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Dear Comrades,

20th December , 2017

News of Interest 20TH DEC

MOTIVATIONAL QUOTES

“UNITY IS STRENGTH... WHEN THERE IS TEAMWORK AND COLLABORATION,
WONDERFUL THINGS CAN BE ACHIEVED. “
MATTIE STEPANEK

HIGHLIGHTS

1. IBC RESOLUTION OF STEEL FIRMS PUSHED TO FY19
2. AIRTEL PAYS RS 2.5 CR FINE FOR OPENING PAYMENTS BANK WITHOUT USER CONSENT
3. COMPLAINTS TO BANKING OMBUDSMAN UP 27 PC IN FY17
4. FRDI BILL: WHY INDIA NEEDS A NEW LEGAL FRAMEWORK TO PREVENT BANK FAILURES
5. UNIONS TO PETITION GOVT FOR PRO-PEOPLE BANKING POLICIES

Business Standard

1. IBC resolution of steel firms pushed to FY19

Lenders to miss Dec-end deadline for Essar, Bhushan Power, Electro steel, Monnet Ispat

Ishita Ayan Dutt & Dev Chatterjee

Indian lenders are likely to wrap up the resolution process of Bhushan Power & Steel (BPSL), Essar Steel, Monnet Ispat & Energy, and Electrosteel Steels only in the first quarter of the next financial year (FY19) and miss the initial deadline of December-end set under the Insolvency and Bankruptcy Code (IBC).

The bids for Bhushan Steel are also due this Saturday, and according to a bidder, the process is so legally cumbersome that even this will see a delay.

The bids for Binani Cement, which is not on the Reserve Bank of India's list of first set of 12 companies, is due on December 21, according to the banking source.

The first list of 12 companies made it to the Reserve Bank of India's top bad loans accounts identified in June this year (*see chart*) and were sent to the National Company Law Tribunal (NCLT) for resolution under the IBC.

The delay, sources said, was on account of finalising the evaluation criteria with few promoters planning to make their bids by tying up with private equity firms.

Legal sources said apart from lack of clarity on income-tax liabilities, how Competition Commission of India rules would apply to these companies was a major concern among the bidders.

"There is some confusion over bidding criteria and delisting of listed entities too," said a banker.

A source said the committee of creditors for BPSL had approved extension to 270 days and a plea for extension would be filed with the NCLT shortly. The bids for BPSL were due on Friday. The bids for Essar Steel were also expected in the next quarter and the lenders were likely to miss the December 29 deadline, said a source.

When contacted, Mahender Kumar Khandelwal, insolvency professional for BPSL, and leader and partner of business restructuring at BDO India LLP, declined to comment.

Essar Steel, too, refused to say anything, and so did Sumit Binani, resolution professional for Monnet Ispat & Energy, supported by Grant Thornton.

According to the IBC rules, a resolution plan for a company would have to be finalised within 180 days but under special circumstances it could get an extension of another 90 days. Banks are expected to take a haircut of as high as 60 per cent on these accounts with a new bidder taking over part of the existing loans.

The equity value, according to bidders, should be zero and the company concerned should be allowed to delist for a smoother turnaround. The government and the Securities and Exchange Board of India are expected to clarify these issues in the coming days.

BPSL would complete 270 days on April 22. Accordingly, the date for accepting resolution plans has also been revised to January 10.

Monnet Ispat & Energy, which has just crossed the deadline for accepting resolution plans, is also likely to seek an extension of 270 days. It has received just one bid, from the JSW Steel-AION Capital combine, but sources indicated that the committee of creditors would now enter into negotiations with the bidder. Monnet Ispat & Energy would complete 180 days on January 13 and also, since the year-end would be a vacation time for many, it would be difficult to conclude the process within 180 days.

Electro steel Steels is also likely to extend the deadline. It has revised the deadline for accepting resolution plans from December 11 to December 26. The company will complete 180 days on January 16. Sources indicated that it was unlikely that the committee of creditors would finalise a resolution plan in such a short time.

Around 400 cases have been referred to the NCLT this year. A majority of these have been filed by operational creditors, and around 150 cases by lenders. The remaining cases are filed by corporate debtors. A resolution of these accounts is expected to be a major trigger for corporate lenders but as of now only two accounts have been taken up for resolution at hefty haircuts. Around seven have been directed to undergo liquidation, and another 14 are witnessing further appeals.

2. Airtel pays Rs 2.5 cr fine for opening payments bank without user consent

Meanwhile, an e-mail query sent to Airtel with regard to deposit of Rs 2.5-crore interim penalty remained unanswered

Press Trust of India

Airtel has deposited an interim penalty of Rs 2.5 crore with the Aadhaar-issuing body UIDAI after an action against the telecom operator for allegedly opening payments bank accounts of its mobile subscribers without their 'informed consent', according to sources.

The company is learnt to have given the assurance that it will return Rs 190 crore that had flown into the 'unsolicited' payments bank accounts of 31 lakh mobile subscribers over the next 24 hours and will also inform the customers that their subsidy-linked account is being switched back to the originally-chosen account.

Airtel has deposited an interim penalty of Rs 2.5 crore "unconditionally" to the Unique Identification Authority of India (UIDAI), a person familiar with the development told PTI.

"They (Airtel) have also stated that all 31 lakh customers will be intimated by Airtel that their subsidy money is being transferred to the originally-chosen accounts and that henceforth such money will flow into those designated accounts," the source added.

Meanwhile, an e-mail query sent to Airtel with regard to deposit of Rs 2.5-crore interim penalty remained unanswered.

Once the entire process is complete, Airtel will be required to report to the UIDAI with compliance and the authority will take "appropriate view" on the matter at that stage.

Airtel, yesterday, wrote to the National Payments Corporation of India (NPCI) promising to return Rs 190 crore (along with interest) to the consumers' original bank accounts that were linked to the Direct Benefit Transfer (DBT).

The NPCI is an umbrella organisation for all retail payments in India.

Both Airtel and Airtel Payments bank came under fire after the Sunil Mittal-led firm allegedly opened accounts of its mobile phone subscribers without seeking their "informed consent", and LPG subsidy worth Crores was deposited into these accounts.

The government acted swiftly in the matter and the UIDAI, in a strong move late last week, temporarily barred the company from conducting Aadhaar-based SIM verification of mobile customers using e-KYC process, and e-KYC of payments bank clients.

Suspending the 'e-KYC licence key', the UIDAI also ordered

PricewaterhouseCoopers to conduct an audit of Bharti Airtel and Airtel Payments Bank to ascertain if their systems and processes are in compliance with the Aadhaar Act.

Financial Express

3. Complaints to banking Ombudsman up 27 pc in FY17

ATM/Debit card complaints comprised 12.5 per cent of complaints received while that of credit card accounted for 6.4 per cent. The Banking Ombudsman Scheme aims to provide a quick and cost free resolution mechanism for complaints relating to deficiency of banking services

By: PTI

The volume of complaints received by the Office of Banking Ombudsman (OBO) increased to 1.3 lakh in 2016-17, up 27.45 per cent over the previous year, said a report released by the Reserve Bank today. There were 1.02 lakh complaints in 2015-16. "Out of 1,36,000 complaints (approx) handled by the OBOs in 2016-17 (including the complaints brought forward from previous year), 92 per cent were disposed within the year as against the disposal of 95 per cent of the 1,06,000 complaints handled in the previous year," said the annual report of the Banking Ombudsman Scheme. It further said the average cost of handling a complaint was Rs 3,780 during 2016-17 which was lower than the average cost of Rs 4,396 during 2015-16.

Issues pertaining to failure to meet commitments, non- observance of fair practices code, Banking Codes and Standards Board of India (BCSBI) Codes taken together constituted the largest category of complaints (34 per cent). ATM/Debit card complaints comprised 12.5 per cent of complaints received while that of credit card accounted for 6.4 per cent. The Banking Ombudsman Scheme aims to provide a quick and cost free resolution mechanism for complaints relating to deficiency of banking services.

Economic Times

4. FRDI bill: Why India needs a new legal framework to prevent bank failures

By Joel Rebello Saloni Shukla , ET Bureau

Safety of bank deposits has vaulted into the centre-stage of public discourse for the first time since the minimum on savings at ICICI 32 % in 2008. Selective reading —or more fittingly, misreading — of the Financial Resolution and Deposit Insurance (FRDI) Bill has led the general public to interpret the proposed legislation as draconian - one that would make fixed deposits the currency for future bank bail-ins.

Critical social media comments on the supposed use of depositors' funds in the bailing-in of banks and the withdrawal of deposit insurance needed words of assurance from none other than the Prime Minister and the finance minister, who reiterated New Delhi's commitment to "fully protect" public money. To be sure, the FRDI Bill is not the brainchild of this government: The need for a stronger resolution mechanism emerged after the 2008 global financial crisis, when governments across the globe were forced to bail out financial institutions or move them into routine bankruptcy.

In the US, the Federal Deposit Insurance Corporation, which in the past had successfully helped resolve failed banks and credit institutions, was found lacking in its ability to handle a few floundering non-banks and systemically important banks. The government had to choose between letting Lehman

Brothers go into the regular corporate bankruptcy system, and a bailout for firms like AIG. Washington is unlikely to forget the \$700-billion Troubled Asset Relief Program (TARP) it had to put in place to bail out banks when the US economy was struggling to clamber out of the subprime sinkhole.

Since then, several countries have built new laws on robust resolution, the standards of which have been set by the Financial Stability Board. In India, finance minister Arun Jaitley first brought the attention to bringing such a law in his 2016-17 budget speech where he spoke about an existing vacuum on resolving bankruptcy situations in financial firms.

"The aim of this bill is resolution and not regulation. After 2008, it was understood that countries cannot have the same treatment for financial and non-financial firms," said Joyjayanti Chatterjee, an associate fellow with the Vidhi Centre for Legal Policy, which assisted the finance ministry in drafting the bill. "If an FMCG company, howsoever big, were to fail today, the impact would solely be on the creditors and it can be easily contained. If SBI, LIC or the BSE were to fail, the impact would be disastrous, and we need a separate law to contain insolvency of financial institutions."

What is the FRDI bill? Why is it contentious?

The bill recognises that financial firms are different and, hence, should be handled differently. Simply put, the new bill aims for an orderly winding up of a financial institution. It talks about setting up of a Resolution Corporation (RC) that will identify early warning signs of distress at financial institutions, including banks, non-banking financial companies, insurance companies, stock exchanges, etc.

If any financial institution falls under the 'critical' risk category, the RC will immediately take over, while the sector regulator would continue to use its tools to resolve the crisis. The tools at the RC's disposal will be transferring assets and liabilities to another firm, bailins, forced mergers, liquidations, or temporarily running the firm under a bridge entity.

So far, the government or Reserve Bank of India (RBI) has not been bold enough to let some banks die. Takeovers and mergers have been a taboo for RBI and since the liberalisation of the banking industry in 1991, there have been only 19 takeovers. Barring a couple, all others were bailouts for struggling lenders, and not aimed at improving efficiency or extracting synergies.

"The banking system is the most leveraged one, with 20 times leverage, and no government can accept a loss of faith in banks," said Sandeep Parekh, managing partner at Finsec Law Advisors.

"Resolution in financial services is now an accepted fact in the developed markets, and this framework follows the lead of those markets."

Hence, if the government and RBI do not allow banks to die an unnatural death, what is the hype all about? Bailout is a sovereign right of the government, and no law needs to either provide for that, or can take it away. That option will always remain with the government. However, since zero failure for financial firms is not always possible, the government and the regulator need to ensure that the failure is contained, and that these failed firms do not rely on taxpayer funded bailouts.

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Do we need bail-ins?

There has also been a huge public outcry over how depositors' money will be arbitrarily used to save dying banks. The "bail-in" tool will mean the conversion of certain creditors' (including depositors') debt into equity.

This would entail injection of funds within the organisation so that tax-funded bailouts become less likely. Only those liabilities can be bailed in where the people have given their prior consent. The law clearly says that the regulator along with RC will identify certain liabilities that will be subject to bail-ins.

Deposit amounts covered by deposit insurance, pensions, and sums payable to employees have been expressly excluded from the scope of bail-ins. "Bail-in does not imply that this tool can be used at the government's whim and fancy to arbitrarily use depositors' money without their consent to save failed banks," says Chatterjee of Vidhi Centre for Legal Policy. "For any action that RC takes, the law ensures that all creditors, which includes depositors, are not left in a worse position than they would have been had the entity been liquidated."

Are your deposits safe?

Perhaps the most misconstrued is the deposit insurance clause in FRDI Bill, which has led many to believe that public money is in jeopardy. Let us step back a bit. Currently, the Deposit Insurance and Credit Guarantee Corporation Act, 1961, provides deposit insurance of up to Rs 1 lakh and the rest of the amount is forfeited in the event of a bank failure. Under the proposed law, the resolution corporation will consult with RBI to set the amount for deposit insurance, which means that it is providing scope for a higher amount since the last compensation was fixed almost 25 years ago. As per State Bank of India, data on cross country deposit insurance coverage limit shows that deposit insurance coverage in India is one of the lowest at \$1,508 against \$250,000 in the US and \$111,143 in the UK.

"The concerns about this bill are because the insurance amount is not specified," said Anil Gupta, vice-president at ICRA. "There are fears that deposits being liabilities will be written down in case of a default. However, these fears are not correct: In the previous regime, too, there was no guarantee for deposits, but no one lost out."

With the Insolvency and Bankruptcy Code (IBC) that deals with corporate bankruptcy now deployed for about a year, the government and the regulators have realised that the existing legal framework for resolution of financial firms in India is far from adequate. A new legal framework is immediately needed to ensure that failures of financial firms in India can be orderly and their impact contained.

"Regulation is good medical treatment, while this law is good funeral service so that you are well prepared to deal with the worst outcome," Chatterjee said.

Business Line

5. Unions to petition govt for pro-people banking policies

AJ VINAYAK

The All India Bank Employees' Association (AIBEA) and the All India Bank Officers' Association (AIBOA) are planning to collect one crore signatures from customers and the general public seeking pro-people banking policies in the country.

CH Venkatachalam, AIBEA General Secretary, told *BusinessLine* that the United Forum of Bank Unions (UFBU) has decided to mobilise signatures from all its members, banks' customers, general public and important personalities in a petition to the Lok Sabha Speaker, seeking to draw the attention of Parliament. The mass signature collection campaign will be completed by January 31.

The petition will be submitted to the Speaker during the Budget Session of Parliament.

Opposing any moves to privatise public sector banks (PSBs), the petition demands the strengthening and expansion of PSBs. It also stresses the need to stop any plans to merge or consolidate banks.

Making a strong plea not to write off bad loans of corporate, it says the laws should be amended suitably to enable quick recovery of bad loans.

The petition suggests the need to publish the names of loan defaulters once in six months.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY

