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Dear Comrades,

13th October , 2016

News of Interest 13th Oct

QUOTE OF THE DAY

“DO NOT WAIT; THE TIME WILL NEVER BE 'JUST RIGHT.' START WHERE YOU STAND, AND WORK WITH WHATEVER TOOLS YOU MAY HAVE AT YOUR COMMAND, AND BETTER TOOLS WILL BE FOUND AS YOU GO ALONG.”

GEORGE HERBERT

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Business Standard

1. ICICI Bank executes India's first transaction on blockchain

The usage of blockchain technology simplifies the process and makes it almost instant-to only a few minutes

Press Trust of India |

ICICI Bank on Wednesday announced that it has successfully executed transactions in international trade finance and remittances using block chain technology in partnership with Emirates NBD.

"ICICI Bank is the first bank in the country and among the first few globally to exchange and authenticate remittance transaction messages as well as original international trade documents related to purchase order, invoice, shipping and insurance, among others, electronically on blockchain in real time," the bank said in a statement.

The usage of blockchain technology simplifies the process and makes it almost instant-to only a few minutes. This is in contrast to the current process which involves a complex and lengthy paper trail that requires international shipping and courier, it said.

"ICICI Bank executed these pilot transactions via its blockchain network with Emirates NBD on a custom-made blockchain application, co-created with Edge Verve Systems, a wholly-owned subsidiary of Infosys," the release said.

The blockchain application replicates the paper-intensive international trade finance process as an electronic decentralised ledger, which gives all the participating entities, including banks, the ability to access a single source of information.

This enables all the parties, viz, the importer in Mumbai; ICICI Bank, Mumbai; the exporter in Dubai and Emirates NBD, Dubai to view the data in real time, the bank said.

It also enables them to track documentation and authenticate ownership of assets digitally, as an un-alterable ledger in real time.

Chanda Kochhar, MD and CEO of ICICI Bank said: "I envision that the emerging technology of blockchain will play a significant role in banking in the coming years by making complex bilateral and multi-lateral banking transactions seamless, quick and more secure".

She added that going forward the bank also intend to work on expanding the blockchain ecosystem and create common working standards to contribute to the commercial adoption of this initiative.

The pilot transaction was executed to showcase confirmation of import of shredded steel melting scrap by a Mumbai-based export-import firm from a Dubai-based supplier, the bank said.

The second initiative involved a transaction on the blockchain application that enabled an ICICI Bank branch in Mumbai to remit funds to an Emirates NBD branch in Dubai in real time.

2. 4 PSBs may default on AT-1 bonds' coupon

Continued losses erase revenue reserves

Abhijit Lele

Rating agency CRISIL on Wednesday said four ailing public sector banks (PSBs) may fail to pay interest on additional Tier-I bonds as mounting losses could wipe out their revenue reserves.

As many as 13 of the 21 PSBs reported losses in FY16 and almost half of them may post losses again in FY17. The tally of PSBs considers the State Bank of India and its associates as a consolidated entity.

As on date, 14 PSBs have Rs 22,600 crore of AT-1 bonds outstanding. CRISIL declined to disclose the names of the four state-owned banks, which run the risk of defaulting on coupon payment. This is an industry-level study and CRISIL is not giving out names, Krishnan Sitharaman, senior director, CRISIL said.

CRISIL said some banks are reporting revenue reserves in their audited balance sheets without adjusting for profit and losses. Instead, these losses are being shown as negative balance in P&L accounts on the liability side. As a result, reported revenue reserves do not deplete despite losses.

For loss-making banks, the ability to service coupon on AT-1 bonds depends only on adequacy of revenue reserves.

The Basel III-compliant AT-1 bonds are meant to be loss-absorbing in times of stress. Hence, CRISIL considers revenue reserves net of P&L losses to assess a bank's ability to service coupon.

Apart from high probability of posting losses this fiscal, negative or low revenue reserves are likely to make six PSBs vulnerable. Of these, four have AT-1 bonds outstanding, where continued losses could wipe out their revenue reserves. The other two have not issued any AT-1 bonds so far.

Four other PSBs are also expected to post losses in the near term, but they have adequate revenue reserves (after adjusting for expected losses) to service coupon on AT-1 bonds outstanding. However, their ability to continue to do so over the medium term will depend on a return to profitability.

The 11 banks are expected to report a profit in the near term (or have sizeable revenue reserves despite weaker profitability), helping them service coupon obligations on AT-1 bonds over the medium term.

3. Gross National income per capita: Very few middle-income economies reach high-income status

According to the latest classification of countries released by the World Bank, as of July 1, 2016, countries with a GNI (Gross National Income) per capita, of \$1,025 or less in 2015 are categorised as low-income economies; countries...

By: Arnab K Deb

According to the latest classification of countries released by the World Bank, as of July 1, 2016, countries with a GNI (Gross National Income) per capita, of \$1,025 or less in 2015 are categorised as low-income economies; countries with a GNI per capita between \$1,026 and \$4,035 are classified as lower middle-income economies and upper middle-income economies are those with a GNI per capita between \$4,036 and \$12,475; countries with a GNI per capita exceeding \$12,476 fall under the category of high-income economies. As per this new classification, India with a per capita GNI of around \$1,500 is now classified as a lower middle-income country. Over the two and half decades of post-reform period, India has emerged as one of the most promising nations among emerging economies across the world and has shown tremendous potential for being considered as a global super power in future. But the new classification by the World Bank comes as a surprise to many and is a pressing concern to the policymakers.

Former RBI Governor Raghuram Rajan expressed his concern in a very candid manner: "India is still a \$1,500 per capita economy. All the way from \$1,500 per capita to \$50,000, which is where Singapore is, there is a lot of things to do. We are still a relatively poor economy and to wipe the tear from every eye, one

would at least want to be middle-income around \$6,000-7,000 which, if reasonably distributed, will have dealt with extreme poverty." By achieving the target of per capita GNI of \$6,000-7,000 India will reach the upper middle-income country (as per the new classification). However, optimism is always followed by suspicion.

One relevant question is, given the present economic conditions, whether India would be able to pace up its growth process over the next few decades to achieve this target. On top of that, for an economy it becomes much harder to transcend to the next level after moving into middle income status and therefore it is worth pondering upon the risk of getting stuck in the 'middle income trap'. Rising from a low-income to a middle-income economy is relatively easier task as compared with the transition process from a middle-income to a high-income economy. The low income countries can exploit poverty to their advantage. A low-income economy remains more competitive in labour-intensive manufacturing (apparel, shoes and toys, for example) sector because of cheap wages. Progressing to the high income stage is more difficult.

As is evident in the history of economic development, only 13 of 101 middle-income economies in 1960 reached high-income status by 2008. Statistics show that Latin American countries, like Brazil and Argentina, Asian countries like China and Malaysia are stuck in the middle income group even if these economies started their transition with great fervour.

If we dig deeper into this issue we can find that countries which were able to reach to the middle-income level have followed fairly similar transition paths. The common set of strategies across these countries includes rapid rural to urban migration followed by urbanization, strengthening the manufacturing sector, increasing the production till the point when the advantage of surplus labour is completely exhausted. It becomes almost impossible at that point to enhance productivity by importing and imitating foreign technology only. Therefore, adoption of development strategies capable of accelerating productivity growth could be instrumental for an economy in avoiding the middle income trap and transcend to the higher level.

In the context of Indian economy, the key issue is what type of policy reforms must be designed and implemented to accelerate productivity growth and provide sufficient incentives to carry out research and development leading to innovation. Innovation is one of the most important steps towards achieving the objective. The time is ripe for the country to explore novel ways of doing things and its growth process should be primarily driven by innovation.

Nonetheless, to get the maximum benefit out of innovation the economy must focus on investing on human capital as well. Even if adding to the stock of physical capital is one of the necessary conditions, we should not overlook the complementary relation between physical and human capital. Improving the education system—the higher education as well as the elementary education—must be the priority for the policy makers of this country. In addition, this economy's success in escaping the middle income trap is contingent on the ability in investing in advanced infrastructure which not only includes roads and power grids but also internet connectivity, improving contract enforcement and securing intellectual property rights, and improving access to the right type of finance to promote innovation. The reform programmes must be sufficiently motivated, by the breadth of and strong linkage between these policies, so as to enjoy the maximum benefit and generate the momentum required for the economy to escape the middle-income level.

4. Income tax legislation: When advance rulings become dead letters

The income tax legislation has a separate chapter outlining the method and timelines for taxpayers to obtain an advance ruling regarding their tax liability arising from a transaction proposed to be undertaken by or with a non-resident.

By: Ashutosh Dikshit

The income tax legislation has a separate chapter outlining the method and timelines for taxpayers to obtain an advance ruling regarding their tax liability arising from a transaction proposed to be undertaken by or with a non-resident. The provisions stipulate that the ruling be issued by the Authority of Advance Rulings (a two member expert body located in Delhi) within six months of the receipt of an application from a taxpayer. In 2014, the facility of obtaining an advance tax ruling was also extended to a notified class of domestic transactions made by residents. The Authority was enabled to operate through additional benches outside Delhi and the numbers of members on a bench were increased to three. The Finance Minister announced in his Budget Speech of 2014 that tax demands of more than R4 lakh crore were being disputed before various courts and appellate authorities, and that these measures were being undertaken to reduce litigation in direct taxes.

The past two years have seen a number of successful initiatives, like the government signing Advance Pricing Agreements (100 till date) with taxpayers about the pricing of their transactions with related non-resident enterprises and the review and reduction in filing of government appeals to higher courts on tax matters. However, the advance ruling mechanism has been a disappointment. More than 500 applications are pending before the Authority. Besides, the average time being taken to pronounce a ruling is 3-4 years or more instead of the stipulated six months. As a result, taxpayers are filing their tax returns for succeeding years without any certainty about the tax implications of the original transactions for which they had sought a ruling. The advance ruling process has, therefore, become a dead letter.

In contrast, the Settlement Commission which is a statutory alternate dispute resolution authority is functioning well. It passes binding orders within eighteen months to settle income tax disputes based on principles of mediation and arbitration. The commission process was earlier subject to similar delays as are being currently experienced in the case of the Authority for Advance Rulings, but the government took several legislative and administrative measures to overhaul the functioning of the commission. There are now a number of internal timelines laid out in the I-T Act, for the tax authorities, taxpayers and the commission, so as to ensure that the settlement process is completed in time.

For instance, a settlement application is considered to be admitted if the commission does not pass orders rejecting its admission within 14 days of filing. For deciding about the validity of an application, the I-T department is statutorily obliged to submit its report within 30 days and thereafter, the commission has to give its ruling within 15 days on its validity. Under the rules of the commission, the I-T department is supposed to send a detailed report on a valid petition within 45 days. After providing an opportunity of hearing to both sides, the commission is statutorily bound to issue a ruling on the settlement petition within 18 months. The government has also taken administrative measures to increase the number of benches of the commission and appointed members in a time bound manner, so that there is no disruption for the lack of members.

A similar exercise needs to be undertaken in the case of the Advance Ruling Authority. The statute should have internal timelines as in the case of the commission. For example, the taxpayer could be asked to submit his written arguments along with the application; the tax authority would be obliged to respond in writing to these arguments within 60 days and the taxpayer can

again file its counter within 30 days. After studying these arguments, the commission would provide an opportunity of hearing to both sides and decide the matter within the designated period of six months.

Though the new benches of the Settlement Commission were notified in March last year, they are not yet functional and the chairperson's post is vacant. The government needs to quickly fill up these vacancies with members who have a background and knowledge of international taxation and tax treaties. Unless these twin statutory and administrative initiatives are taken up on an urgent basis to reduce the pendency before the Authority, the claim of providing tax certainty for foreign investment would ring hollow.

Economic Times

5. Vinod Rai talks tough, says banks dithering on cleaning bad loans

By Dheeraj Tiwari & Vinay Pandey,

Banks Board Bureau chief Vinod Rai said little progress has been made on resolving bad loans as managements are reluctant to take hard decisions on recasting debt despite concerns that the rising burden of non-performing assets (NPAs) is holding back the economy.

"We are not making much progress and I don't think we have anybody else to blame but the banks themselves," Rai told ET, adding that the government and RBI had created a conducive environment for lenders to clean up their books. The veteran bureaucrat, who was roped in by the government to oversee a planned transformation of state-owned banks, added that he doesn't see any prospects for consolidation until bad loans are sorted out.

Rai, whose mandate is likely to get broader, said he now sees signs of recovery in the economy. But banks need to push sluggish credit expansion to spark private investment, which has been lagging behind, in order to boost growth to required levels.

The lack of enthusiasm on the part of bank executives to resolve bad debts stems from fear that they may subsequently be accused of favouring big corporate borrowers and face corruption charges. But those concerns have been addressed, he said. "The critical issue that needs to be asked is in FY16-17, how many bad loans have you resolved?" Rai said.

BBB has roped in two of the country's top anti-corruption authorities — the Central Vigilance Commission and Central Bureau of Investigation — to ease worries about undue scrutiny over rescheduling bad loans, Rai said. A two member overseeing committee (OC) to help banks deal with bad loans was set up after consultations with the Reserve Bank of India and the agencies mentioned above. It includes former State Bank of India chairman Janki Ballabh and former chief vigilance commissioner Pradeep Kumar.

"I don't think at any point of time before this, the government or RBI had made it so simple for them to settle. In my interactions with RBI governor (Urjit Patel), I am assured that RBI is totally supportive," he said, adding that the regulator has also agreed to tweak regulations wherever there are genuine concerns. "But the point is RBI is not going to lay out the entire red carpet and then say you settle." The newly announced bankruptcy laws will be ineffective as long as banks are not prepared to make decisions on bad loans, Rai said, adding that BBB was only an advisory body.

Gross NPAs of public sector banks surged to Rs 4.76 lakh crore in FY16 from Rs

2.67 lakh crore in the year before. As many as 13 of 21 public sector banks — State Bank of India and its associates were counted as one entity — posted losses in FY16 and half of them could do so again this fiscal, Crisil said in a note on Wednesday. Rai said that in the public sector processes sometimes take precedence over outcomes but banks should be able to get things moving by following the resolution procedure and presenting cases to their boards for action, expressing frustration that this wasn't happening. "Somebody has to talk to them and tell them you are here to settle, resolve issues, and kick start lending process," he noted. Banks should make use of the joint lenders forum (JLF), he said. "I do not see a CBI prosecuting the boards of seven banks," he said. The JLF refers to a grouping of key lenders to a borrower who come together to negotiate jointly.

BAD BANK

ET reported earlier this week that the government was working on a plan to address bad loans and one of the options was a professionally run bad bank.

Rai isn't convinced that's a good idea, going by the experience of the dozen or so asset reconstruction companies operating in the country. "How many loans have they resolved over the last decade?" he said. "I am convinced in my mind that public sector can work, it has delivered and we can make it still deliver."

Rai said recent reports about consolidation may have been based on comments that were general in nature, rather than anything specific. "Bank consolidation is very much on agenda but it is not the right time," Rai said. "When going for bank consolidation, you take two partners, and look at what synergy they have. But when you have stress on the balance sheet, you don't know the real size of the balance sheet."

Business Line

6. IndusInd Bank Q2 profit up 26% on income growth

OUR BUREAU

Robust growth in net interest income and non-interest income helped IndusInd Bank report a net profit of ₹704 crore, up 26 per cent year-on-year, in the July-September quarter. Its profit in the year ago period was ₹560 crore.

The private sector bank reported a net interest income (the difference between interest earned and expended) of ₹1,460 crore, up 33 per cent year-on-year. Non-interest income increased 24 per cent to ₹970 crore.

Romesh Sobti, MD and CEO, said, "This quarter, the bank has registered positive growth across all vectors despite tepid global markets and not so buoyant domestic market. However, the overall industry sentiment looks optimistic with a gradual uptick in credit pick-up likely in the coming quarters."

Net interest margin (NIM) in the second quarter improved to 4 per cent as against 3.88 per cent in the year ago period.

Gross non-performing assets (NPA) as a percentage of gross advances edged up to 0.90 per cent during the quarter versus 0.77 per cent in the year ago quarter.

Gross NPAs stood at ₹900 crore (₹602 crore).

Provisions (other than tax) & contingencies were up 35 per cent at ₹214 crore (₹158 crore in the year ago period).

Deposits were up 39 per cent yoy at ₹1.12 lakh crore as on September 30, 2016.

Advance rose 26 per cent yoy at ₹98,949 crore as on September 30, 2016.

Capital adequacy ratio declined to 15.32 per cent as at September-end 2016 as against 16.52 per cent as at September-end 2015.

7. Inflation seen cooling to one-year low in Sept

REUTERS

Inflation in India is expected to have cooled to a one-year low in September as good monsoon rains kept a lid on food prices, a Reuters poll showed, possibly giving more room to the central bank to cut rates again by the end of this year.

The recently formed Reserve Bank of India Monetary Policy Committee, under new Governor Urjit Patel, cut rates by 25 basis points to 6.25 percent in a surprise move earlier this month, after inflation hit a five-month low in August.

The latest poll of over 30 economists showed retail inflation probably eased further last month to 4.80 per cent, the lowest since September 2015, from 5.05 per cent in August.

"The favourable impact of the monsoon is now coming through the system. We saw quite a strong deflation in terms of food prices in August. We expect that to continue in September as well," said Tushar Arora, senior economist at HDFC Bank.

If the reading moderates in line with forecasts, it is likely to fan bets of further rate cuts this year and put the RBI in line with many other major central banks that are also loosening policy.

Another rate cut by the RBI would support government efforts to boost economic growth to above 8 per cent to create jobs for millions of unemployed youth.

"The RBI MPC has come out as a more dovish committee... We are expecting one more 25 basis points rate cut by the end of this fiscal year." said Arora. "There might be a long pause after that, possibly due to a rise in rural demand and demand-side pressures in general next year."

RBI has softened its stance on the timeline for meeting its inflation goal and lowered the real interest rate target, giving it room to cut rates further.

However, economists in the poll expressed concern that prices could rise quickly after a pay hike for millions of government employees and pensioners.

Wholesale price inflation likely edged up to 3.89 per cent last month versus 3.74 per cent in August, the poll found.

8. Gold demand to get festival boost as prices tumble

SURESH P IYENGAR

The festival of light and recent fall in gold prices is all set to bring back the shine on yellow metal, boosting jewellery demand which has been lagging for last few months.

Standard gold prices have fallen four per cent to ₹30,050 per 10 grams on Monday from ₹31,200 recorded on September 30.

Expectations are that the good monsoon is set to enhance farmers' income after two years of consecutive drought and give a fillip to gold demand in the rural areas.

Saurabh Gadgil, Chairman, PNG Jewellers and Director Indian Bullion and Jewellers Association, said the industry is expecting gold jewellery sales to increase 50-60 per cent over last year during the festival and wedding season over next six months.

"The market sentiment looks good as gold seems to be secure investment in the current Indo-Pak political scenario and the ongoing US presidential elections. The good monsoon this year will play a key role in bringing back rural demand in an agro-based economy like India," he said.

In line with the bullish market sentiment on gold, the discount on gold offered by bullion dealers to jewellers has been narrowing in last two months.

The discount on gold has dipped to \$4 an ounce (about 28 grams) on Monday from \$35 an ounce registered on August 10, as per the premium and discount polled by commodity futures exchange Ncdex.

Even after sourcing gold at discount jewellers have been reluctant to cut jewellery prices, but are throwing in lot of freebies and offers to attract buyers. Tribhovandas Bhimji Zaveri (TBZ) has waived making charges on all diamond jewellery and fixed making charges at ₹249 per gram on all gold jewellery since the start of this month. Some of the jewellers have introduced collection of light weight jewellery to attract customers.

Playing to the gallery, the government is all set to launch its sixth series of Gold Bond Scheme in next few days to encash on retail investors' sentiment.

The government has been working relentlessly to divert physical gold demand to gold-return linked financial assets and has collected about ₹3,059 crore through series of five gold bonds issues valued at about 10.22 tonnes of gold.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY