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Dear Comrades,

17th November , 2018

## News of Interest 17<sup>th</sup> NOV

### MOTIVATIONAL QUOTES

'YOU CANNOT ESCAPE THE RESPONSIBILITY OF TOMORROW BY EVADING IT TODAY.'

ABRAHAM LINCOLN

### HIGHLIGHTS

1. MOST BANKS, INCLUDING PCAS, MEET MANDATORY PRIORITY SECTOR LENDING FOR MSME
2. PANEL SHORTLISTS 5-10 BANK CHIEFS, INCLUDING AN MNC, TO LEAD YES BANK
3. RBI BOARD MEET: GOVT SEEKS CLOSER SUPERVISION OF THE RESERVE BANK, MOVE MAY UNDERMINE INVESTOR CONFIDENCE
4. SC SEGREGATES PLEAS AGAINST RBI NPA CIRCULAR, TO HEAR MATTER ON NOVEMBER
5. CBI REGISTERS DA CASE AGAINST RETIRED PNB OFFICIAL ACCUSED IN NIRAV MODI CASE

### Business Standard

#### 1. Most banks, including PCAs, meet mandatory priority sector lending for MSME

The officials also said all these steps have been taken jointly by the government and the regulators after an extensive and continuous consultation process

Press Trust of India

Amid a raging debate on need for easing rules governing credit to MSMEs, an analysis of the RBI's data on such loans show that a large majority of banks, including those facing 'prompt corrective action', have achieved the mandatory priority sector lending targets for micro-enterprises.

Also, the MSME (micro, small and medium enterprises) lending has been exempted from most of the restrictions, including those relating to stressed assets, and several steps have been taken by the RBI to ease credit flow to this sector and to ensure their faster 'formalisation' to bring them on board to the new GST regime that will help them further in availing the loans, banks and industry officials said.

While much has been written about the "so-called differences" between the RBI and the government, including on issues like management of surplus reserves of the central bank and the credit flow to MSMEs, officials said facts and the data show there are hardly any significant issues that are being faced by these small enterprises due to policy or regulatory matters.

"There may be a short-term dip in the rate of growth for the credit flow to the MSMEs, but that should not be seen as an actual decline in lending being extended to them and even a slowdown in the expansion rate is very much transient in nature that would get reversed with a faster formalisation process underway for the sector," a top banker said citing the data and regulations that favour the MSME sector.

The officials also said all these steps have been taken jointly by the government and the regulators after an extensive and continuous consultation process.

The officials declined to be named given the sensitivity of the matter and continuing controversy over the RBI-government relations.

They cited several steps taken in the recent past by the RBI, in consultation with the government, for facilitating easier access and availability of credit to the MSME sector, including the 'Resolution of Stressed Assets-Revised Framework (RSA-RF)' of February 12, 2018.

While some corporates have criticised this framework, the officials alleged the opposition is mostly coming from those who were misusing the earlier rules for 'ever-greening' of their loans.

This framework has been carefully calibrated to exclude loans availed by MSME units up to Rs 250 million from its purview, which nearly covers the entire spectrum of the MSME borrowers. Besides, this remains in line with the earlier government policy for the benefit of MSMEs.

The average outstanding loan size of the MSMEs being Rs 270,000, Rs 260,000 and Rs 9.2 million respectively, almost all the MSME loans are out of the purview of the February 12 circular, while the earlier 'specially carved out' rectification process for the MSMS sector remains in force that remains borrower-driven.

The officials also pointed out the inclusion of a separate sub-target of 7.5 per cent under Priority Sector Lending for the micro sector, which required the target to be met in a phased manner.

This target has also been made mandatory for foreign banks with 20 or more branches in India with effect from this year. Earlier the target was applicable only to domestic banks.

The data shows that the target has been achieved by most domestic public sector banks including those under the PCA.

Out of the 12 banks including one from the private sector under PCA, 10 have achieved the target as on March 31, 2018. Among the 10 public sector banks outside the PCA, eight has achieved the target. Besides, 15 out of 20 private sector banks have also met this target already.

To provide much-needed credit to the priority sector in general and MSME sector in particular, the RBI has also permitted all scheduled commercial banks to co-originate loans with non-deposit taking systemically important non-banking financial companies for the creation of priority sector assets.

This step is expected to improve the reach of the banks to the last mile MSME units without sacrificing the loan appraisal parameters. This is also expected to lower the borrowing costs for the end-user MSME beneficiary because.

The Co-origination model also enables the NBFC customers, including the MSME customers, to access the more robust grievance redressal mechanism of banks.

Besides, caps have been removed on bank loans for lending to the MSME sector to encourage banks to go beyond the earlier limits in such lending.

To ensure timely availability of funds to the MSME sector, the RBI also facilitated the setting up of Electronic Bill Factoring Exchanges in the country. These exchanges provide for swift discounting of MSME bills and help MSMEs raise funds without delay.

With the recent announcement made by Prime Minister Narendra Modi that all corporates with asset size above Rs 500 crore must come on to TreDS platform, it is expected that the exchanges will get a major traction thereby benefitting the MSME sector significantly.

The non-performing assets (NPAs) norms have also been relaxed for the MSME sector to help them cope up with challenges following implementation of new reforms, officials said.

To ensure formalisation of MSMEs, exposure of banks and NBFCs to the GST-registered MSMEs has been permitted to be classified as a standard asset.

## **2. Panel shortlists 5-10 bank chiefs, including an MNC, to lead YES Bank**

The bank will decide on the final name by the third week of December, at least a month before the RBI deadline of January 31

Press Trust of India

A search panel entrusted with finding Rana Kapoor's successor to lead Yes Bank has shortlisted multiple names, including those serving a foreign as well as domestic lenders, two sources said Friday.

Veteran banker OP Bhat, who was a past chairman of State Bank and one of the two independent members of the search and selection committee, had resigned Thursday over potential conflicts of interest.

Bhat's resignation came a day after non-executive chairman of the bank Ashok Chawla, a former finance secretary and a past chairman of the fair trade body Competition Commission and the telecom watchdog Trai, suddenly resigned after his name cropped up in the Aircel-Maxis corruption case, being probed by the CBI.

Bhat's connections with the foreign lender, whose chief executive is among those shortlisted in an advisory role, has led to his resignation, the sources explained.

After Bhat's exit, TS Vijayan, the former chairman of the insurance regulator Irdai, is the only remaining external member in the search and selection committee.

The search committee has had three meetings since it was constituted and the last was on Tuesday, the sources said.

The shortlisted names include the head of a foreign bank having a relatively large presence in the country, the chief of a state-run bank apart from the heads of some private sector lenders.

While one source put the number of shortlisted names at five, another put it at 10, saying it will be now brought down to five.

The bank will decide on the final name by the third week of December, at least a month before the RBI deadline of January 31, they said.

In a surprise move, the RBI in September had curtailed the term of Kapoor, who owns around 11 percent in the bank, to January 31, 2019.

Kapoor, one of the promoters of the fifth largest private sector lender, was the second bank chief whose term had been cut short after Axis Bank's Shikha Sharma.

The regulator did not offer any reasons for its action. But both Yes Bank as well as Axis Bank were found to have under-reported their non-performing assets pile by over Rs 10,000 crore each for two consecutive years.

Yes Bank had requested RBI for extending Kapoor's term by over eight months, and announced the five member selection panel consisting of three board members and two external ones. But the central bank refused to budge and asked him to leave by January 31.

Internal candidates from the bank who are likely to be considered include senior group presidents Rajat Monga and Pralay Mondal, one of the sources said, adding they are yet to be interviewed by the selection panel.

The panel has crystallised the broad criteria which it will be looking at, which includes the necessity for the candidate to have corporate banking experience given Yes Bank's asset book focus, experience in capital raising and also a clean reputation which will ensure a sail-through with the regulator, the source said.

## Financial Express

### 3. RBI Board meet: Govt seeks closer supervision of the Reserve Bank, move may undermine investor confidence

The government has proposed changing rules that will enable closer supervision of the Reserve Bank of India (RBI), people with knowledge of the matter said, a move that may undermine investor confidence in the world's fastest-growing major economy

By: [Bloomberg](#)

The government has proposed changing rules that will enable closer supervision of the Reserve Bank of India (RBI), people with knowledge of the matter said, a move that may undermine investor confidence in the world's fastest-growing major economy.

Prime minister Narendra Modi's administration has recommended that the board of the RBI draft regulations to enable setting up panels to oversee functions, including financial stability, monetary-policy transmission and foreign exchange management, the people said, asking not to be identified as the discussions are private.

The move is meant to empower the regulator's board, which includes government nominees, and give it a supervisory role, the people said. The central bank's board is scheduled to meet on Monday. The tension mirrors central bank fights playing out in countries as varied as the US and Turkey, and is a symptom of what happens when an era of easy credit ends.

The latest proposal may heighten tensions between the finance ministry and the RBI, which have been at logger heads over a host of issues that will be discussed at Monday's meeting, including transfer of surplus funds, easing of bad loan norms, and ensuring liquidity to the shadow banking sector. While the government says the central bank isn't providing support to boost growth, the RBI says fund transfers could undermine its independence and hurt the markets.

"This does look scary and comes at a slightly anxious environment for investors," said Hugo Erken, senior economist at Rabobank International.

"This does not bode well in the short term for confidence and the Indian rupee."

Finance ministry spokesman DS Malik didn't reply to two calls made to his mobile phone, while the RBI spokesman was not immediately available for a comment.

The recommendations being considered include setting up several committees comprising two to three board members each. The body has the powers to frame rules under section 58 of the Reserve Bank of India Act, 1934, and no legislative change is required, the people said.

RBI's board regularly advises and guides the regulator, leaving decision making to the governor and his colleagues.

However lately, Swaminathan Gurumurthy, a chartered accountant who was nominated by the Modi administration to the board, and government nominees Subhash Chandra Garg and Rajiv Kumar have been vocal about

perceived shortcomings in banking supervision, flow of credit to industry and easier financial conditions to overcome a crisis in its shadow-banking sector.

That prompted central bank deputy governor Viral Acharya to warn in a speech last month that a move to undermine the RBI's independence will attract the wrath of the markets.

The government last month upped the ante by writing to the central bank to discuss issues where there had been disagreements, citing a rule that has never been used in the central bank's 83 year-old history. Under Section 7 of the RBI Act, the government has the power to issue directions that are binding on the central bank.

## **Economic Times**

### **4. SC segregates pleas against RBI NPA circular, to hear matter on November**

The matters pertaining to Insolvency and Bankruptcy Code will be heard first followed by those challenging the RBI circular

By Sarita C Singh

The Supreme Court will hear the pleas filed by companies owning stressed assets on November 28, after segregating the matters into those challenging insolvency law and those challenging validity of RBI circular.

The matters pertaining to Insolvency and Bankruptcy Code will be heard first followed by those challenging the RBI circular, sources said.

Matters related to validity of IBC proceedings include those filed by South Indian Sugar Mills Association and Bhushan Steel & Power. The Supreme Court had on September 11 halted insolvency proceedings against defaulters in the power, sugar, shipping and textile sectors by staying the RBI circular. The bench, comprising Justices R F Nariman and Indu Malhotra, directed parties to maintain status quo while transferring about a dozen cases on the matter in various lower courts to itself.

Private power companies and bank employees union have challenged the controversial circular saying it is ultra vires the RBI Act as it infringes lenders' discretion to move defaulting loan accounts. The RBI circular mandated lenders to initiate insolvency proceedings against all defaulters after August 27.

## **Business Line**

### **5. CBI registers DA case against retired PNB official accused in Nirav Modi case**

PTI

The CBI has registered a disproportionate assets case against the retired deputy manager of Punjab National Bank (PNB) Gokulnath Shetty, a key accused in the Rs 11,400-crore scam involving Nirav Modi, for allegedly amassing wealth 200 per cent more than his known sources of income, officials said on Friday.

The case was registered by the CBI's Anti Corruption Branch in Mumbai against Shetty and his wife Ashalata for allegedly amassing a large number of moveable and immovable properties during the period between April 1, 2011 and May 31, 2017, the day he retired. According to the CBI FIR, the couple had amassed disproportionate assets to the tune of Rs 2.63 crore during the period.

Shetty and his wife Ashalata, who is a clerk with Indian Bank, "had acquired disproportionate assets to the tune of Rs 2.63 crore, which are 238.44 per cent disproportionate to their known sources of income", the CBI FIR alleged.

It also said Ashalata had "been found to have actively assisted her husband in the concealment and acquisition of assets raised from ill-gotten wealth and, thereby, has abetted the offence of possession of disproportionate assets by a public servant".

Shetty was arrested by the Central Bureau of Investigation (CBI) in February this year after the banking fraud involving billionaire jewellers Nirav Modi and Mehul Choksi surfaced.

The scam surfaced when companies of Nirav Modi and Choksi approached PNB's Brady Road branch, Mumbai, in January this year seeking a Letter of Understanding (LoU) for payments to suppliers. The official handling the case sought 100 per cent cash guarantee before any such letter could be issued, to which the company officials said no such guarantee was sought in the past.

The official checked the records, which did not show such an LoU to Modi or Choksi's company, which led to suspicion. It is alleged that Shetty had been bypassing PNB's core banking system and issuing LoUs fraudulently for seven years.

An LoU is a guarantee which is given by an issuing bank to Indian banks having branches abroad to grant a short-term credit to the applicant. In case of default, the bank issuing the LoU has to pay the liability to credit giving bank along with accruing interest.

Shetty allegedly sent messages of these LoUs using an international messaging system for banking systems called SWIFT (Society for Worldwide Interbank Financial Telecommunication), which is used to pass instructions among banks globally to transfer funds.

It is estimated that millions of messages are sent daily using the SWIFT technology globally, wherein every member bank can send or receive messages of financial transactions to another bank worldwide.

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 without making entries in the banking software about the LoUs.

These LoUs and Letters of Credits (LC) worth Rs 11,384 crore were getting renewed or issued afresh for six years without the bank's knowledge. The Indian banks abroad did not mind as their money was safe (under guarantee from PNB) and increasing because of the accruing interest.

The party was spoiled in January this year when the first renewal arose after the retirement of Shetty, the officials said. An alarmed bank dug out all such LoUs and LCs showing a mammoth liability towards other banks.

The conniving officer also issued Foreign Letters of Credit by entering a smaller amount in trade finance module of Core Banking Solutions (CBS) system and generating the reference number and a SWIFT message was sent for the amount, the bank alleged.

With kind regards,

Yours Comradely,



**( N. GOVINDRAJULU )  
GENERAL SECRETARY**