



ALL INDIA UNION BANK PENSIONERS AND RETIREES FEDERATION
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Dear Comrades,

1st November , 2018

News of Interest 1st NOV

MOTIVATIONAL QUOTES

“NEVER GIVE UP, FOR THAT IS JUST THE PLACE AND TIME THAT THE TIDE WILL TURN.”

HARRIET BEECHER STOW

HIGHLIGHTS

1. GOVERNMENT VS RBI: ALL YOU NEED TO KNOW ABOUT SECTION 7 OF THE RBI ACT
2. LIC SEEKS CCI'S APPROVAL FOR ACQUISITION OF MAJORITY STAKE IN IDBI BANK
3. MODI GOVERNMENT DECLINES TO GIVE NPA DETAILS SUBMITTED BY EX-RBI GOVERNOR RAGHURAM RAJAN, SHOWS RTI
4. WILL IL&FS AUSTERITY MEASURES AID RESOLUTION IN 9 MONTHS?
5. RBI BOARD TO MEET ON NOV 19

Business Standard

1. Government vs RBI: All you need to know about Section 7 of the RBI Act

The government has written to the RBI hinting it may invoke Section 7 of the Reserve Bank of India Act 1934 - a provision that has never been used since the inception of the law

Somesh Jha | New Delhi

The government has sent letters to the Reserve Bank of India (RBI) seeking consultations on key regulatory issues under a never-before-used provision in the law, according to sources.

The government has written to the RBI hinting it may invoke Section 7 of the Reserve Bank of India Act 1934 – a provision that has never been used since the inception of the law – to issue directions on relaxing prompt corrective action (PCA) norms, liquidity to non-banking financial companies (NBFCs), among others, sources said.

What does Section 7 of the RBI Act say?

According to it, the Central government may issue directions to the RBI as it may “consider necessary in public interest” after consultation with the RBI Governor. Section 7 deals with ‘management’ of RBI.

This provision took centre stage earlier this year when the Allahabad High Court was hearing a petition from power companies who challenged stringent non-performing assets (NPA) norms notified by the RBI in February, also popularly known as the February 12 circular.

What happened during the Allahabad High Court hearing?

The court had asked the central government to hold consultations with the RBI, under Section 7 of the RBI Act 1934, on the way forward for stressed power assets within 15 days. But the government had decided against using this provision at that time.

Can the Government Issue directions to the RBI on regulatory and policy matters? The answer is yes, as was noted by the Allahabad High Court. However, till date, the government has never issued directions to the RBI on its regulatory and policy affairs.

“The Central Government, however, is not expected to issue any directions, as contemplated under Section 7(1), indiscriminately or randomly. Such directions are possible when there exists sufficient material in support,” the high court had observed in its order dated August 28.

The counsel representing RBI had said that Section 7 of the RBI Act “embodies and puts in place a forum for resolution of all questions and is in one sense the repository mechanism for dealing with issues which constitute a “conflict zone”.” He argued that the fact that the government has not invoked this provision so far means there is no conflict and the government agrees with the RBI’s tightening of the NPA norms. During the hearing, the government had remained silent on whether it wants to invoke Section 7 of the RBI Act to issue directions to the regulator or not.

A similar provision is present in most statutes that deal with the regulators, such as Insurance Regulatory and Development Authority and Telecom Regulatory Authority of India, according to a Mumbai-based lawyer.

The court observed that if the RBI and the government are at variance on any policy or regulatory issue, the latter should “consider whether the circumstances warrant the initiative of the consultation process” under Section 7 of the RBI Act.

The High Court also mentioned observations made by the Supreme Court in the Joseph Kuruvilla Vellukunnel Vs. Reserve Bank case emphasising that “the Reserve Bank, apart from it being a reasonable body, is answerable to the Central Government, and the public opinion is certainly strong and vocal

enough for it to heed. If the Reserve Bank were to act mala fide, the Central Government and in the last resort, the Courts, will be there to intervene.”

The High Court said that Section 7 of the RBI Act was put on the statute book in a bid to “arrive at a harmonious conclusion and evolve a consensual position.”

Various interpretation and issues

Since the clause was never invoked in the past, there were various ways to interpret it. For instance, a senior government official maintained that the provision only relates to the management of the central bank and the central government may not be empowered to issue directions to the RBI on policy-related matters.

Earlier, the finance ministry had not in favour of invoking Section 7 of the RBI Act to issue directions to the regulator for relaxing its February 12 circular. According to documents reviewed by *Business Standard*, the finance ministry had noted that the powers have never been used in the past, relates to the management of RBI, may lead to litigation, has a likelihood of “severe resistance” and such directions will need “strong legal footing.”

However, the Centre had told the Supreme Court during a hearing on demonetisation of old currency notes of Rs 500 and Rs 1,000 in January 2016, that it has the powers to issue directions to the RBI, citing Section 7 of the RBI Act.

“The central government has the power to control the management of the RBI and the RBI may function as per the directions given by the central government necessary for the fulfilment of its objectives,” the central government’s counter-affidavit had said.

In a report released in January this year, the International Monetary Fund had said that the “RBI Act contains provisions that undermine its independence from the government” citing Section 7 of the RBI Act as an example. “While these provisions have not been used in practice, they remain available to the central government to use at its discretion in the event that it disagrees with the central bank regarding supervisory priorities or judgements,” the IMF’s report on India’s financial sector assessment said.

2. LIC seeks CCI's approval for acquisition of majority stake in IDBI Bank

IDBI Bank had said that LIC's open offer to purchase shares from the minority shareholders of the state-owned bank will kick-start from December 3

[Press Trust of India](#) | New Delhi

Insurance behemoth LIC has sought the Competition Commission's nod for its acquisition of majority stake in state-owned IDBI Bank.

A listed entity, IDBI Bank is grappling with mounting toxic loans with gross non-performing assets rising to about Rs 578.07 billion at the end of the June quarter. During the three months ended June, the lender's net loss

stood at Rs 24.10 billion. The bank has a market capitalisation of over Rs 247.94 billion.

According to a notice submitted by the Life Insurance Corporation of India (LIC) to the CCI: "The proposed combination relates to the acquisition of a controlling stake to the extent of 51 per cent shareholding and management control rights in IDBI through preferential issue and open offer."

Mergers and acquisitions beyond a certain threshold require approval of the Competition Commission of India (CCI).

Earlier this month, IDBI Bank had said that LIC's open offer to purchase shares from the minority shareholders of the state-owned bank will kick-start from December 3.

The open offer, at Rs 61.73 per equity share, will close on December 14.

LIC has offered to acquire 2,04,15,12,929 equity shares, representing 26 per cent of the fully paid-up equity capital of IDBI Bank under the open offer in accordance with Sebi regulations.

The open offer is in connection with the LIC's acquisition of 51 per cent controlling stake in IDBI Bank.

As per Sebi takeover code rules, an acquirer company has to give an open offer to the shareholders of the target company on acquiring shares or voting rights of 25 per cent or more, so that they get an exit route or earn profit by way of selling their equity in the target company.

Financial Express

3. Modi government declines to give NPA details submitted by ex-RBI governor Raghuram Rajan, shows RTI

By: [PTI](#) | Published: October 31, 2018 6:12 PM

The Prime Minister's Office (PMO) has termed as a "roving enquiry" an RTI plea seeking to know details of bad loans submitted by the then RBI Governor Raghuram Rajan to it and which finds mention in his response to Parliament's Committee on Estimates.

The Prime Minister's Office (PMO) has termed as a "roving enquiry" an RTI plea seeking to know details of bad loans submitted by the then RBI Governor Raghuram Rajan to it and which finds mention in his response to Parliament's Committee on Estimates. The PMO has said the query does not come under the definition of "information" in the RTI Act.

"The information sought is in the form of roving enquiry and does not come under the definition of 'information' as per Section 2(f) of the RTI Act, 2005," Under Secretary and CPIO at the PMO, Praveen Kumar said. Section 2(f) defines 'information' as any material in any form, including records, documents, memos, e-mails, opinions, advices, press releases, circulars, orders, logbooks, contracts, reports, papers, samples, models, data material held in any electronic form and information relating to any private body which can be accessed by a public authority.

The applicant had mentioned that he was seeking from the PMO information related to communication received from Rajan when he was RBI Governor on bank loans which is mentioned in his response to the Committee on Estimates during a hearing. He had sought to know the list of bad loans submitted by Rajan, action taken on them by the PMO and the name of the public authority to which the matter was referred to among others.

The PMO also declined to provide information as to when it received the communication from Rajan and on the note sheet of action taken. In the note to Chairman of Estimates Committee Murlu Manohar Joshi, Rajan said the size of frauds in the public sector banking system has been increasing, though still small relative to the overall volume of non-performing assets (NPAs).

"The RBI set up a fraud monitoring cell when I was Governor to coordinate the early reporting of fraud cases to the investigative agencies. I also sent a list of high profile cases to the PMO urging that we coordinate action to bring at least one or two to book. I am not aware of progress on this front. This is a matter that should be addressed with urgency," he said.

Rajan, who was RBI governor for three years till September 2016, is currently teaching at the Chicago Booth School of Business. Noting that the system has been singularly ineffective in bringing even a single high profile fraudster to book, he said frauds are different from the normal NPAs. "The investigative agencies blame the banks for labelling frauds much after the fraud has actually taken place, the bankers are slow because they know that once they call a transaction a fraud, they will be subject to harassment by the investigative agencies, without substantial progress in catching the crooks," he said.

Economic Times

4. Will IL&FS austerity measures aid resolution in 9 months?

By Karunjit Singh

IL&FS has told a bankruptcy court that it aims to resolve the liquidity crisis within about nine months, seeking to improve its debt-laden capital structure through asset sales, restructuring of outstanding loans, and infusion of funds.

"Buyer(s)/ investor(s) interest for the vertical level resolution is expected to be more likely, given that focused participants exist for different asset classes in India," the new board of IL&FS told the National Company Law Tribunal (NCLT) in a detailed report on the debt-resolution choices currently under consideration.

"The New Board will follow due process in finalisation and implementation of the Resolution Plan(s) and expects to complete the process, in stages and parts, in next 6-9 months (subject to market and economic conditions)," it said.

The report went on to add that the "new board has noted that there appears to be valuable assets in the IL&FS Group which have generated sufficient interest in the market."

The new board's current assessment is that the resolution options could broadly involve significant capital infusion, disinvestments, and debt restructurings at the IL&FS group level, business vertical/platform level, or at an asset level, the company said in a separate press note.

"We have created the roadmap in compliance with the earlier NCLT order," said Sanjay Shoriey, senior counsel from the ministry of corporate affairs who was representing the government in the court.

On October 1, the NCLT allowed the government's petition to replace all members to the old board, and ordered that the new board submit a roadmap to it before the next hearing on Oct. 31.

All payments of Rs 1 crore or more will have to be approved by the managing director, while employees earning more than Rs 50 lakh a year will have to take a 10% cut in salary, the new board has proposed to implement.

The new board believes that the final resolution will inevitably involve substantial deleveraging from the current levels, notwithstanding the various challenges, said the detailed report.

The group employed 69 superannuated executives as consultants. They are likely to be removed now. The audit committee of IL&FS is also considering a special audit of actions by the previous board.

The board has also found that one loan in excess of Rs 1,500 crore was passed through eight group companies in what Shorey called a "circuitous transaction".

IFIN, a subsidiary, is alleged to have availed loans in excess of the permissible regulatory norms. The group has debts of Rs 94,215 crore. Repayments have fallen overdue for about 5 percent of the outstanding amount.

There are 346 group companies in the IL&FS Group, besides the holding company. The NCLT ordered the board to include representatives from all subsidiaries as respondents to the case next two fortnights. The court will next hear the case on December 03.

Business Line

5. RBI board to meet on Nov 19

OUR BUREAU

In an indication that he is ready to resolve the recent differences between the government and the central bank, Governor Urjit Patel has called a meeting of the central bank's board on November 19.

The stand-off between the government and the RBI started with some non-official directors reportedly pressing for relaxation in the prompt correction action framework for weak banks, increased flow of credit to micro, small and medium enterprise sectors, and a special liquidity window for non-banking finance companies at the RBI's last board meeting.

The RBI brass did not take this demand kindly with Viral Acharya, Deputy Governor, cautioning that "governments that do not respect central bank independence will sooner or later incur the wrath of financial markets, ignite economic fire, and come to rue the day they undermined an important regulatory institution."

The stand-off between the government and the RBI got exacerbated as there were reports that the former will invoke powers under RBI Act to issue directions to the latter on matters of public interest.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY