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Dear Comrades,

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News of Interest 24th SEP

MOTIVATIONAL QUOTES

“THE PESSIMIST SEES DIFFICULTY IN EVERY OPPORTUNITY. THE OPTIMIST SEES OPPORTUNITY IN EVERY DIFFICULTY.”–WINSTON CHURCHILL

HIGHLIGHTS

1. IL&FS INCIDENT IS UNFORTUNATE, SAYS RBI DIRECTOR S GURUMURTHY
2. SEBI DISPOSES ICICI'S SUBMISSIONS FOR OVERHAULING ITS SETTLEMENT RULES
3. RBI ANNOUNCES NORMS FOR CO-ORINATION OF PRIORITY SECTOR LOANS BY BANKS, NBFCs
4. SMALLER PSBS ASKED TO CONSOLIDATE OPERATIONS, AVOID FIGHT WITH LARGER BANKS
5. GOVT BEGINS WORK TO CONSOLIDATE REGIONAL RURAL BANKS

Business Standard

1. IL&FS incident is unfortunate, says RBI director S Gurumurthy

IL&FS assets are built for 30 years' return on 10-year finance, says Gurumurthy

T E Narasimhan

Non-official director with the Reserve Bank of India, S Gurumurthy, has said that the Infrastructure Leasing & Financial Services (IL&FS) issue is unfortunate and that NPA rules, applicable only to commercial banks, are not being properly implemented.

“IL&FS assets are built for 30 years' return on 10-year finance. They have to refinance it every 10 years, which is the structural model of IL&FS,” he said.

“Basel rules are designed for commercial banks, not universal banks, which all Indian banks are, and term lending institutions, which IL&FS and the

likes are. Applying NPA norms to them is like asking one to play football, following hockey rules," Gurusurthy, a chartered accountant, columnist, political and economics analyst and editor of Thuglak magazine, said.

Besides debt fund managers becoming more selective with their exposures, experts said that HFCs will also have to contend with strong competition risk posed by banks. "Banks have now become more aggressive in the mortgage space and have certain advantages over NBFCs, such as a better liability side," a fund manager said, adding, "Rising borrowing costs combined with increased competition can hurt the profitability of HFCs."

2. Sebi disposes ICICI's submissions for overhauling its settlement rules

The suggestions made by the private sector major covered issues ranging from timelines to limitation clause to applicable payments

Press Trust of India

ICICI Bank made a slew of submissions to Sebi during a public consultation process for overhauling its settlement rules, but the regulator did not see merit in most of the suggestions, officials said.

The suggestions made by the private sector major, which last week clarified it has not filed any settlement plea as such with Sebi, covered issues ranging from timelines to limitation clause to applicable payments.

The clarification followed some media reports wrongly quoting Sebi's top officials as saying that ICICI Bank has filed a settlement plea with regard to an ongoing probe into alleged violations by the bank and its on-leave CEO Chanda Kochhar.

An ICICI Bank spokesperson did not reply to a detailed set of queries regarding its submissions in the consultation process.

However, sources familiar with the matter said the bank has been making its submissions for all major draft rules across sectors for years as a responsible institution and it has a robust history of participating in public consultation processes.

One key submission by ICICI Bank in Sebi's consultation process included applicants being allowed to seek settlement with a declaration that they "deny" the charges, as against the proposed clause of seeking to settle either by "admitting" or "without admitting or denying".

Sebi felt any settlement with denial will adversely impact proceedings against other co-accused and it has been rejecting settlement pleas while 'denying' the charges since beginning of the consent mechanism. The rules are similar in the US where applicants can settle a case "without admitting or denying".

The Securities and Exchange Board of India (Sebi) had initiated the consultation process last month on recommendations made by a high-level committee and public comments were sought till September 1.

Subsequently, Sebi last week presented a detailed proposal to its board, which approved the new guidelines to be notified soon.

According to officials, the board was presented a detailed note on all submissions, along with Sebi's comments. These included submissions by ICICI Bank, a legal officer of state-run Allahabad Bank and two individuals.

One individual apparently submitted that draft rules were framed to benefit Reliance Industries, which Sebi "denied at the outset as false and baseless allegations", as per the documents presented by the regulator before its board.

On most submissions of ICICI Bank, Sebi's view was they "may not be considered", but it made some "drafting changes" and corrected a few "typographical errors" flagged to it.

ICICI Bank and another participant suggested that new regulations should specify recommendatory timelines for completion of various stages of the settlement process.

Sebi said an earlier provision of a 6-month timeline was found impracticable and was therefore removed. However, Sebi agreed to issue internal directions requiring expeditious disposal.

A key proposed clause referred to applicants being required to make "full and true disclosures" for alleged defaults.

ICICI Bank suggested such a disclosure should be required only if the applicant decides to "admit" the charges, and the applicant should not be asked for voluntary disclosure. The bank suggested the settlement should be on the basis of the information found by Sebi on its own.

Sebi, however, said settlement requires full disclosure to decide extent of the violation and non-disclosure of facts would be considered "fraudulent conduct".

On settlement amount getting hiked by 25 per cent for pleas filed after expiry of the mandated 60-day period but within the maximum permissible 120 days of the notice, ICICI Bank suggested levying a simple interest of applicable bank rate for the exact number of days.

However, Sebi favoured a one-time increase of 25 per cent.

ICICI Bank also suggested omitting a clause rejecting applications filed after 120-day limitation period or after fixing of oral hearing in a probe, but Sebi rejected it citing the need for avoiding unnecessary delays and for timely resolution of proceedings.

The bank also favoured that a fresh application can be considered in "exceptional circumstances" even if an earlier plea in same case had been rejected. Sebi, however, said the expert committee felt belated applications should be rejected to avoid "forum shopping" at various stages.

A key component of the new norms is outright rejection of settlement for alleged defaults having market-wide impact, causing losses to a large number of investors, or affecting integrity of the market.

ICICI Bank had suggested to "omit" this clause, which Sebi felt was necessary in the interest of investors.

The bank also suggested that in the event of a settlement order being passed, Sebi should not institute any criminal proceedings against the applicant in relation to the same alleged default. Sebi said it does not do so as such.

On disgorgement of ill-gotten profits made or losses avoided by the applicant being made part of settlement terms, ICICI Bank suggested it should be applicable only in cases of the applicant admitting to the charges.

However, Sebi said disgorgement is not dependent on actual admission and a person cannot be allowed to profit from a default.

Sebi also did not find merit in suggestions that information provided by a whistleblower or an approver should not be used in case of incomplete information or refusal to cooperate.

In case of applicant being a corporate, a clause referred to Sebi requiring the settlement amount to be paid by officers in default, including persons in charge of the corporate, to avoid burdening investors.

Sebi rejected the suggestion for omitting this clause and said it can ask directors to pay the amount if a fraud is committed against the company and its shareholders using the corporate device.

"Penalising the company in such instances will amount to making shareholders suffer twice," the regulator felt.

Financial Express

3. RBI announces norms for co-origination of priority sector loans by banks, NBFCs

The Reserve Bank Friday announced guidelines for co-origination of priority sector loans by banks and NBFCs with a view to enhancing flow of funds to the sector at competitive rates

By: [PTI](#) | Mumbai

The Reserve Bank Friday announced guidelines for co-origination of priority sector loans by banks and NBFCs with a view to enhancing flow of funds to the sector at competitive rates. As per the norms issued by the [RBI](#) for all scheduled commercial banks (excluding Regional Rural Banks and Small Finance Banks) and Non-Banking Financial Companies – Non-Deposit taking-Systemically Important (NBFC-ND-SIs), the sharing of risks and rewards between these entities should be in a manner that enables appropriate alignment of respective business objectives, as per their mutual agreement.

The co-origination arrangement should entail joint contribution of credit by both lenders at the facility level. "Based on the respective interest rates and proportion of risk sharing, a single blended interest rate should be offered to the ultimate borrower in case of fixed rate loans. In the scenario of floating interest rates, a weighted average of the benchmark interest rates in proportion to the respective loan contribution, should be offered," it said.

It is envisaged that the benefit of low-cost funds from banks and lower cost of operations of NBFC would be passed on to the ultimate beneficiary through the blended rate/weighted average rate, it said. "In this regard, banks/NBFCs shall provide all the information like loan details including interest rate and other charges, details of risk sharing arrangement, etc., as and when called for by the Reserve Bank of India," it said.

As per the co-origination model whereby bank is not financing MFIs (micro finance institutions) and NBFCs for on-lending to ultimate borrower rather both of them join at each under-writing and loan level thereby sharing the loan amount in agreed percentage. "The bank can claim priority sector status in respect of its share of credit while engaging in the co-origination arrangement. However, the priority sector assets on the bank's books should at all times be without recourse to the NBFC. Further, the loans extended by foreign banks under the co-origination framework shall be restricted only to loans qualifying as priority sector assets," it said.

With regard to grievance redressal, it said, any complaint registered by a borrower with the NBFC/bank shall also be shared with them; in case the complaint is not resolved within 30 days, the borrower would have the option to escalate the same with the concerned Banking Ombudsman/Ombudsman for NBFCs.

Economic Times

4. Smaller PSBs asked to consolidate operations, avoid fight with larger banks

By Dheeraj Tiwari

The government has asked smaller state-run banks to consolidate operations in the same geography, close overlapping branches and avoid competing with larger banks and instead focus on niche areas, a senior finance ministry official told ET.

The move comes close on the heels of the government's proposal earlier this week to merge three state-run banks — Bank of Baroda, Vijaya Bank and Dena Bank — to create the country's third-biggest lender.

"We want PSBs to pursue differentiated banking. Smaller banks should not be competing for large corporate loans or for sectors where they don't have the strength or capacity to fund long term," he said.

The boards of the three banks are already considering the clearances for the proposed merger. Bank of Baroda is the largest of the three with a business of Rs 10.29 lakh crore as on July 2018.

The government has made it clear that it is looking at national banks and regional banks, and existing players will have to make plans for reorganising their organisational resources, including human resource and information technology systems, the above quoted official said.

"We are looking to bring down the number to around 10-11 banks," he added. At present there are 21 PSBs, which include country's largest, State Bank of India

"It is for the banks' board to take these decisions. What we have conveyed is that any capital support from the government is linked to performance," said another finance ministry official.

Banks that are under Reserve Bank of India's prompt corrective action (PCA) framework have also been told to present their turn-around plans and look at leveraging their competitive advantage for regional market business. At present, there are 11 PSBs under the PCA framework.

"This will also mean rationalisation of branches," the above quoted finance ministry official added.

Finance minister Arun Jaitley will hold a quarterly review of the performance on September 25 and it is expected that banks under PCA will share their plans.

The government under its reforms agenda for state-run lenders termed EASE — Enhanced Access and Service Excellence — has directed banks to reduce their corporate exposure to below 40% by March 2019 or by at least 15% from September 2017 level.

Former independent director with state-run Central Bank of India MP Shorawala said PSBs should not be cannibalising each other. "It is a good move by the government, as promoters, to direct the smaller PSBs to focus on niche lending rather than taking on the likes of SBI," he added.

Business Line

5. Govt begins work to consolidate regional rural banks

PTI

Plans to bring down tally to 36 from the existing 56.

The government has initiated consolidation of regional rural banks along with the public sector lenders and intends to bring down their number to 36 from the existing 56.

In this regard, the Centre has begun consultations with states as they are one of the sponsors of the regional rural banks (RRBs) in the country, a senior Finance Ministry official has said. Besides, sponsor banks are also preparing road map for the amalgamation of RRBs within a state, the official said.

The development assumes significance in the light of government earlier this month announcing decision to merge Bank of Baroda, Vijaya Bank and Dena Bank to create another global size bank.

The proposed consolidation of RRBs and bringing down their tally from the existing 56 to 36 will usher in better scale-efficiency, higher productivity, robust financial health of such banks, improved financial inclusion and greater credit flow to rural areas, the official said. Besides, the move will enable RRBs to minimise their overhead expenses, optimise the use of technology, enhance the capital base and area of operation, the official added.

These banks were formed under the RRB Act, 1976, with an objective to provide credit and other facilities to small farmers, agricultural labourers and artisans in rural areas.

The Act was amended in 2015 whereby such banks were permitted to raise capital from sources other than the Centre, states and sponsor banks. Currently, the Centre holds 50 per cent in RRBs, while 35 per cent and 15 per cent are with the concerned sponsor banks and state governments, respectively. Even after stake dilution, the shareholding of the Centre and the sponsor public sector banks together cannot fall below 51 per cent, according to the amended Act.

As a result, the ownership and control would remain with the government. In order to improve the financial health of RRBs, the government initiated consolidation of RRBs in a phased manner in 2005. The number of RRBs came down to 133 in 2006 from 196 at the end of March 2005. It further came down to 105 and subsequently to 82 at the end of March 2012. Further consolidation brought down number of such banks to 56.

RRBs operating through about 21,200 branches witnessed a 17 per cent rise in net profit to Rs 2,950 crore in 2016-17. Their loans and advances outstanding under various schemes rose 15 per cent to Rs 3.5 lakh crore as of March 2017.

With kind regards,

Yours Comradely,



(**N. GOVINDRAJULU**)
GENERAL SECRETARY