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Dear Comrades,

13th April, 2018

News of Interest 13th APR

Motivational Quotes

'When you practice gratefulness, there is a sense of respect toward others.'

Dalai Lama

HIGHLIGHTS

1. PNB scam: CBI questions 2 DGM-level officers of SBI's foreign branches
2. Sebi initiates probe into alleged corporate governance breaches at ICICI
3. Bank Board Bureau: BP Sharma to replace Vinod Rai as chairman
4. Bank credit grows at 10.32%, deposits at 6.66%
5. Demonetisation was 'not a good idea': Rajan

Business Standard

1. PNB scam: CBI questions 2 DGM-level officers of SBI's foreign branches

The \$2 billion scam became public in January after the CBI registered an FIR in the matter, but by that time both the high-profile jewellers had left India with family

Press Trust of India

Two deputy general manager-level officers of State Bank of India posted in Frankfurt in Germany and Mauritius were questioned on Thursday by the CBI in connection with the \$2 billion scam in PNB allegedly involving billionaire jewellers Nirav Modi and Mehul Choksi, officials said.

They said the agency is focusing on the execution of Letters of Undertaking (LoUs) fraudulently issued by PNB's Brady House branch in favour of foreign branches of Indian banks.

According to the RBI guidelines, LoUs in gems and jewellery sector should have a validity of 90 days but this crucial factor was conveniently ignored by

Punjab National Bank in issuing such guarantees to the companies of Modi and Choksi.

For outstanding buyer's credit, the LoUs are established for about 360 days ab-initio, PNB has alleged.

"This should have evoked suspicion in the minds of overseas branches of Indian banks extending buyers' credit. These branches never raised any alarm on violation of RBI guidelines and continued to provide funding against fraudulent LoUs," it has alleged.

During the questioning of officials of Indian banks posted abroad, the CBI asked these crucial questions.

The officials were asked why several discrepancies in the LoUs issued by PNB were not considered by the banks extending credit facilities to the companies of Modi and Choksi without raising alarms.

The \$2 billion scam became public in January after the CBI registered an FIR in the matter, but by that time both the high-profile jewellers had left India with family, they said.

It is alleged that Choksi and Modi got LoUs and Foreign Letters of Credit (FLCs) of \$2 billion issued in favour of foreign branches of Indian banks based on fraudulent claims.

The accused PNB officials did not enter the instructions for these LoUs in their internal software to avoid scrutiny.

They were sent through an international messaging system for banking called SWIFT, which is used to pass instructions among banks globally to transfer funds.

An LoU is a guarantee given by an issuing bank to Indian banks having branches abroad to grant short-term credit to the applicant.

In case of default, the bank issuing the LoU has to pay the liability to the credit-giving bank along with the accruing interest.

The PNB officials allegedly sent these messages to Indian banks - Canara Bank, State Bank of India, Bank of India, Axis Bank, Allahabad Bank - located in Antwerp, Hong Kong, Bahrain, Mauritius, Frankfurt.

2. Sebi initiates probe into alleged corporate governance breaches at ICICI

Seeks info on recent board meetings, independent directors' stance and disclosure compliances in Videocon loan controversy

Shrimi Choudhary

The Securities and Exchange Board of India (Sebi) has initiated an enquiry into the controversial Rs 32.5-billion loan sanctioned to the Videocon group by ICICI Bank, to check for possible lapses in disclosure and corporate governance norms.

According to sources, the regulator has sought documents from the private sector lender on decisions of its board of directors on the loan. Sebi wants to

know if the board was aware about the conflict of interest involving its managing director and chief executive officer, Chanda Kochhar.

Sebi is also keen to know the stance of the independent directors when the board had approved the loan's restructuring.

"The prime objective is to ensure timely and accurate disclosure of all information that is material to investor decisions, under Sebi's Listing Obligations and Disclosure Requirements (LODR) rules," said a person privy to the development.

An e-mail sent to ICICI Bank by this publication did not elicit a response.

The regulator suspects there could have been lapses on the timely disclosure norms by the bank. The entire controversy has caused volatility in the stock price. Shares of ICICI had dropped to Rs 262 on April 2.

The regulator is said to have also asked ICICI if the shareholders and board members was being apprised about the Central Bureau of Investigation's preliminary enquiry (PE) in relation to the alleged quid pro quo in the loan. The PE, registered in February, named Chanda Kochhar's husband, Deepak Kochhar, and Videocon group chairman Venugopal Dhoot. An Arvind Gupta had been repeatedly asking for a probe, saying Chanda Kochhar seemed to have misused her position to promote her spouse's business.

Soon after the CBI move, ICICI had on March 28 told the bourses that its board had reviewed the bank's internal processes for credit approval and found these robust. The board also expressed 'full faith and confidence' in Chanda Kochhar.

In 2012, the bank had said, a consortium of around 20 banks and financial institutions sanctioned facilities to the Videocon group (Videocon Industries and 12 of its subsidiaries/associates as co-obligors), for a debt consolidation programme and for the group's oil and gas capital expenditure programme aggregating to about Rs 400 billion.

It said ICICI was not the lead bank for this consortium and only sanctioned its share of facilities, amounting to Rs 32.5 billion, less than 10 per cent of the total consortium facility in April 2012. On Kochhar, the bank denied all the allegations, saying there was no question of any quid pro quo, nepotism or conflict of interest.

CBI is ascertaining facts on the allegation that Dhoot gave money to an entity promoted by Deepak Kochhar and two of his relatives, six months after the Videocon group received the Rs 32.50 bn loan from ICICI in 2012.

Financial Express

3. Bank Board Bureau: BP Sharma to replace Vinod Rai as chairman

The government on Thursday appointed former department of personnel and training secretary Bhanu Pratap Sharma chairman of the Banks Board Bureau (BBB). Sharma replaces former comptroller and auditor general (CAG) Vinod Rai, whose two-year term as the first head of the BBB got over on March 31

By: FE Bureau

The government on Thursday appointed former department of personnel and training secretary Bhanu Pratap Sharma chairman of the Banks Board Bureau (BBB). Sharma replaces former comptroller and auditor general (CAG) Vinod Rai, whose two-year term as the first head of the BBB got over on March 31. The other new members of the BBB are Vedika Bhandarkar, former managing director (investment banking and global markets) at Credit Suisse India; P Pradeep Kumar, former managing director at State Bank of India; and Pradip P Shah, founder managing director at Crisil. They will replace earlier BBB members — former ICICI Bank joint managing director HN Sinor, former Crisil chief Roopa Kudva and former Bank of Baroda chief Anil K Khandelwal — as their term also got over at the end of March. The BBB continues to have public enterprises secretary Seema Bahuguna as a member, while financial services secretary Rajeev Kumar and Reserve Bank of India deputy governor NS Vishwanathan remain ex-officio members.

Announcing the appointments, the financial services secretary said in a tweet: "Govt renews commitment to not interfere in Sr level appointments in PSBs." He said new BBB with professionals with diverse expertise will select top management at public sector banks (PSBs). He added that recommendations by the board made so far, including HR reforms agenda, will be taken forward. The BBB was the centre of intense focus recently when, in a compendium of its work over the past two years, it suggested that the finance ministry was sitting over some of its suggestions and sought a more "organic" relationship with it. The report also suggested that a request for a meeting with finance minister Arun Jaitley, sought on July 26 last year, was still pending.

However, subsequently, Rai himself clarified that the finance minister had met him on several occasions, even after July last year, and took him into confidence on various issues, including on the transfer of two chiefs of PSBs last year. In an interview to PTI, he also dismissed suggestion that there was a lack of coordination between the board and the government, and that the rapport was total. The report came amid intense public scrutiny over the functioning of PSBs following the \$2-billion fraud at Punjab National Bank. "The Bureau, as a body of experts on public sector banking, would be able to provide greater utility to the Finance Minister on matters relating to the governance and performance of PSBs, if there were to be greater organic linkage and dialogue with the finance ministry," the BBB report had said. To usher in governance reforms in PSBs, the government had set up the BBB in 2016 under Rai, in sync with the recommendations of the PJ Nayak committee. The bureau started functioning formally from April 1, 2016, as an "autonomous recommendatory body".

Economic Times

4. Bank credit grows at 10.32%, deposits at 6.66%

PTI

Banks' credit grew at 10.32 per cent year-on-year to Rs 86,50,714 crore in the fortnight ended March 30, 2018, according to an RBI data.

In the same fortnight ended March 31, 2017, the advances had stood at Rs 78,41,466 crore.

The growth in advances, however, was slower than the period ended March 16, 2018.

In previous fortnight, banks loan growth had grown at 11.13 per cent to Rs

83,77,444 crore from Rs 75,38,202 crore in the period ended March 17, 2017.

In the fortnight ended March 30, 2018, the deposits had increased by 6.66 per cent to Rs 1,14,74,989 crore from Rs 1,07,57,656 crore in the year-ago period, the RBI data showed.

In February 2018, non-food bank credit increased by 9.8 per cent year-on-year basis as against an increase of 3.3 per cent in February 2017.

Credit to agriculture and allied activities increased by 9 per cent in February 2018, same as in February 2017.

Business Line

4. Tax exemption for start-ups with up to ₹10-crore investment

OUR BUREAU

The Centre introduces amendments in start-up rules; applications for certification for tax exemptions can be made online

In an attempt to make it easier for start-ups to attract investments, the Centre has introduced some amendments in rules including a clarification on angel investors funding and allowing online applications for start-up certification.

The government on Thursday allowed start-ups to avail tax concession only if total investment including funding from angel investors does not exceed ₹10 crore.

As per a notification by the Commerce and Industry Ministry, an angel investor picking up stakes in a start-up should have a minimum net worth of ₹2 crore or should have an average returned income of over ₹25 lakh in the preceding three financial years.

"For the purposes of Section 56 of the Act, there is no restriction on class of investors and eligible start-ups can receive investment from any person against issue of share capital," a press statement issued by the Department of Industrial Policy and Promotion on Thursday stated.

In June 2016, the government had notified that angel investors funding to approved start-ups shall be exempt from incidence of tax under Section 56(2)(viib).

But there was uncertainty on the kind of investments that would get covered and there were also rising income-tax cases against start-ups for non-payment of angel tax. As many as 18 start-ups have got notices from tax authorities.

A start-up set up as a private limited company or limited liability partnership incorporated after April 1, 2016, would be eligible for tax concessions. However, the demand for allowing start-ups incorporated before April 2016 to be eligible for tax sops remains unaddressed.

Income tax exemption

As per the new amendment notified on April 11, the DIPP has constituted a broad based inter-ministerial board to consider applications of start-ups for claiming tax incentives. The incentives include exemption from levy of income tax on share premium received by eligible start-ups under Section 56 of the Act and a 100 per cent deduction of the profits and gains from income of start-ups for three out of seven consecutive assessment years under 80 IAC.

Under the new rules, applications for certification of start-ups under Section 56 and Section 80 IAC of the Act will be submitted through an online portal to DIPP. These applications will be considered by IMB for certification.

"With the introduction of amendments through this notification, start-ups are likely to have easy access to funding which in turn will ensure ease in starting of new businesses, promote startup eco-system, encourage entrepreneurship leading to more job creation and economic growth in the country," the release stated.

5. Demonetisation was 'not a good idea': Rajan

PTI

Proper implementation of the Goods and Services Tax (GST) in India can be worked upon and is not an "unfixable problem", former RBI governor Raghuram Rajan has said, reiterating that demonetisation was "not a well-planned, well thought-out" move.

With the Modi government bringing in ambitious reforms like GST and demonetisation, Rajan said it would be good if such measures were better implemented.

"On the Goods and Services Tax, we will figure it out eventually. It will be nice if we could implement much better than we do. But it's (GST) not an unfixable problem. We can work on it. I wouldn't give up hope at this point on that," Rajan told an audience at the Harvard Kennedy School in Cambridge yesterday.

Rajan, who is currently the Katherine Dusak Miller Distinguished Service Professor of Finance at The University of Chicago's Booth School of Business, gave the 2018 Albert H Gordon Lecture on the topic 'Leverage, Financial Crises, and Policies to Raise Economic Growth' He was asked about the "shoddy implementation" of big ticket reforms like GST and demonetisation in India.

'Naive view'

On demonetisation, Rajan rejected the claim that the Reserve Bank of India had not been consulted by the government before it went on to declare 1,000 and 500-rupee currency notes as illegal tender in November 2016. He however reiterated that the move to cancel 87.5 per cent of the currency value was not "a good idea". "I didn't ever say that I wasn't consulted (on demonetisation). In fact, I have made it quite clear that we were consulted and we didn't think it was a good idea," Rajan said.

He said demonetisation "was not a well-planned, well thought-out, useful exercise and I told the government that when the idea was first mooted," he said adding that any macro-economist would say that if 87.5 per cent of the currency is being demonetised, then it better be made sure that a similar amount of currency is printed and ready to be put back in circulation.

"India went into it without having done that. It had a negative economic impact but also the idea was that somehow people who had money stored in their basements without having paid taxes on it would overnight see religion and come to the government and say 'sorry we were hiding this stuff, let me pay taxes on it'," Rajan said, calling it a "naive view".

"Anybody who knows India, knows that very quickly we find ways around the system," he said adding that with "essentially" all the money that was demonetised coming back into the system, the exercise did not have the direct effect that was sought.

Long term effect

While the longer term impact of demonetisation is yet to be seen, its negative economic impact included people not having currency, not being able to pay and economic activity plummeting especially in the informal sector.

"There may be some longer term impact that people think that if this sort of thing happens then the government is serious about collecting taxes. There may be greater tax payments but we still have to see strong evidence that that is true," he said.

Rajan also expressed concern that a lot of people probably lost their jobs due to demonetisation but that has not been counted well as it would be mostly in the informal sector. "The positive impacts (of demonetisation) are out there in the future. We have no idea whether they will be important. To my mind it was not a policy that was useful at that time," he said.

To a suggestion that demonetisation could have positively impacted growth, Rajan said "you would have to find a new economic theory to explain how it helped the economy". He said most estimates of the cost of demonetisation vary between 1.5-2 per cent of the GDP. "It would be a really die-hard government advocate who would say that the growth benefits of demonetisation were immediate," he said.

"Most of the supporters of the move would say that the benefits of the move are coming by changing the incentive to pay taxes. I would say yes, we will have to wait and see whether that in fact is true," he said.

Scamming the system

On the problem of non-performing assets and making a reference to the Nirav Modi-PNB scandal, Rajan said it is worrisome that some Indian banks have antiquated systems. A part of the Punjab National Bank scam was cyber-related and there is a need to go into the details of how the fraud came to be, he said.

"It turns out that we don't need to be really clever in the Indian system to make away with a billion dollars. Some of these banks have antiquated systems also....Your worry is that the systems are not adequate to prevent rogue dealers, rogue employees colluding and making off with stuff. That is the fraud part," he said. He added that bad loans do not necessarily come from fraud, they come from "irrational exuberance".

With kind regards,

Yours Comradely,



**(N. GOVINDRAJULU)
GENERAL SECRETARY**

