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Dear Comrades,

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News of Interest 25th MAY

MOTIVATIONAL QUOTES

“THAT SOME ACHIEVE GREAT SUCCESS IS PROOF TO ALL THAT OTHERS CAN ACHIEVE IT AS WELL. “ ABRAHAM LINCOLN

HIGHLIGHTS

- 1. GOVT CAPITAL INFUSION IN IDBI ON COURSE**
- 2. HUNT FOR MUNDRA' S SUCCESSOR BEGINS**
- 3. TO CHECK CONFLICT OF INTEREST, RBI MULLS CREATING FUND FOR FIRMS PAYING RATING AGENCIES**
- 4. RBI MAY HAVE A DEPUTY GOVERNOR FROM PRIVATE SECTOR FOR FIRST TIME**
- 5. RBI STANCE ON FOREX ACCOUNTING HURTS BANKS**
- 6. THE 3 PAYMENT BANKS HAVE PLANS FOR YOUR MONEY**

Business Standard

1. Govt capital infusion in IDBI on course

Bank is also readying an agenda for monetising of stake in some subsidiaries, strategic investments

Abhijit Lele

The government's plan for infusing capital in ailing public sector lender IDBI Bank are on, despite the Reserve Bank (RBI) putting it under Prompt Corrective Action (PCA) and the rating downgrade after the Mumbai-based lender posted a net loss for 2016-17.

Senior IDBI Bank officials said it was in discussion with the government, the majority owner, for a turnaround plan. That would mean agreed-on milestones and commitments from the bank in areas like cost control, reorganisation of structure and

improving the financial profile. This would form the basis for a capital infusion, for meeting capital adequacy norms and business growth.

IDBI's stock has taken beating after it reported a net loss for a second year. It closed 6.4 per cent down at Rs 61 on the BSE exchange. The government held 73.98 per cent of the bank's equity at end-March.

The bank is also readying an agenda for monetising of stake in some subsidiaries and strategic investments, an executive said.

On Tuesday, rating agencies CRISIL and ICRA had downgraded various of its debt instruments. "The downgrade takes into account the substantially weak operating and financial performance during the fourth quarter of fiscal 2017 and in fiscal 2017 overall, which has resulted in a significant erosion of its capital (CET-I)," ICRA said.

In the year ended March, the net loss was Rs 5,158 crore, as against a net loss Rs 3,665 crore in 2015-16.

Gross non-performing assets (GNPAs) jumped to Rs 44,752 crore by end-March (21.25 per cent of the total), up from Rs 24,875 crore (11 per cent) a year before and from Rs 35,245 crore (15.2 per cent) at end-December 2016. Net NPAs were up to Rs 25,205 crore (13.2 per cent) by end-March, up from Rs 14,643 crore (6.8 per cent) in March 2016.

As the losses during FY17 far exceeded the government's capital infusion, CET-I was lower at 5.64 per cent, as compared to 7.98 per cent as on end-March 2016.

RBI, as mentioned earlier, had put it under a PCA regime, due to the high level of net NPAs and negative return on assets.

This would mean mandatory corrective action such as raising of capital levels, restricting the dividend payments and branch expansion. In an extreme scenario, there might be restrictions on management compensation.

2. Hunt for Mundra's successor begins

May have a first DG from private sector

Abhijit Lele

The government has set in motion the process to select a deputy governor (DG) at the Reserve Bank of India to succeed S S Mundra, who demits office at the end of July 2017. Mundra, who became deputy governor on July 31, 2014, is looking after portfolio of banking and non-banking supervision, human resource management, financial inclusion and co-ordination.

According to an advertisement placed on the RBI website, candidates should have at least 15 years of experience in banking and financial market operations, with extensive experience as a full-time director or board member. The person should have an understanding, at a very senior level, of supervision and compliance in the financial sector.

The government said the individual should have an appreciation of the role of banks in large corporate lending, in an environment with strong bond markets.

The age of the candidate should not more than 60 years as on July 31, 2017. The age criteria might be relaxed in case of deserving candidates.

The post carries a pay scale of Rs 2,25,000 (fixed). The appointment will be for three years and the person would be eligible for re-appointment, it added.

Financial Express

3. To check conflict of interest, RBI mulls creating fund for firms paying rating agencies

Rating agencies, however, said the move is unlikely to impact their overall issuer-pays model

By: [FE Online](#)

With an aim to prevent any conflict of interest, Reserve Bank of India ([RBI](#)) wants to make drastic changes in the operating framework of credit rating agencies in India. The central bank is planning to create a fund from which payments will be made to rating agencies, according to Indian Express report. RBI believes that once this fund system is implemented, it will replace the existing practice wherein the borrower or the issuer company pays the agency rating its credit worthiness, the report says. According to IE report, RBI and other banks will contribute from which the proposed fund will be created. It is expected to be implemented for large borrower accounts in the first place, a senior government official told IE.

Rating agencies, however, said the move is unlikely to impact their overall issuer-pays model. They (RBI) are talking about some specific mandate (NPA accounts) and not for the overall rating business, Naresh Takkar, MD and Group CEO, ICRA Ltd, said.

On May 22, RBI had said it will reconstitute the oversight committee (OC) under its aegis to operationalise the banking ordinance for resolving the issue of bad loans that have soared to over Rs 8 lakh crore.

The RBI also had said it envisages an important role for the credit rating agencies in the scheme of things and, "with a view to preventing rating-shopping or any conflict of interest, is exploring the feasibility of rating assignments being determined" by the central bank itself.

Agencies would be paid for from a fund to be created out of contribution from the banks and the Reserve Bank. The RBI further said the proper exercise of the enhanced empowerment would require coordination with and cooperation from several stakeholders including banks, ARCs, rating agencies, IBBI and PE firms. It would be holding meetings in the near future with these stakeholders.

Economic Times

4. RBI may have a Deputy Governor from private sector for first time

BY GAYATRI NAYAK, ET BUREAU

The government has, for the first time, advertised to choose a deputy governor for the country's central bank, casting its net wide to include directors and consultants with significant experience in banking and financial markets.

The advertisement on the Web site of the Reserve Bank of India (RBI) has sought applications from candidates with over 15 years of experience in banking and financial market operations: Candidates seeking selection must also have been whole-time directors or board members.

Potentially, the RBI could appoint a deputy governor from the private sector for the first time when the term of SS Mundra ends in July this year.

The advertisement does not specify whether the candidate should be from the public sector or private sector banks. It says that "an appreciation, as a practitioner, of the role of banks in large corporate lending, in an environment with strong bond markets" is desirable, besides seeking an "understanding of of bankruptcy/restructuring/ turn-around/ credit models, and/or overseen the risk management function in a large financial institution."

The eligibility criteria show that the government is seeking candidates from beyond its traditional recruitment base. Besides practicing bankers from both private and public sectors, it makes even consultants who have worked closely with banks eligible for the post.

Significantly, the advertisement comes within a week of the central bank seeking applications for the newly created post of Chief Financial Officer and the RBI getting a broader mandate to appoint a larger oversight committee to address the stressed assets in the banking sector.

The RBI has traditionally appointed four deputy governors: Two of them are from within the central bank, one is an economist generally from the government, and the other is from the banking sector. So far, the deputy governor from the banking sector has been from the public sector banks. While N S Vishwanathan and B P Kanugo are from the RBI itself, Viral Acharya was recently appointed to the position meant for an economist in charge of monetary policy: SS Mundra is the banking sector representative.

The government has clarified that the appointment will be for a term of three years in the pay scale of Rs 2,25,000 pr month and has capped the age limit at 60, which could be relaxed in exceptional cases.

Business Line

5. RBI stance on forex accounting hurts banks

RADHIKA MERWIN

The RBI has been busy issuing numerous directives and circulars for banks on the bad loans front over the past couple of months.

But there was a low-key circular issued by the RBI last month, which has material implications for banks with foreign branches.

The circular issued guidelines clarifying the treatment of the foreign currency translation reserve (FCTR) relating to non-integral foreign operations, as per Accounting Standard (AS) 11.

If the RBI had applied these guidelines with retrospective effect, they would have dragged down ICICI Bank's profits in FY16 by about ₹940 crore and Bank of Baroda's profits by about ₹303 crore.

For FY17, the RBI's circular has robbed these banks of an additional income boost of over ₹280 crore in the case of ICICI Bank and ₹193 crore in the case of Bank of Baroda.

What AS 11 states

AS 11 provides guidance on translation of the financial statements of foreign operations. Exchange difference on translation of financial statements of a non-integral foreign operation is accumulated in the Foreign Currency Translation Reserve (FCTR).

Only on full or partial disposal of the non-integral foreign operation (through sale, liquidation, repayment of share capital or abandonment of all or part of that entity) can the amount in the FCTR be transferred to the Profit and Loss account as a gain or

a loss. Also, payment of a dividend is considered to form part of a disposal only when it constitutes a return of the investment.

"Accordingly, when there is repatriation from non-integral foreign subsidiaries or branches, first a determination is to be made whether such foreign currency repatriation represents return of investment (the capital investment) or return on investments (dividends, profits)," explains Sumit Seth, Partner, Price Waterhouse & Co.

"Reclassification of accumulated FCTR balance to the Profit and Loss (account) is permitted in case of the former type of repatriation, that is, where there is return of investment which may be considered as a partial disposal of the foreign operation," he added.

The RBI circular observed that banks have been recognising gains in their Profit and Loss account on repatriation of accumulated profits/retained earnings from overseas branches by treating the same as partial disposal under AS 11.

It clarified that the repatriation of accumulated profits "shall not be considered as disposal or partial disposal" of interest in non-integral foreign operations as per AS 11, and banks should not recognise such gains or losses in FCTR in the Profit and Loss account.

Impact on banks' earnings

The guidelines have implications for a few banks that have been recognising gains on repatriation of funds by their overseas branches.

ICICI Bank, in its latest March quarter results, stated that it had reversed foreign exchange gains amounting to ₹288 crore in Q4 of FY17, which had been recognised as other income in the nine months to December 2016.

Bank of Baroda said it has not recognised exchange gains of ₹193 crore as income arising from repatriation of funds from foreign offices in FY17. There were no gains recognised during the nine-month period ended December 2016 requiring reversal, according to the management.

Lacks clarity

The circular, however, is silent on whether the guidelines apply retrospectively.

ICICI Bank had recognised ₹940 crore in FY16, as exchange gains in the P&L account on account of repatriation. This was nearly 10 per cent of its profits that year. Bank of Baroda had reported a loss of about ₹5,400 crore in FY16. If the ₹303-crore exchange gains that Bank of Baroda recognised on repatriation were excluded, its losses would have been steeper.

But the bank said that in the management's opinion, the circular is not retrospective in nature, and it has applied the guidelines from FY17.

6. The 3 payment banks have plans for your money

PRIYANKA PANI

With three players launching their payments bank services, consumers now have more choice for their banking needs.

Going by the rate of interest being offered for deposits, Airtel seems to be the most aggressive. The telecom operator's payments bank provides the highest interest rate on deposits at 7.2 per cent, followed by India Post at 5.5 per cent and Paytm at 4 per cent. Most of traditional banks offer about 4-5 per cent interest on deposits.

However, there are other differentiators and benefits that make each player's offerings unique. Paytm, the latest to enter the payments bank space, is the first to offer zero balance-zero digital transaction charge accounts. It is also offering cash backs to woo customers to open an account. On cash withdrawal, Paytm offers five free transactions in non-metro cities and three in the metros. It will charge about ₹20 each on every subsequent transaction.

Compared to this, Airtel charges about 0.65 per cent of the amount withdrawn every time. India Post currently does not charge for withdrawals made at its own ATMs. Meanwhile, for other services like online banking and other services such as IMPS, UPI and NEFT, Paytm offers free online fund transfer services. India Post charges ₹2.5-5 per NEFT transaction and ₹5 for IMPS, which is at par with traditional banks.

For mobile banking, NEFT is free but IMPS is charged at ₹4 per transaction. Airtel charges 0.5 per cent of the amount if funds are transferred to another bank account through internet banking or mobile banking. Airtel-to-Airtel fund transfers are free.

Ashok Pal Singh, CEO of India Post Payment Bank, Department of Posts, told *BusinessLine* that customers will be drawn not by offers or cash backs but the further simplification of existing services.

"Every player (payment bank) will have a differentiating factor. It is a sunrise sector and will take many players to broaden the sector in the next 10 years," he said. India Post, which operates four banks in Jharkhand and four in Chhattisgarh, said it plans to reach every district by September and would have two crore accounts in the first operating year (2017-18).

As per the RBI's guidelines, a payment bank is a new concept of banks that can only take deposits but cannot issue loans or credit cards. The deposit is restricted to about ₹1 lakh per customer, in both current and savings accounts. Payments banks can issue ATM cards, debit cards and offer net-banking and mobile-banking.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY

