



**ALL INDIA UNION BANK PENSIONERS AND RETIREES FEDERATION**  
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Dear Comrades,

4th June , 2019

### News of Interest 4<sup>th</sup> JUN

#### QUOTE OF THE DAY

“POETRY COMES FROM THE HIGHEST HAPPINESS OR THE DEEPEST SORROW. “

A. P. J. ABDUL KALAM

#### HIGHLIGHTS

1. RBI TWEAKS LARGE EXPOSURE FRAMEWORK FOR BANKS; NBFCs TO COME UNDER SCRUTINY
2. RBI ALTERS LARGE EXPOSURES FRAMEWORK FOR BANKS TO CUT CONCENTRATION OF RISK
3. DIGITAL PAYMENTS: RBI PANEL SEES 10-FOLD GROWTH
4. SFIO ALLEGES IL&FS'S SUBSIDIARY FORGED DOCUMENTS FOR LOANS
5. WITH IMPROVING FINANCIALS, BANKS MAY LEND MORE

#### Business Standard

##### 1. RBI tweaks large exposure framework for banks; NBFCs to come under scrutiny

Central bank's move may make lending to NBFCs relatively streamlined

Anup Roy & Abhijit Lele

Large exposure norms for banks were on Monday amended by the Reserve Bank of India (RBI). The move will make lending to non-banking financial companies (NBFC) more streamlined and invite scrutiny on the structure of these entities.

The new framework, however, also makes it possible for government entities to borrow more, as they will not be considered part of a group of connected entities.

The central bank introduced economic interdependence criteria in the definition of connected counterparties and said banks must check how the different parties in a group were invested in each other's assets.

The RBI also excluded entities connected with the sovereign from the definition of group of connected parties. This means that government-backed entities can expect to get higher loans from banks, without inviting objections of the RBI. All banks, however, have board-approved policies on lending to various entities and don't breach those levels.

The RBI said banks must apply a look-through approach in cases where a bank invested in structures that themselves had exposures to assets underlying the structures. Such structures include funds, securitisations and those with underlying assets.

According to Ashvin Parekh, managing partner of Ashvin Parekh Advisory Services, these changes were more relevant for regulating NBFCs, as the relationship between different balance sheets of NBFCs had to be established.

"On back-to-back, when funds are moved to NBFCs where details are not disclosed or financial strength is not known to the banking system and markets, some control has to be established," Parekh said.

The direction is established. The message is liquidity will be provided only to those finance companies who qualify on the certain parameters (fleshed out in amended circular), he said.

"Banks must assign such exposure amount, i.e., the amount invested in a particular structure, to specific counterparties of the underlying assets," the revised large assets framework said.

This will basically increase the scrutiny on such large NBFCs that have various arms invested in each other's business.

For example, at least one large NBFC was recently accused of creating shell companies to route the promoters' assets. The banks will now have to compulsorily check the matter in detail before extending loans to this firm.

According to the RBI's guidelines, a bank has ensure that its exposure to each underlying asset is lower than 0.25 per cent of the structure's capital base. Only in that case, the bank can go ahead and not have a look-through approach.

If a bank is not able to identify the underlying assets of the structure, it must assign the total exposure amount to the structure itself, as a distinct counterparty, the RBI said.

## **2. RBI alters large exposures framework for banks to cut concentration of risk**

The modified 'Large Exposures Framework' (LEF) provides exclusion of entities connected with the sovereign from definition of group of connected counter-parties

### Press Trust of India

The Reserve Bank of India Monday modified the guidelines on large exposures for banks with a view to reduce concentration of risk and align them with the global norms.

The modified 'Large Exposures Framework' (LEF) provides exclusion of entities connected with the sovereign from definition of group of connected counter-parties.

It also introduces economic interdependence criteria in definition of connected counter-parties.

The amendment, the RBI said, is being done in order to "capture exposures and concentration risk more accurately" and to align the above instructions with international norms.

As per the revised norms, the sum of all the exposure values of a bank to a single counter-party must not be higher than 20 per cent of the bank's available eligible capital base at all times.

In exceptional cases, board of banks may allow an additional 5 per cent exposure of the bank's available eligible capital base.

In case of groups of connected counter-parties, the sum of all the exposure values of a bank to a group of connected counter-parties must not be higher than 25 per cent of the bank's available eligible capital base at all times, the revised LEF said.

Under the LE Framework, an exposure to counter-party will constitute both on and off-balance sheet exposures included in either the banking or trading book and instruments with counter-party credit risk.

On exposures to NBFCs, the banks' exposures to a single NBFC should be restricted to 15 per cent of their eligible capital base.

Also, banks' exposures to a group of connected NBFCs or group of connected counter-parties having NBFCs in the group should be restricted to 25 percent of their Tier I Capital.

## **Financial Express**

### **3. Digital payments: RBI panel sees 10-fold growth**

By: [FE Bureau](#) | Mumbai

In order to ensure that a willing customer is able to carry out financial transactions digitally, the committee recommended that each merchant supports at least one digital mode from among BharatQR, UPI QR or cards.

A three-year plan for a 10-fold growth in digital payments, enabling recurring payments on all digital channels and a lower interchange for card payments are among the recommendations made by the Nandan Nilekani-headed high level committee on deepening of digital payments.

Of the 73 recommendations meant for the government, the Reserve Bank of India (RBI), industry and the department of telecommunications, a few seek a relook at some RBI guidelines. For instance, the report has asked for recurring payments — for things like loan repayments, systematic investment plans (SIPs) and media subscriptions — to be enabled for all modes of digital payments, including the Unified Payments Interface (UPI).

The central bank is understood to have categorically disallowed the introduction of a recurring payments feature on UPI 2.0 in spite of representations in its favour.

The report, posted on the RBI website on Monday, also recommends a review of at least one RBI guideline with respect to the operation of ATMs. "...the committee recommends a review of the recent guidelines for swapping cassettes during the loading of cash in ATMs," it said.

The committee has also suggested that in order to ensure that small merchants continue to accept digital payments, the government should continue with the current scheme to refund the merchant discount rate (MDR) for transactions of under ₹2,000 beyond December 2019 for another two years.

The report said that the RBI and the government should plan for the volume of digital transactions to grow by a factor of 10 in three years. This would result in per capita digital transactions reaching 220 in three years from the current level of 22.

The corresponding increase in value relative to gross domestic product (GDP) would be 2 times, the report noted. "This growth may be accompanied by a corresponding increase in the number of users of digital transactions by a factor of three, from approximately 100 million to 300 million," it said.

According to the committee, the mechanism of MDR and interchange fees being determined by the market does not appear to be working and there are fewer acquirers. To correct this situation, the committee has recommended that the interchange on card payments be reduced by 15 basis points (bps). The report also says that the RBI must set up a standing committee to review the MDR and interchange on a periodic basis. The committee must include issuers, acquirers, merchants and academics.

The committee recommended that payment schemes be allowed to induct non-banks as associate members to encourage acceptance, even as settlement continues to be through the sponsor banks.

The setting up of an 'Acceptance Development Fund' for improving the acquiring infrastructure in tier IV, V and VI locations is another recommendation of the committee. Issuers would be required to contribute to this fund from the interchange fees, matched by funds from the RBI.

In order to ensure that a willing customer is able to carry out financial transactions digitally, the committee recommended that each merchant supports at least one digital mode from among BharatQR, UPI QR or cards. The tradition of banks allowing free transactions at branches, ATMs and through net banking must be extended to digital transactions as well.

To allow payment systems to scale, and to meet users' expectations of speedier response to complaints, the committee recommended that all payment systems operators, including the National Payments Corporation of India (NPCI), implement an online dispute resolution (ODR) system that is fast and fair.

"This system may be used by the banks to handle the customer's complaints," the report observed, adding, "Further, aggregate (participant-wise) data on issues reported, and resolution timelines must be published from the ODR, so that the regulator has the necessary visibility into the health of the payment system. The RBI ombudsman data may be used to improve the dispute resolution process and results."

## **Economic Times**

### **4. SFIO alleges IL&FS's subsidiary forged documents for loans**

Lenders had told the SFIO that they had given loans to IL&FS Financial Services (IFIN) on the basis of its credit ratings and financial statements

*By Rashmi Rajput*

The financial services subsidiary of Infrastructure Leasing & Financial Services (IL&FS) took loans by keeping lenders in the dark about adverse regulatory findings on its ability to meet liabilities and using forged financial statements, the Serious Fraud Investigation Office (SFIO) has alleged.

Lenders had told the SFIO that they had given loans to IL&FS Financial Services (IFIN) on the basis of its credit ratings and financial statements, which according to them had met the guidelines to lend to non-banking financial companies.

While the investigative wing of the Ministry of Corporate Affairs is still looking into how credit ratings firms gave high ratings of IFIN, it last week filed a charge sheet in a Mumbai court on its probe into the developments that led to the debt crisis at IFIN. It said IFIN failed to share the negative net owned funds and credit adequacy ratios as assessed by the Reserve Bank of India with the lenders.

The charge sheet, which ET has seen, among others names Siva Group chairman C Sivasankaran, while detailing what it described as fraudulent transactions between his companies and IFIN. The SFIO attached statements of the company's lenders with the charge sheet. Bank of India, which had extended a Rs 1,500 crore term loan, told the agency that as per its last review, IFIN had complied with both RBI and bank's lending policies to NBFCs. The company was rated triple-A by CARE, it added.

According to a note from State Bank of India, the company had a negative net worth based on RBI guidelines, but its capital adequacy ratio was 21.08% as of March 31, 2017. This, the bank said, was due to the difference in the treatment of group companies by the company's policy and as per RBI guidelines, and that the company had been following the same practice of accounting since 2007.

"From the above statements of the bankers it is evident that the banks were relying on the information disclosed in the financial statements with respect to capital adequacy ratio, profitability, asset quality, NPA and provisioning thereof," the SFIO said its over 800-page charge sheet

The agency added: "The financial statement doesn't show the true and fair view of the state of affairs of the company as the company was funding the defaulting borrowers and over a period of time to avoid recognition of these stressed defaulting borrowers as NPA and consequent provisioning. This modus operandi ensured in depicting artificially that the profitability and asset quality as positive always."

The company had not disclosed the fact that the RBI had assessed NOF and CRAR negative for successive financial years from 2014-15 to banks at the time of availing of loans, it said, adding: "This information is very critical and material for the banks to take decision on lending to IFIN. The management of the company concealed the material information from banks while availing of loans."

Chartered accountant AP Shah of AP Shah & Associates, who had provided end use certification to IFIN from 2009-10, told the investigative agency that he had given the certificates based on the documents provided by the company. "Since the company was a reputed company and they had reputed auditors ... we had no question of doubting the integrity of documents and so the certification was given on good faith..." a statement from him attached with the charge sheet read.

The charge sheet accused Sivasankaran of floating a domestic shell company to route funds which was used by his group companies to pay liabilities to IFIN.

According to the charge sheet, the problem started with loans of Rs 310 crore sanctioned to Siva Industries & Holdings and Siva Ventures by IFIN in December 2011 which the companies were unable to pay. In 2012, IFIN loaned money to two other Siva group companies, which were then routed through a web of firms including the shell company back to Siva Industries & Holdings to pay its obligations, the SFIO alleged.

The agency suggested that its report be shared with the government-appointed board of the IL&FS group so that it could recover losses suffered by IFIN from the accused directors.

## **Business Line**

### **5. With improving financials, banks may lend more**

Surabhi Mumbai

Analysts say fourth quarter results of banks indicate a significant decline in NPAs

Amidst slowing economic growth and continued crisis in non-banking financial firms, the improvement in the financials of banks could prove to be a silver lining and could help improve credit growth and demand.

Analysts point out that fourth quarter results of most banks indicate that there has been a significant decline in non-performing loans and a steady improvement in operating metrics.

"Growth in net advances (including overseas advances) increased to 10 per cent year-on-year in 2018-19 from 6 per cent in 2017-18, with private banks witnessing 19 per cent growth. Adjusted for weak growth in overseas credit, domestic loan growth is expected to be nearly 300 basis points higher," said a report by Reliance Securities.

It also noted that the operating metrics for banks remained healthy in the fourth quarter of 2018-19 with a 21 per cent growth in net interest income.

Another report by Kotak Institutional Equities said banks now seem to be on a path to recovery with declining NPAs.

Gross NPAs fell by 220 basis points year-on-year and (80 basis points quarter-on-quarter) to 7.2 per cent of loans with PSBs reporting 300 basis points annual decline, while private banks reported 70 basis points annual decline, it said.

### **MSME lending**

It further noted that loan growth was robust at about 15 per cent annually for banks with a trend towards retail lending though it has moderated.

"Corporate loan growth has started to revive at a slow pace and in the absence of strong traction in the capex cycle, corporate loan growth will be muted," the report said, adding that loans to micro, small and medium enterprises and MFIs will continue to dominate.

While being hopeful of another round of rate cut by the Reserve Bank of India (RBI) in the monetary policy review, bankers said that loan growth tends to moderate during election period.

### **Policy actions**

"With the elections now over and a stable government at the Centre, lending is likely to see a growth in the second half of the fiscal when companies will start to make investment plans. Also, from a retail perspective, the festive season sees more demand for loans," said an executive with a private sector bank.

However, monetary policy transmission by banks continues to remain an issue. Despite two successive rate cuts by the RBI, banks have not followed suit with a similar quantum of cuts.

"Indian banks have barely transmitted RBI's prior policy actions. Based on publicly available data till April, while policy rates have been reduced by 50 bps since February, average bank lending rates have declined by only 5 bps," Goldman Sachs said in a recent research report, noting that several banks have cut the marginal cost of lending rate (MCLR), but only by a symbolic 5-15 bps. Several banks have increased deposit rates since February, it further said.

Thanking you,

Yours Comradely,



**(N. GOVINDRAJULU)  
GENERAL SECRETARY**