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**Dear Comrades,**

**3rd February, 2017**

**News of Interest 3rd FEB**

**MOTIVATIONAL QUOTES**

**“YOU JUST CAN'T BEAT THE PERSON WHO NEVER GIVES UP. “**

**BABE RUTH**

- 1. RBI ISSUES DRAFT GUIDELINES ON INTEREST RATE RISK MANAGEMENT**
- 2. BANKS CAN USE STATUTORY RESERVES FOR AT1 BOND COUPON PAYMENT**
- 3. NRIS CAN NOW ACCESS EXCHANGES FOR HEDGING**
- 4. UNION BUDGET 2017 HAS MADE INVESTING IN SECOND HOUSE TAX INEFFICIENT; CHECK OUT THE HOME TRUTHS**
- 5. DIGITAL PAYMENT WORRY: AFTER PEAKING IN DEC, POS TRANSACTIONS FALL OVER 25% IN JANUARY**
- 6. RBI TO BANKS: BE QUICK TO IDENTIFY AND DECLARE FRAUDULENT BORROWERS**
- 7. VIJAYA BANK PROFIT ZOOMS IN THIRD QUARTER**
- 8. BIG GAPS IN CYBER SECURITY PREPAREDNESS IN BANKS**

Business Standard

**1. RBI issues draft guidelines on interest rate risk management**

IRRBB refers to the current or prospective risk to a bank's capital and earnings

Press Trust of India

The Reserve Bank of India of Thursday released the draft guidelines on Interest Rate Risk in Banking Book (IRRBB), which stress on greater disclosures by lenders.

IRRBB refers to the current or prospective risk to a bank's capital and earnings, arising from adverse movements in interest rates that affect banking book positions.

An excessive IRRBB can pose a significant threat to a bank's current capital base and/or future earnings if not managed appropriately, the RBI explained.

The draft guidelines suggest lenders to compute and disclose the changes in economic value of equity and net interest income.

If the economic value of equity goes over 15 per cent of the core tier-1 capital, banks may be required to take appropriate action as per Pillar 2 of Basel III Capital regulations.

## **2. Banks can use statutory reserves for AT1 bond coupon payment**

The amendments are applicable with immediate effect, said RBI

Abhijit Lele & PTI

The Reserve Bank of India has allowed banks to use statutory reserves to pay coupon (interest) on additional tier-I bonds, subject to certain riders.

"Coupons must be paid out of 'distributable items'. In this context, coupon may be paid out of current year profits," RBI said. The amendments are applicable with immediate effect, it said.

The apex bank said if current year profits are not sufficient, coupon may be paid subject to availability of profits brought forward from previous years and reserves.

The accumulated losses and deferred revenue expenditure, if any, shall be netted off from the two to arrive at the available balances for payment of coupon, it added.

Payment of coupons on perpetual debt instruments from the reserves is subject to the issuing bank meeting minimum regulatory requirements for CET1, Tier 1 and Total Capital ratios, it clarified.

## **3. NRIs can now access exchanges for hedging**

Currently, NRIs are permitted to hedge their currency risk through over-the-counter transactions

Anup Roy

The Reserve Bank of India (RBI) on Thursday allowed non-resident Indians (NRIs) access to the exchange traded currency derivatives (ETCD) market, which would allow them to directly hedge their exposures through the exchanges, in addition of going to banks to do it on their behalf.

Currently, NRIs are permitted to hedge their rupee currency risk through over-the-counter transactions with banks.

However, NRIs have to designate a local bank for monitoring and reporting the positions of the user in the exchange as well as in the OTC segment.

"NRIs may take positions in the currency futures / exchange traded options market to hedge the currency risk on the market value of their permissible ... rupee investments in debt and equity and dividend due and balances held in NRE accounts," the notification said.

"The onus of ensuring the existence of the underlying exposure shall rest with the NRI concerned," RBI said, adding if the magnitude of exposure exceeds the magnitude of underlying exposure, the concerned NRI shall be liable to such penal action.

#### **4. Union Budget 2017 has made investing in second house tax inefficient; check out the home truths**

While finance minister Arun Jaitley duly recognised the contribution of the salaried class to tax revenues in his Budget speech, he did not do much to meet their expectations.

By: Neha Malhotra

While finance minister Arun Jaitley duly recognised the contribution of the salaried class to tax revenues in his Budget speech, he did not do much to meet their expectations. Instead, he has closed the only door of tax planning available to them.

The salaried class pays taxes on gross salary without any allowance in the form of standard deduction for expenses connected with salary income. However, employees incur expenses on professional upgradation like seminars and trainings, but unlike business expenses, there is no allowance on salary expenses. The only tax planning opportunities explored by salaried class is house rent allowance (HRA) and loss under the head 'income from house property'. The Budget proposals have tightened the noose on both these avenues of tax planning.

#### **Income from house property**

Taxpayers earning huge income either from salary or business could reduce their tax liability by setting off the loss from house property on account of interest paid on loan taken for acquisition of the house property. Under the extant provisions of the law, the interest on housing loan paid in respect of a rented property (including deemed to be let out property) is allowed to be set off completely and in case where the rental income is less than the interest on housing loan, it could be set off with income from any other source —salary, business income, etc., resulting in reduction in tax liability. However, where the house property is self-occupied, the loss from house property that can be set off is capped at Rs 2 lakh.

To rationalise these provisions and to bring parity between deductions on account of interest on housing loan from rented versus self-occupied property, maximum amount of loss from house property that can be set off against income from any other source will now be restricted to Rs 2 lakh. Any loss in excess of Rs 2 lakh would have to be carried forward to be set off against income from house property only for eight years.

Given the ticket size in the metro cities where most houses are priced over R1 crore, if an individual takes home loan of, say, R80 lakh, the annual interest cost shall be around Rs 8 lakh, restriction on set-off of loss from house property at R2 lakh shall cause undue hardship to those planning to buy a second house as an asset in a metro city. This may hit hard the demand in the already gloomy real estate sector.

#### **Tax on house rent**

Bringing landlords under the tax net and targeting those abusing the beneficial provisions of HRA, the Budget has killed two birds with one stone by imposing liability to withhold taxes on payment of rent by individuals to resident landlords. An individual taxpayer shall now be required to deduct taxes at a rate of 5% on rentals paid to a resident landlord, if the monthly rent exceeds Rs.50,000.

This shall ensure that those landlords who could get away by filing a declaration that they do not have PAN and hence remain out of the tax net, would be mandatorily required to obtain PAN. This shall also ensure that the landlords come forward to file their return of income to claim credit of taxes withheld at source by the tenant.

The provisions have ensured that landlords who do not have PAN shall also be hit by the TDS, since tax can be deducted at the time of credit of rent for the last month of the tax year or last month of tenancy, as applicable. Also, the salaried class supposedly paying rent to their parents, aunts and uncles would have to rethink their compensation structure. The income-tax rules are expected to provide certain relaxations with respect to other withholding tax compliances, viz., PAN of the deductor may be used instead of TAN.

The writer is executive director, Nangia & Co.

## **5. Digital payment worry: After peaking in Dec, PoS transactions fall over 25% in January**

The value of transactions at point-of-sale (PoS) machines dropped over 25% in January after peaking in December in the wake of demonetisation.

By: Shritama Bose

The volume of PoS transactions also fell to 230.44 million from 311 million in December. (Reuters)

The value of transactions at point-of-sale (PoS) machines dropped over 25% in January after peaking in December in the wake of demonetisation. The aggregate value of credit and debit card transactions between January 1 and 30 was Rs 41,748.43 crore, as against Rs 52,223.84 crore for December, data released by the Reserve Bank of India (RBI) showed.

The volume of PoS transactions also fell to 230.44 million from 311 million in December, even as the average ticket size of transactions rose to around Rs 1,812 from roughly Rs 1,680.

The figures suggest that in January, consumers went back to using cash for some transactions as the Reserve Bank of India gradually eased restrictions on cash withdrawals.

### **Following Demonetisation, Should Indians Buy Bitcoin?**

In December, card-based transactions had risen over 48% from their November levels and even surpassed the R51,121 crore clocked in October, which marked the peak of the festive season.

The Budget for 2017-18 saw the government announcing a mission targeting 2,500 crore digital transactions for the year through Unified Payments Interface (UPI), Unstructured Supplementary Service Data (USSD), Aadhar Pay, immediate payment service (IMPS) and debit cards.

In his speech, finance minister Arun Jaitley said banks have a target to introduce 10 lakh new PoS terminals by March and they will be encouraged to introduce 20 lakh Aadhar-based PoS terminals by September.

These plans may meet behavioural resistance from consumers, if the slowdown in January is anything to go by.

The value of transactions made through the UPI channel, however, continued to grow, rising more than twice from its December level to R1,669.59 crore.

The volume of such transactions rose to 4.19 million in January from 2 million in December.

The growth in UPI transactions came at the cost of growth in mobile wallet usage.

Transactions made through wallets dropped marginally to R2,099.2 crore in January from R2,125.43 crore in December.

The USSD channel, meant for feature phone users, grew steadily on a low base, to R37.23 crore in January from R10.37 crore in the previous month.

Business Line

## **6. RBI to banks: Be quick to identify and declare fraudulent borrowers**

### OUR BUREAU

Flagging instances of loan exposures getting seasoned as non-performing assets (NPAs) for three to four years before borrowers were declared as fraudulent, the Reserve Bank of India has called upon bankers to identify and declare loan accounts as fraud without wasting time.

During FY16, advances-related frauds constituted nearly 92 per cent of the total frauds reported by all banks. This was more pronounced in the case of public sector banks and less in the case of private and foreign banks, said SS Mundra, Deputy Governor, at a recent seminar on 'Financial Crimes Management' organised by CAFRAL (Centre for Advanced Financial Research and Learning).

"In almost all the cases, we observed that the exposure had got seasoned as an NPA for three to four years before the borrower was declared as fraudulent. As a consequence, the gap between the date of occurrence and detection has been widening.

"Further, the gap between first bank and the last bank reporting the borrowal account as fraud to the RBI is also very long," said the Deputy Governor.

While emphasising that 'fraud' is a criminal offence, Mundra observed any delay on the part of bankers in initially red-flagging an exposure and subsequently declaring it as a fraud will have far-reaching implications on employee conduct and internal governance standard.

Cautioning that banks and bankers could be charged for abetting the criminal offence, the Deputy Governor said: "My call to you, therefore, is to identify and declare the account as fraud without wasting time.

"The best course of action would be to follow the instructions in letter and spirit and take a responsible and pro-active stand while attending consortium meetings."

### **Penal measure**

Mundra said as a penal measure borrowers who have committed a fraud in the account are debarred from taking finance from, among others, banks, financial institutions and non-banking finance companies for a period of five years from the date of full payment of the defrauded amount. After this period, it is for individual institutions to take a call on whether to lend to such a borrower.

"Anecdotal evidence and our transaction testing on the ground suggest that this instruction is not always being followed. Recently, we had come across a case where

a bank had extended a 'hand-holding operation' facility in the case of very large fraud account," he said.

## **Cheque cloning**

Underscoring that frauds in the area of cheque cloning continue to be one of the areas of concern for the RBI, Mundra said: "We have come across cases where, though the original cheques remained in the custody of the customer, cheques with the same series were presented and en-cashed by fraudsters."

Referring to the guidelines issued by the RBI on the issue to banks in November 2014, he added that it is necessary that the instructions are followed to prevent fraudulent practices.

## **7. Vijaya Bank profit zooms in third quarter**

OUR BUREAU

Vijaya Bank has posted a 337.71 per cent rise in profit to ₹230.28 crore for the third quarter (Q3) of this fiscal (FY17) from ₹52.61 crore in the same period last year.

Total income of the bank rose 14.74 per cent to ₹3,714.37 crore from ₹3,237.02 crore in the same quarter last year. EPS stood at ₹1.13 as against ₹0.60 recorded last year.

Commenting on bank's Q3 performance, Kishore Sansi, MD and CEO of Vijaya Bank, said "We were able to sharply reduce bulk deposits, avoided risky corporate credit and had good treasury yields backed by cash recovery to the tune of ₹111 crore during the quarter."

Revenues from treasury operations in Q3 stood at ₹1,224.62 crore (₹798.40 crore in the year-ago period). Wholesale banking revenues came in at ₹807.54 crore (₹1,433.54 crore) and retail banking revenues, ₹1,454.07 crore (₹800.06 crore).

Gross NPA (non-performing assets) in Q3 rose to 6.98 per cent of total advances (4.32 per cent in the year-ago quarter), and net NPA moved up to 4.74 per cent (2.98 per cent).

Net Interest Income (NII) increased to ₹907 crore (₹738 crore in the year-ago period). Net Interest Margin (NIM) rose to 2.85 per cent (2.44 per cent) Provisions and contingencies stood at ₹458 crore, 17.43 per cent over last year's ₹390 crore. The bank's RoA (return on assets) improved to 0.59 per cent (0.15 per cent) and RoE (return on equity) to 13.19 per cent (3.39 per cent).

## **Deposits, advances**

Low-cost CASA (current and savings account) deposits increased to ₹36,816 crore, 41.64 per cent more than last year's ₹25,992 crore. CASA as percentage of total deposits rose to 28.70 (20.72). The bank's total business touched ₹2,18,589 crore, with deposits at ₹1,28,299 crore and advances at ₹90,290 crore.

Cost of deposits has come down to 6.42 per cent, from 7.26 per cent last year).

## **8. Big gaps in cyber security preparedness in banks**

OUR BUREAU

The assessment of gaps in banks' cyber security preparedness reveals that barring a few banks the gaps are significant, more so in respect of public sector banks, according to the RBI.

This warrants immediate and continued attention of the boards and senior management of banks, said Deputy Governor SS Mundra, at a recent seminar on 'Financial Crimes Management' organised by CAFRAL.

"In the changed world, if bank boards do not have expertise in this (cyber security) area, it would become a handicap in the smooth operations of banks.

"Second, the traditional ways of allocating budgets for IT services in general and cyber security in particular need to undergo a radical change leading to need-based assessment and cost-effective solutions," he said.

The Deputy Governor noted that the scare that was created during a recent ATM/debit card incident clearly indicates that cyber security requires top attention by the boards.

Referring to an article published by Risk.Net on the 'Top 10 Operational Risks for 2017', Mundra said it indicated cyber risk to be uppermost in the minds of chief risk officers.

In this regard, the Deputy Governor emphasised that it is important that the CISO (chief information security officer) is sufficiently senior in hierarchy; understands technology well; appreciates the security aspects of all the technologies adopted by the bank; is responsive; and is sufficiently enabled to stall launch of unsecured products, whenever necessary.

"However, ground realities do not provide the needed comfort. I want to use this forum to reiterate that the role of CISO needs to be clearly articulated and reinforced immediately," he said.

The RBI has observed that in many cases the banks react to cyber incidents in a knee-jerk and an ad-hoc manner which at times has a potential to jeopardise future investigations.

"Having a thorough plan of action with clearly identified roles and responsibilities in the event of cyber incidents is a must in today's environment," said Mundra.

With kind regards,

Yours Comradely,



**(N. GOVINDRAJULU)**  
**GENERAL SECRETARY**