectively be valued at Re.1.

Other features

Resolution plans for accounts where the aggregate exposure at the time of invocation of the resolution process is Rs.100 crore and above, shall require an independent credit evaluation (ICE) by any one credit rating agency (CRA) authorized by RBI.

C. Asset classification and provisioning

Additional finance to such borrowers, if sanctioned even before implementation of the plan, may be classified as 'standard asset' till implementation of the plan.

In other cases lenders, which had signed the ICA within 30 days of invocation, shall keep provisions from the date of implementation, which are higher of the provisions held as per the extant IRAC norms immediately before implementation, or 10 percent of the total debt, including the debt securities issued in terms of clause 30, held by the ICA signatories post-implementation of the plan (residual debt).

Lenders which did not sign the ICA within 30 days of invocation shall, immediately upon the expiry of 30 days, keep provisions of 20 per cent of the debt on their books as on this date (carrying debt), or the provisions required as per extant IRAC norms, whichever is higher.

Financial Parameters

All lending institutions shall mandatorily consider the following key ratios (as recommended by KV Kamath Committee) while finalizing the resolution plans in respect of eligible borrowers under Part B of the Annex to the Resolution Framework:

Total Outside Liabilities / Adjusted Tangible Net Worth (TOL/ATNW): Addition of long-term debt, short term debt, current liabilities and provisions along with deferred tax liability divided by tangible net worth net of the investments and loans in the group and outside entities.

Total Debt / EBITDA: Addition of short term and long-term debt divided by addition of profit before tax, interest and finance charges along with depreciation and amortisation.

Current Ratio: Current assets divided by current liabilities

Debt Service Coverage Ratio (DSCR): For the relevant year addition of net cash accruals along with interest and finance charges divided by addition of current portion of long term debt with interest and finance charges.

Average Debt Service Coverage Ratio (ADSCR): Over the period of the loan addition of net cash accruals along with interest and finance charges divided by addition of current portion of long term debt with interest and finance charges.

Current ratio and DSCR in all cases shall be 1.0 and above, and ADSCR shall be 1.2 and above.

Practical Problems based on Banking Ombudsman Decisions

1)The complainant alleged that the bank had debited his savings account towards payment of premium of 11 insurance policies without obtaining his consent or mandate. During the conciliation meeting, representatives of bank and insurance company stated that the complainant had given his consent over the welcome calls made by the insurance company. Further, a 15 days free look-in period was also offered within which policy could be returned but the complainant did not raise a dispute. The customer reiterated that the premia were deducted without his consent and also informed that the annual premium to be paid for all policies was much more than his annual income. The bank's representative agreed to re-examine the issue and later confirmed that the premium debited from his account was returned.

2) The complainant stated that he deposited a cheque. The proceeds were not credited by bank to his account. Due to this other cheques issued by him were dis-honoured. On taking up with bank, he was informed that his cheque was lost in transit. BO observed that bank had not adhered to extant RBI instructions as it had not informed complainant of loss of cheque and non-credit of proceeds of the disputed cheque. As a result the other cheques issued by the complainant were dis-honoured. Further, bank failed to take any proactive measure and matter was investigated after it was escalated to OBO. BO advised the bank to credit the complainant's account with the amount of the disputed cheque along with compensation of Rs.20,000/- for loss of time, harassment and mental agony caused to the complainant.

3) The complainant after death of her husband claimed insurance amount under Pradhan Mantri Jeevan Jyoti Bima Yojana from the bank and produced an undated acknowledgement receipt issued by bank to submit relevant application form by her husband. The bank informed her that there was no policy in the name of her husband and no premium had ever been deducted from his account. The bank was unable to find the application form for the undated acknowledgement issued to the deceased. BO observed that there was negligence on the part of the bank in issuing an undated acknowledgement receipt and not being able to trace the related application. A conciliation meeting was held wherein the bank accepted its negligence and agreed to reimburse insurance amount to the complainant along with a compensation of Rs.5,000 for mental agony, loss of time and expenses incurred.

4) The complainant had opened a joint savings bank account with her husband and opted for insurance under PMJJBY. After demise of her husband, she claimed insurance amount. Bank rejected the claim stating that premium on policy could not be paid through auto-debit due to insufficient funds. Hence the policy had not been renewed. The complainant alleged that automatic deduction of undue charges for non-maintenance of minimum balance and inoperative account had resulted in insufficient balance. BO observed that bank's contention that charges were recovered automatically without manual intervention was not acceptable as wrong parameters were fed in CBS resulting in erratic deduction of charges from the account. As such, the insurance policy could have been renewed. Had there been no wrong / excessive charges debited to the account, the complainant would have been entitled to receive Rs.0.2 million towards claim against the policy. BO advised the bank to reimburse the entitled amount against the policy to the complainant.

Financial Events in August 2020

- **RBI TO EASE LIQUIDITY PRESSURE IN MARKET:** RBI has announced measures, including two more trenches of “Operation Twist” aggregating Rs.20, 000 Crore and Term Repo Operations aggregating Rs.1 Lakh Crore in September, to cool the rising bond yields and ease liquidity pressures seen arising due to advance tax outflows. RBI has also created more room under the so called “Held-to-Maturity” HTM category, which banks can utilise from September 1 to park their fresh G-Secs acquisitions. Currently, banks are required to maintain 18% of their Net Demand and Time Liabilities (NDTL) in SLR. The extant limit for investment that can be held in the HTM category is 25% of the total investment. Banks are allowed to exceed this limit provided the excess is invested in SLR within an overall limit of 19.5% of their deposits. Now RBI has allowed banks to hold fresh acquisitions of SLR from September 1 under HTM up to an overall limit of 22% of NDTL up to March 31, 2021.
- **DGFT FOR BENEFITS UNDER MEIS:** The Directorate General of Foreign Trade (DGFT) has capped the benefits earned by exporters under the popular Merchandise Export from India Scheme (MEIS) at Rs.2 Crore per exporter on exports made in the four-month period from September 1 to December 31. It has also been notified that any Import-Export Code (IEC) holder who has not made any export for a period of one year preceding September 1 or any new IEC obtained on or after the date of notification will not be eligible for submitting any claim under MEIS. Further the Scheme of MEIS will be withdrawn with effect from January 1, 2021.
- **CA INSTITUTE FOR NEW STANDARDS FOR ACCOUNTING:** The Institute of Chartered Accountants of India (ICAI) proposes to come out with a set of Forensic Accounting and Investigation Standards (FAIS) The new standards are expected to be ready by end-December and will raise the quality benchmark of forensic engagements. FAIS will be mandatory for the members of the CA Institute and non-adherence will invite disciplinary action. Further even if FAIS is conducted by a non-audit international firm, any member of the institute signing such report would be required to follow the FAIS. The CA Institute will be first body in the accounting world to develop a full set of FAIS standards for forensic professionals and stakeholders.
- **UNION CABINET APPROVES MISSION KARMAYOGI:** The Union Cabinet has approved the launch of Mission Karmayogi Programme to bring comprehensive reforms in civil services. Under the scheme, a Capacity Building Commission will be set up and Special Purpose Vehicle (SPV) will be created for owning. It will also have a coordination unit headed by the Cabinet Secretary. To cover 46 Lakh central employees, a sum of Rs.510.86 Crore will be spent over a period of five years from 2020-21 to 2024-25. The key focus of the programme will be to transition from “Rules-based” to “Roles-based” HR Management and aligning of work allocation of civil servants by matching their competencies to the requirements of the post.
- **RBI ALLOWS BANKS TO REVERSE LTRO TRANSACTIONS:** RBI has said

that the banks can exercise the option of reversing Long-term Repo Operations (LTRO) transactions whereby they availed themselves of funds between February 17, 2020 and March 18, 2020 through a repayment exercise which will be spread over five days, beginning September 14. RBI infused liquidity aggregating Rs.1,25,117 Crore by conducting five LTRO transactions between February 17 to March 18, 2020 at the then prevailing policy Repo rate of 5.15% in a bid to improve monetary policy transmission. By exercising the option of reversing LTRO transactions before maturity, banks can reduce their cost of funds as the policy Repo rate has come down to 4%.

- **RBI TIGHTENS BANK AUDIT WITH LONG-FORMAT REPORTS:** RBI has asked banks to put into operation starting FY 21, a revised Long Format Audit Report (LFAR) whereby Statutory Central Auditors (SCAs) will be required to comment on adverse features considered significant in Top 50 standard large advances and the accounts that need the management's attention. The LFAR will cover risks associated with credit, market and operational and also look at capital adequacy, going concern assessment and information systems. The SCAs will need to examine and comment on recovery from all the written-off accounts during the financial year. RBI also said that an examination of inactive and inoperative accounts might also be carried out as it is a fraud-prone area.
- **LIC ACT TO BE AMENDED BY CENTRE:** The Government is preparing for getting the LIC Act 1956 to be amended to facilitate the public issue. The amendment is required to achieve at least three objectives- list the insurer as a corporation and not as a company, expand its paid up capital and ensure that it continues to give sovereign guarantee to policyholders. LIC's original capital was Rs.5 Crore which was enhanced to Rs.100 Crore after the 2011 LIC Act amendment. Though the Government has not disclosed how much of its shareholding will be offloaded through the IPO it is expected to be 10%. Once listed, an entity is required to have at least 25% of public shareholding – share owned by those other than promoters-within three years.
- **FPIs TO BUY BAD LOANS DIRECTLY:** Foreign Portfolio Investors (FPIs) are permitted to in invest in listed securities, debt instruments and hybrid paper such as real estate investment trusts. FPIs can currently invest in stressed assets indirectly. ARCs acquire them from lenders and in turn issue security receipts which FPIs can buy. This process has not been successful as ARCs were also involved. Now RBI and SEBI have in principle agreed for having more FPI participation in stressed assets. The move on FPI's participation is part of RBI's efforts to enhance liquidity in India's bad loan market, freeing up banks to lend afresh. FPIs are known for their big-ticket purchases. Hence FPIs may soon be able to directly acquire bad loans being sold by banks and other lenders.
- **CENTRE GIVES FLEXIBILITY ON STRCTURING CONVERTIBLE NOTES FOR START-UPS:** The Centre has sweetened the deal for Start-ups by allowing them to raise funds through convertible instruments on extended terms of repayment-up to 10 years without being categorised as "deposits" for company law compliance purposes. A convertible bond is a debt security that provides an investor with a right to exchange the bond for pre-determined number of shares on a maturity debt. Till then the bond holders will get interest on the money invested through the convertible note or bond. Prior the change the maximum repayment period for the convertible note was five years.
- **GOVT. TO IMPLEMENT RODTEP SCHEME REPLACING MEIS:** The Government is identifying sectors for priority implementation of the New Remission of Duties or Taxes on Export Product (RODTEP) Scheme which aims at refunding exporters indirect taxes paid on inputs by replacing the popular Merchandise Export from India Scheme

(MEIS) that is incompatible with World Trade Organisation (WTO) norms. The RODTEP Scheme will be available for all export items but the process of data collection for fixing rates is laborious and time-consuming. That is why the scheme may be extended to few priority sectors first and then subsequently to the rest of the items. The Centre plans to withdraw MEIS which has been ruled as being in violation of multilateral trade rules by the WTO at the end of this year and items that currently enjoy benefits under it would instead benefit under the RODTEP scheme.

- **UNION CABINET APPROVES SOCIAL SECURITY CODE:** The Union Cabinet has approved the Social Security Code which will have enabling provision to allow self-employed workers to make voluntary contribution towards the EPF. The Code has made provisions for contribution from companies towards Gig workers. Further the workers employed in the Gig economy will also be eligible for insurance benefits provided by the State-run ESIS. This is the First Time that such workers will be covered under India's Social Security Law.
- **IRDAI ISSUES NEW HEALTH COVER GUIDELINES:** IRDAI's new norms will drive growth in health insurance products while benefitting customers. According to the guidelines, health cover will now come with wellness and preventive measures and policyholders can get rewards for adhering to a healthy wellness regime. The guidelines will allow insurers to reward customers in various ways such as discounted outpatient consultations or treatments, medicines, health checkups and diagnostics, redeemable vouchers for health supplements and also membership in fitness centres and sport clubs.
- **SEBI TWEAKS DEFINITION OF MULTICAP MUTUAL FUNDS:** SEBI has increased the minimum investment threshold in equity and equity-related instruments. It is now between 65 and 75% of the Fund's corpus. Further it has mandated that at least 25% of the fund's corpus should be deployed in large-caps, mid-caps and small-caps each. The fund managers will have the discretion to invest the remaining 25% in any category or to keep it as cash. Earlier, there was no such minimum threshold.
- **IBBI TO RAISE GOVERNANCE QUOTIENT OF IPAs:** Currently, the insolvency professional has a two tier regulatory architecture with the Insolvency and Bankruptcy Board of India (IBBI) as the Principal Regulator and three Insolvency Professional Agencies (IPAs) as front-line regulators. IBBI proposes to introduce minimum qualifications, experience and other criteria for the appointment of directors of the IPAs, the Front-line regulators of Insolvency Professionals (IPs). It wants the governing board of IPAs to periodic self-evaluation of three dimensions of board composition and quality, board meetings and procedures and board functions and development.
- **GOVT. FOR NEW LENDING FORMULA FOR ROAD PROJECTS:** The Government is working on new norms on lending for hybrid-annuity projects after operators suffered losses due to pandemic-induced lockdown. In order to reduce risks in road construction projects and also cushion banks, the Government is looking at an average of the marginal

cost of fund based lending rates or MCLRs of several lenders for such contracts. This would spread the risks in a project over multiple banks as distinct from one bank, which happens now.

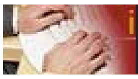
- **GOVERNMENT ISSUANCE OF SOVEREIGN GOLD BONDS:** The Government has so far launched six series of Sovereign Gold Bond (SGB) Scheme during 2020-21. SGBs are Government Securities denominated in grams of gold. Investors have to pay the issue price in cash and the bonds are redeemed in cash on maturity. Investors get interest every year during the 8 year tenor. Investments in the bonds are at current prices and redemption at the price trend during maturity.
- **RBI TO INTRODUCE INTEREST RATE DERIVATIVES FOR BOTH RETAIL, FOREIGN INVESTORS:** RBI has proposed to introduce exchange traded and over-the counter interest rate derivatives products that would be accessible to both foreign investors and retail participants. Foreign portfolio investors would be allowed to transact in permitted exchange-traded interest rate derivatives for a collective Rs.5000 Crore in net long positions. Retail participants can, only use the product for hedging while non-retail participants can use it for any purpose.
- **RBI TO GET MORE POWERS TO SUPERVISE CO-OP BANKS:** The bill which has been introduced by the Government intends to empower co-operative banks to raise equity or unsecured debt capital from the public subject to RBI approval. Also, it empowers the RBI to prescribe conditions on and qualifications for employment of Chairman of co-operative banks. The RBI may remove a Chairman not meeting the “fit and proper” criteria and appoint a suitable person. RBI may supervise the board of directors of a co-operative bank after consultation with the state government. The Bill allows the RBI to undertake reconstruction or amalgamation of a bank without imposing moratorium. .
- **SEBI CHANGES RULES ON MF INVESTMENTS:** SEBI has come out with easy rules for investors of up to Rs.2 Lakh to increase the penetration of mutual fund products and to energise the distribution network. Now all mutual fund investors including those with up to Rs.2 lakh investment will get their NAV on the day their money reaches the fund houses. Currently, fund houses calculate the NAV for investments up to Rs.2 Lakh on the day they receive applications from clients. However, big investors investing more than Rs.2 Lakh have to wait till the realisation of the funds to the asset management companies. The new rule is applicable from Jan 2021.
- **PSBs TO FLOAT COMPANY FOR DOORSTEP BANKING:** All 12 Public Sector Banks (Anchored by UCO Bank) under the aegis of IBA have joined forces to initially offer 10 non-financial services at customer’s doorstep. Now banks are working towards floating a company to house the operations of their recently launched PSB Alliance for Door-step Banking (DSB) initiative. These services are being offered through DSB Agents at 100 top deposit centres across the country. IBA is looking to fill the position of CEO for the company which will eventually run PSB Alliance for DSB. DSB services are chargeable with the current rate being Rs.75 plus GST per financial/nonfinancial services.
- **GOVT. ISSUES NEW RULE FOR IMPORTERS TO GET FTA CONCESSION:** The Centre has issued new rule for the Importers who need to furnish proof of 35% value addition in Goods from the Country of Origin to claim duty concession under the Free Trade Agreements (FTA). It has clearly been specified that without furnishing proof the importers will not get the concession. The move is aimed at plugging duty evasion through routing exports to India under FTAs. The new rule will be a change from the present ones by which a “Country of Origin” certificate issued by a notified agency in the country of export is produced by the importer who has no additional obligation even though he claims substantial benefit.

GENERAL AWARENESS

- Growth which contracted by 23.9% in April-June, Worst Performance since quarterly measurement began in 1996 and First Contraction since 1980- **India's GDP.**
- Group which has become in Infrastructure Sector especially Transport, unmatched by any Player even Globally- **Adani Group.**
- Bank which has invested $650 million in the construction of Kanpur's Metro Line- **European Investment Bank.**
- Transactions which clocks Record Volume of 3-Lakh Crore in August- **UPI Transactions.**
- Court which has allowed Telcos 10 Years to clear their AGR dues- **Supreme Court**.
- Body which will be First Body in the Accounting World to develop a full set of FAIS standards for forensic professionals and stakeholders- **CA Institute (ICAI).**
- Apps which have been blocked numbering 118 including PUBG- **Chinese Mobile Apps.**
- Finance Co. which is to raise Rs.50, 500 Crore by issuing Hybrid Instruments on private placement basis- **LIC Housing Finance Co**.
- Airlines which can operate up to 60% of their capacity from 45% at present- **Domestic Airlines.**
- Index in which India ranks 48th Position into the Top-50 club- **Global Innovation Index.**
- Mission which has been approved by the Union Cabinet to bring in reforms in Civil Services- **Karmayogi Mission**.
- Organisation which has set up Dispute Panels against India's Import duties- **World Trade Organisation.**
- Stock Exchange which is creating two new Crypto Currency Indexes with the goal of setting the pricing standard for Bitcoin and Ethereum in Asia- **Singapore Exchange Ltd. (SGX)**.
- S. Krishnan, presently ED of Canara Bank, has been appointed as- **MD&CEO of Punjab & Sindh Bank.**
- Investments which have tumbled 84.2% year-on-year in August to $306.46 million against $1937,24 million in August 2019- **Investments in Indian Start-ups.**
- From April, car-owners will not be able to obtain a third-party insurance cover if they do not have- **FASTag for Cars.**
- Vinod Kumar Yadav has been appointed as – **CEO of Railway Board.**
- Debt which hit $3.3 trillion bigger than its Economy's Size for the First Time since World War-II- **US Debt.**
- Directors Isha Ambani and Akash Ambani under the age of 40 have been named as

“Emerging Leaders” Globally in FORTUNE-40- **Reliance Jio Board Directors.**

- Regulator which has attached bank and Demat accounts of Fugitive businessman Mehul Chowksi to recover dues over Rs.5 Crore.-**SEBI.**
- Ranking in which Andhra Pradesh State has been ranked in “Top Position” in the country- **Ease of Doing Annual Business Ranking.**
- Scheme under which the Govt. Panel has okayed $100 billion Mobile Export Proposals- **Production Linked Incentive Scheme.**
- Bank which has moved to invoke personal guarantee of Bhushan Power Promoter Sanjay Singhal- **SBI**.
- 2nd Worst-hit Nation which has been replaced by India after having with over 42 Lakh Covid Cases- **Brazil.**
- According to NITI Aayog, States will be ranked on- **Poverty Index Parameter.**
- SEBI has set March 31 as cut-off date for- **Re-lodgment of Share transfer for Demat**.
- Authority which plans in three months to come out with “Mobile App” for investor Protection to file claims- **Investor Education and Protection Fund Authority.**
- India took off and flew “Hypersonic Vehicle” for 2 kilometers per second and joined- **Select Club of Russia, US and China.**
- Scheme under which over 42 Crore poor people have received financial assistance of over Rs.68000 Crore- **PM Garib Kalyan Package.**
- Bank which has exited National Stock Exchange (NSE) by selling its remaining shares- **IDBI Bank.**
- Stock Exchange which has got nod for e-KYC Aadhar Check- **NSE.**
- Agency which fined Standard Chartered with $13.6 million for breaking foreign exchange rules- **India’s Anti-money Laundering Agency.**
- Small Finance Bank which plans to organize its “First Finetech Conclave” which will provide a platform to showcase their new digital banking solutions- **ESAF Small Finance Bank.**
- During Covid-19 Crises, IPO subscribed 150 times- **Happiest Minds.**
- Scheme which has been launched by PM Modi by inaugurating the e- Gopala App for Fisheries Farmers- **PM Matsya Sampada Yojana.**
- Subscribers who will get interest for FY 2020 in two parts-8.15% now and 0.35% by December (Total 8.50%) - **EPFO Subscribers.**
- Index which RBI to construct to be the Key to accurately measure the deepening and penetration of Digital Payments across the Country- **Digital Payment Index**.
- Country which has cancelled “Airshow” due to Coronavirus for First Time in 24 Year History- **China.**
- Prize for which US President Donald Trump has been nominated by Norway Parliament for his peace efforts in West Asia- **Noble Peace Prize.**
- Subhash Kamath, CEO at BBH & Publics Worldwide, India has been elected as- **Chairman of Advertising Standards Council of India.**
- Report according to which there is “68% Decline in Wildlife Population” since 1970- **WWF’s Living Planet Report 2020.**
- Veteran Actor Paresh Rawal has been appointed as- **Chairperson of National School of Drama (NSD).**
- Bank which has been ranked First under “Top Improvers” category by IBA- **Bank of Maharashtra.**
- CITI to be 1st Big Street Bank to be run by Woman CEO- **Jane Fraser.**
- Company which has become First Indian Company to surpass $200 billion in Market Capitalisation- **Reliance Industries Ltd.**
- Ranking in which Gujarat retained its Top Position followed by Andaman and Nicobar – **Best State Start-up Ecosystems Rankings 2019.**



MOCK-TEST PAPER

Questions on RBI /Govt. Policy

01 ___ involves a process of reconfirming key details like date, name of the beneficiary / payee, amount, etc., of large value cheques electronically:

a positive affirmation
b positive confirmation
c positive pay
d payment confirmation

02 Who shall develop the facility of Positive Pay in CTS, in India ?

a NPCI
b IDRBT
c RBI
d IBA

03 Banks, in India, shall enable Positive Pay in CTS w.e.f. 01.01.21, for all account holders issuing cheques for amounts of ___ and above.

a Rs.25000
b Rs.50000
c Rs.1 lac
d Rs.2 lac

04 As per RBI direction, the banks may consider making Positive Pay in CTS w.e.f. 01.01.21, mandatory in case of cheques for amounts of ____ and above.

a Rs.50000
b Rs.100000
c Rs.200000
d Rs.500000

05 As per revised provisions of Deendayal Antyodaya Yojana - National Rural Livelihoods Mission (DAY-NRLM), the banks are to sanction cash credit loan for a period of __

a one year
b 2 years
c 3 years
d 5 years

06 As per revised provisions of Deendayal Antyodaya Yojana - National Rural Livelihoods Mission (DAY-NRLM), the banks are to sanction cash credit loan of Rs.____, with the provision of annual drawing power.

a Rs.10 lac
b Rs.6 lac
c Rs.5 lac
d Rs.3 lac

07 As per revised provisions of Deendayal Antyodaya Yojana - National Rural Livelihoods Mission (DAY-NRLM), DP for First Year shall be 6 times of the existing corpus or minimum of ___ lakh, whichever is higher

a Rs.1 lac
b Rs.2 lac
c Rs.5 lac
d Rs.6 lac

08 As per revised provisions of Deendayal Antyodaya Yojana - National Rural Livelihoods Mission (DAY-NRLM), DP for 2nd Year shall be 6 times of the existing corpus or minimum of ___ lakh, whichever is higher

a Rs.1 lac
b Rs.2 lac
c Rs.5 lac
d Rs.6 lac

09 As per revised provisions of Deendayal Antyodaya Yojana - National Rural Livelihoods Mission (DAY-NRLM), DP for 4th Year shall be more than ____ based on the Micro credit plan prepared by SHG and appraised by the Federations / Support agency and the previous credit history.

a Rs.1 lac
b Rs.2 lac
c Rs.5 lac
d Rs.6 lac

10 As per revised provisions of Deendayal Antyodaya Yojana - National Rural Livelihoods Mission (DAY-NRLM), DP for 3rd Year shall be min ____ based on the Micro credit plan prepared by SHG and appraised by the Federations /Support agency and the previous credit history.

a Rs.1 lac
b Rs.2 lac
c Rs.5 lac
d Rs.6 lac

11 As per revised provisions of Deendayal Antyodaya Yojana - National Rural Livelihoods Mission (DAY-NRLM), in case of Term Loan, banks are to sanction loan amount in doses. The amount of 1st dose shall be min ___:

a Rs.1 lac
b Rs.2 lac

c Rs.5 lac

d Rs.6 lac

12 As per revised provisions of Deendayal Antyodaya Yojana - National Rural Livelihoods Mission (DAY-NRLM), in order to facilitate use of loans for augmenting livelihoods of SHG members, RBI advised bank that at least ___ of loans above Rs.2 lakh, be used primarily for income generating productive purposes.

a 25%

b 50%

c 60%

d 75%

13 As per RBI guidelines of Sept 2020, on Compliance Function and Role of Chief Compliance Officer, the quality assurance and improvement program shall be subject to independent external review periodically, at least once in ___ years.

a one year b 2 years

c 3 years d 4 years

14 As per RBI guidelines of Sept 2020, on Compliance Function and Role of Chief Compliance Officer (CCO), the tenure of CCO should be fixed min of ___ years

a one year b 2 years

c 3 years d 4 years

15 As per RBI guidelines of Sept 2020, on Compliance Function and Role of Chief Compliance Officer (CCO), the CCO should be in the rank of :

a Executive Director

b General Manager

c Dy General Manager

d Chief Manager

16 As per RBI guidelines of Sept 2020, on Compliance Function and Role of Chief Compliance Officer (CCO), the term _____ means CCO shall not be given any responsibility which brings elements of conflict of interest, especially the role relating to business.

a Red flagging

b Dual hatting

c Split responsibility

d Single responsibility

Recalled Questions

17 Tier II capital instruments such as Perpetual cumulative preference shares or Redeemable non-cumulative preference shares or redeemable cumulative preference shares are to be shown in ____ in the balance sheet:

a Schedule 3, for deposits

b Schedule 4, for borrowing

c Schedule 5, for other liabilities

d Schedule 9, for loans and advances

18 Banks have fixed the exposure norms for various banking transactions, say maximum loan against shares, maximum loan to a borrower etc. This is part of which of the following:

a risk management

b asset liability management

c selective credit control

d all the above

19 A power of attorney has been executed in UK and it is to be used in Mumbai. The time for payment of stamp duty is:

a within 3 months from date of entry into India

b within 3 months from date of its execution

c 3 months before the date when it is to used

d it is not a valid document and cannot be used

20 The loan account of the borrower has been showing overdue amount. The guarantor has some balance in his account. Whether it will be in order for the bank to exercise the right of setoff.

a bank can debit the account straightaway to recover the amount as liability of guarantor is similar to the borrower

b bank can debit the account if the loan has been recalled from the guarantor and notice of set off has been given

c bank can debit the account if the loan has been recalled from the guarantor and borrower and notice of set off has been given to both of them

d the account is not in the same name and capacity. Hence debit cannot be made.

21 ____ is the risk of loss arising from those contracts which are not legally enforceable or documented correctly:

a liquidity risk

b operational risk

c reputation risk

d legal risk

22 A solicitor is having two accounts with the bank. One in personal name and other in clients name. One Cheque is presented in 'clearing' in clients account. In the meantime, garnishi order is served on the solicitors' account. Whether

Bank will pay this cheque presented in the clearing.

a cheque will not be paid, as it is presented after receipt of the order

b cheque will be paid, as account is in the same name

c cheque will be paid as order is in his personal name

d cheque will be paid, since it relates to client account, which the solicitor has opened in fiduciary capacity.

23 A financial derivative contract whose value, in absolute terms, changes more than proportionately to the change in the underlying risk

a Interest rate swaps

b leveraged derivative

c interest rate collar

d interest rate swaption

24 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)

25 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

26 In which of the following deposit accounts, the interest payment is subject to TDS:

a if interest on FDR payment exceeds Rs.50000 in a financial year

b if interest on RD exceeds Rs.40000 in a financial year

c interest paid Rs.5000, on NRO saving bank account

d all the above

27 What has been added to list of official valid documents (OVD) under RBI KYC Directions 2019?

a Aadhaar

b Passport

c Driving license

d Voter I-Card

28 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

29 As per large exposure 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 25% of capital funds

d 25% of Tier-1 capital

30 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

31 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

32 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

Answers

01 c	02 a	03 b	04 d	05 c
06 b	07 a	08 b	09 d	10 d
11 a	12 b	13 c	14 c	15 b
16 b	17 b	18 a	19 a	20 b
21 d	22 d	23 b	24 c	25 e
26 d	27 a	28 b	29 d	30 d
31 b	32 e			

Review of Guidelines : Core Investment Companies

On recommendations of Working Group (WG) to Review the Regulatory and Supervisory Framework for Core Investment Companies (CICs), (Chairman Tapan Ray) RBI, on 13.08.20, decided to revise the guidelines applicable for Core Investment Companies.

Definition of Adjusted Net worth (ANW)

While computing Adjusted Net Worth (ANW), the amount representing any direct or indirect capital contribution made by one CIC in another CIC, to the extent such amount exceeds 10% of Owned Funds of the investing CIC, shall be deducted.

The deduction requirement shall take immediate effect for any investment made by a CIC in another CIC after date 13.08.20. In cases where the investment by a CIC in another CIC is already in excess of 10% as on 13.08.20, the CIC need not deduct the excess investment as on the date of this circular from owned funds for computation of its ANW till March 31, 2023.

Group Structure

The number of layers of CICs within a Group (including the parent CIC) shall be restricted to two, irrespective of the extent of direct or indirect holding/ control exercised by a CIC in the other CIC.

Risk Management

The parent CIC in the group or the CIC with the largest asset size, in case there is no identifiable parent CIC in the group, shall constitute a Group Risk Management Committee (GRMC). The GRMC shall report to the Board of the CIC that constitutes it and shall meet at least once in a quarter.

All CICs with asset size of more than Rs.5,000 crore shall appoint a CRO with clearly specified roles and responsibilities.

CICs shall submit to the Board, a quarterly statement of deviation.

Exceptions to carrying other financial activity

CICs are allowed to invest in money market instruments, including mutual funds which make investments in money market instruments/ debt instruments with a maturity of up to 1 year.

Registration

It shall be noted that CICs (a) with an asset size of less than Rs.100 crore, irrespective of whether accessing public funds or not and (b) with an asset size of Rs.100 crore and above and not accessing public funds are not required to register with RBI.

Change in nomenclature

A Systemically Important Core Investment Company, will henceforth be termed as a Core Investment Company. A Core Investment Company, which is not required to be registered will henceforth be termed as 'Unregistered CIC' instead of 'exempted CIC'.

DATA COLUMN

Business of Banks

(Rs.in cr)	Mar31'19	11.09.20
Aggregate deposits	10805150	14248235
Cash in hand/RBI	570490	519766
Investments	3043660	4401728
Bank Credit:	7881890	10224928
-Food	53930	63854
-Non-Food	7827960	10161074
Cash-Deposit Ratio	5.27	3.75
Investment-Deposit	28.14	28.33
Credit-Deposit	72.95	75.39

Money Stock

(Rs.in cr)	31.03.20	11.09.20
M3 (Out of which)	16799930	17740005
(a) Currency with public	2349715	2600933
(b) Demand deposits-Banks	1737692	1638001
(c) Time Deposits - Banks	12674016	13459008
(d) Other deposits with RBI	38507	42064

Sources of Money Supply

(a) Net Bank credit to Govt	4906583	5818018
(b) Bank credit to Comrcl sectr	11038644	10887516
(c) Net Forex assets of Banks	3798902	4175441

Important Banking Indicators

Statutory Liquidity Ratio	18.00%	(10.04.2020)
Cash Reserve Ratio	03.00%	(28.03.2020)
Overnight LAF (of NDTL)	0.25%	
14days term Repo(of NDTL)	0.75%	
Reverse Repo Rate	03.35%	(22.05.2020)
Repo Rate	04.00%	(22.05.2020)
MSF Rate	04.25%	(22.05.2020)
Bank Rate	04.25%	(22.05.2020)

Small Savings Interest Rates

PPF	7.1%	(01.04.2020)
5-year NSC	6.8%	(01.04.2020)
Sukanya Smridhi	7.6%	(01.04.2020)
Senior Citizen Saving	7.4%	(01.04.2020)

Capital & Money Market Indicators

Parameter	end-Sep19	end-Sep20
Dollar-spot TT (Rs.)	70.75	73.15
BSE - Sensex (points)	37673	39108
NSE - Nifty(S&P CNX)	11175	11527
Foreign reserves (Million $)	433594	542021
Gold /Oz in USD)	1521	1882

INDIAN ECONOMY-IMPORTANT PARAMETERS

Growth estimate for FY 2020-21	: 6-6.5%
GDP@constant mkt prices (cr) 2019-20	: 20442233
GVA@2011-12 basic prices (cr) 2018-19	: 12906936
GDP projected by Govt. for 2020-21	: 22489420
Fiscal Deficit Target (2020-21) 3.5% of GDP	: 796337 cr
Revenue Deficit Target (2020-21) 2.7.% of GDP	: 609219 cr
Wholesale Price Index	: 2.7%
Money Supply (M3) expansion - YoY	: 10.3%
Exports during 2018-19	: 331.0 bn
Imports during (2018-19)	: 507.06 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 (Mar 2019) US $	: 543.0 Bn
Tax-GDP ratio (2018-19)	: 12.1%
Apr- Jan20:Export $ 265.3 bn Imports	: 398.5 bn
Per capita Income 2018-19 (Rs.)	: 126406
Indian economy's ranking in PPP terms	: 3rd
Indian economy's ranking in world in value	: 7th

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