This Study material for IDBI Bank promotion exam 13.01.2024 has been distributed by All India IDBI Officers' Association (AIIDBIOA) to its members in December, 2023 in collaboration with Corporate Training and Development Institute (CTDI).

BOOKLET ON

BANK PROMOTION INTERVIEWS

bu The Banking Updates

Email: bankingupdates2020@gmail.com

8261802533

DEC 2023

PREFACE

This Booklet has been prepared with latest Banking and Financial topics released by RBI, GoI, other regulators, Economic and Financial awareness etc. at one place which may be useful for the Officers in Banks particularly in higher scales going to appear for promotion interviews shortly.

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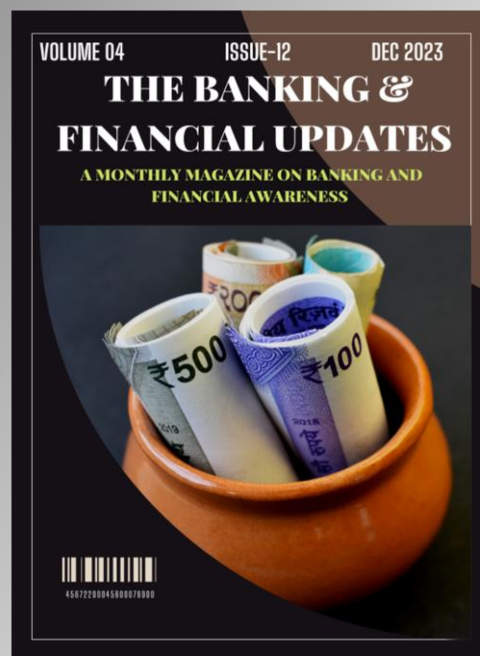

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EASE REFORMS

EASE (ENHANCED ACCESS AND SERVICE EXCELLENCE) PROGRAM – the PSB Reforms Agenda is an outcome of Gyan Sangam, followed by 'PSB Manthan' program in November 2017 held in Gurugram. Gyan Sangam, meaning "Knowledge Confluence" first of its kind initiative held in January 2015 in Pune, Maharashtra, India, to discuss how the public sector banks should be strengthened in India. That was a retreat organized for top executives of public sector banks and financial institutions in India.

The recommendations made in the PSB Manthan, that included around 250 Whole Time Directors, & senior executives of the PSBs, & Government representatives formed the basis for the formulation of a common PSB Reform Agenda to drive Enhanced Access Service Excellence (EASE), which has completed its 5-years journey now and continued.

The focus of PSB Manthan was to elicit suggestions from the PSBs themselves and to establish the joint commitment to achieve the same.The recommendations led to the creation of a structured PSB Reform EASE Agenda, that was released on 24-Jan- 2018.

Outcome of PSB Manthan 2022: PSB Manthan 2022' was held in New Delhi on 22-April- 2022 with the goal of brainstorming with top leaders of public sector banks and unlocking next-generation reforms while continuing the EASE journey. As an outcome of the said Manthan event, a three pillar program is emerged:
I. EASE 5.0 – 'Common Reforms Agenda'
II. Bank-specific strategic roadmap – 1- to 3-year strategic business priorities
III. PSB Collaboration – Joint capability build, sharing, and synergies.

EASE NEXT PROGRAM: (EASE Program expanded into EASENext from FY-2022-23):
The EASENext has been conceptualized with two broad pillars/ comprise 2 major initiatives: EASE 5.0 (common PSB reforms agenda) and Bank specific strategic 3-year roadmap.
1) EASE 5.0 - Common reforms agenda to be achieved by all PSBs, and will continue to focus on driving an enhanced digital experience along with data-driven, integrated, and inclusive banking across all banks.
2) Strategic 3-year roadmap specific to each PSB to focus on new strategic initiatives beyond the common reforms' agenda. (based on individual banks' business priorities).
Therefore, each PSB has the opportunity to set its own reforms path, contextualized to its starting position and strategic priorities.
3rd Pillar of Manthan : As an collaborative effort among PSBs a company has been created, promoted by PSBs which act as an intermediary to create a common applications/platform and take advantage of the combined Scale of operations, which is now being pursued by PSB Alliance Private Limited.
The basic objective of EASE is to institutionalize and encourage clean lending, better customer service, increase profitability, asset quality, simplified and enhanced credit, and robust governance and human resource practices.

EASE OPERATIONAL STRUCTURE:
- At apex level, there is EASE IBA Steering Committee Chaired by MD SBI and having 11 EDs representing other 11 PSBs to oversee overall operational aspects.
- EASE Cell at IBA, headed by Senior Advisor (EASE), consists of 12 team members at Delhi & 4 at Mumbai.
- Quarterly SCM level meeting with all stakeholders to deliberate, review, ratify, finalize & approve all operational challenges and Awards.
- Quarterly Bank's Review Meetings with MD, EDs & top leadership.

PERFORMANCE AND AWARDS:
- Awards basis quarterly index results: Top three in the "Top Performing Banks category, including top-3 theme wise.
- Top Improver Bank: Top improver over its baseline.
- Data Quality Recognition: Basis on the four parameters, Timely Data submission, Data Source Availability, Minimum Data Changes and Earliest clarification Closure.
- Special recognition on EASE Ideation: To top 3 PSBs for their participation and designing of EASE agenda in terms of total ideas and ideas incorporated.

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EASE JOURNEY:

EASE 1.0: (Responsive & Responsible PSBs Banking Reforms Roadmap for a New India) 2018-19

It had major 6 themes as hereunder:

1. Customer Responsiveness: EASE for customer comfort.
2. Responsible Banking: Financial stability, governance for ensuring outcomes, and EASE for clean & commercially prudent business.
3. Credit Off-take: EASE for the borrower and proactive delivery of credit.
4. PSBs as UdyamiMitra: EASE of ¬financing and bill discounting for MSMEs.
5. Deepening Financial Inclusion & Digitalization: EASE through near-home banking, micro insurance and digitalization.
6. Ensuring outcomes – HR: Developing personnel for Brand PSB

EASE 1.0 stressed on the steps necessary for PSBs to improve their performance and ensure financial stability, improved governance, and clean, smart & commercially prudent business practices by measuring the banks on 140 metrics across six themes

EASE 1.0 Reform Index: Top 3 best performing Banks are Punjab National Bank, Bank of Baroda, and State Bank of India respectively.

EASE 2.0: (Clean & Smart Banking for Aspiring India) 2019-20

Major 6 themes of EASE 2.0 are:

1. Responsible Banking:
2. Customer Responsiveness,
3. Credit Off-take,
4. PSBs as Udyam Mitra for MSMEs
5. Financial Inclusion & Digitalization;
6. Governance and Human Resource (HR).

EASE 2.0, Index covered the performance of the Public Sector Bank and measured 120 objective metrics based on above stated six themes. Main purpose of this index was to make changes in the PSBs and encourage them for learning from each other.

EASE 2.0 Reform Index: Top 3 best performing Banks are Bank of Baroda, State Bank of India and Oriental Bank of Commerce respectively.

EASE 3.0: (Smart, Tech-Enabled Banking for Aspiring India) 2020-21

EASE 3.0 had major 5 themes as follows:

1. Smart Lending for Aspiring India
2. Tech-Enabled Ease of Banking
3. Institutionalized Prudent Banking
4. Governance & Outcome Centric HR
5. Deepening Financial Inclusion and Customer Protection

EASE 3.0, was launched for enhancing the ease of banking in all customer experiences, through technology viz. PSBloansin59 minutes.com and Dial-a-loan, Partnerships with Fin-Techs, Credit@click, Tech-enabled agriculture lending, EASE Banking Outlets

EASE 3.0 Reform Index: Top 3 Best performing Banks are State Bank of India, Bank of Baroda and Union Bank of India respectively.

EASE 4.0: (Technology-Enabled Simplified & Collaborative Banking) 2021-22

Major 6 themes:

1. Smart Lending for Aspiring India.
2. New Age 24x7 Banking with Resilient Technology.
3. Collaborating for Synergistic Outcomes.
4. Tech-Enabled EASE of Banking.
5. Institutionalizing Prudent Banking.
6. Governance & Outcome Centric HR

EASE 4.0, commits PSBs to tech-enabled, collaborative, and simplified banking to strengthen the agenda of customer-centric digital transformation.

EASE 4.0 Reform Index: Top 3 best performing Banks are Bank of Baroda, State Bank of India and Canara Bank respectively.

EASE 5.0: (Enhanced digital experience; data-driven, integrated, and inclusive banking) 2022-23

- The EASE 5.0 'Common reforms agenda' focuses on Enhanced Digital customer experience, data driven Integrated and Inclusive Banking experience, with a focus on MSME and agriculture with 24 actions points under 5 themes.
- As per EASE 5.0 guidelines, PSBs will continue to invest in new-age capabilities and deepen ongoing reforms under EASE 5.0 to respond to changing customer needs, competition, and the technological environment.

EASE 5.0 Reform Index: Top rank is secured by State Bank of India, 2nd rank by Union Bank of India and Tie for 3rd rank Punjab National Bank and Bank of Baroda.

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EASE 6.0: (Customer-friendly banking enabled by modern capabilities) 2023-24:

- The Enhanced Access and Service Excellence (EASE) reforms in the context of Indian Banking represent a pivotal step in transforming the nation's PSBs ecosystem. Building on the strong foundation, in FY 2023-24, EASE 6.0 will transform the Banks to become more customer centric by enabling various digital and digitally assisted journeys for Customer Convenience, Delivering Excellence in Customer Service with Digital Enablement and Inclusive Near-Home service delivery.
- The EASE 6.0 (FY-24), currently under its sixth iteration is a progressive and evolving edition with 22 Action Points under 4 Themes focused on delivering excellence in customer service; business improvement using analytics; enhancing capacity building via automation & new operating models, adoption of cloud technologies and strengthening Climate risk management and cyber security; and increase employee productivity.
- 11 action points that are 2 and 3 year APs from EASE 5.0 are to be continued in the current edition with specific and relevant enhancement on select APs to emphasize the agenda on adoption vs setup.
- 11 New APs are introduced focusing on evolving areas of reforms based on emerging business priorities of the industry.

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G-20 (2023 INDIA)

COMPOSITION:

- The G20 or Group of 20 is an intergovernmental forum **comprising 19 sovereign countries**, the **European Union (EU), and the African Union (AU).**
- It works to address major issues related to the global economy, such as international financial stability, climate change mitigation and sustainable development.

INCEPTION OF G20:

- The G20 was **founded in 1999** after the Asian financial crisis as a forum for the Finance Ministers and Central Bank Governors to discuss global economic and financial issues.
- The G20 Summit is **held annually**, under the leadership of a rotating Presidency. The G20 initially focused largely on broad macroeconomic issues, but it has since expanded its agenda to inter-alia include trade, sustainable development, health, agriculture, energy, environment, climate change, and anti-corruption.

MEMBERS:

- The Group of Twenty (G20) comprises **19 countries** (Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Türkiye, United Kingdom and United States) and two regional bodies: the European Union and the African Union (as of 2023).
- The G20 members represent around 85% of the global GDP, over 75% of the global trade, and about two-thirds of the world population.

HOW IT WORKS:

- The G20 Presidency steers the G20 agenda for one year and hosts the Summit.
- The G20 consists of **two parallel tracks: the Finance Track and the Sherpa Track**. Finance Ministers and Central Bank Governors lead the Finance Track while Sherpas lead the Sherpa Track after Finance Track.
- The G20 process from the Sherpa side is coordinated by the Sherpas of member countries, who are personal emissaries of the Leaders. Finance Track is led by Finance Ministers and Central Bank Governors of the member countries.
- Within the two tracks, there are thematically oriented working groups in which representatives from the relevant ministries of the members as well as from invited/guest countries and various international organisations participate.
- The **Finance Track is mainly led by the Ministry of Finance**. These working groups meet regularly throughout the term of each Presidency.
- The Sherpas oversee negotiations over the course of the year, discussing agenda items for the Summit and coordinating the substantive work of the G20.
- In addition, there are **Engagement Groups** which bring together civil societies, parliamentarians, think tanks, women, youth, labour, businesses and researchers of the G20 countries.
- The **Group does not have a permanent secretariat**. The **Presidency is supported by the Troika – previous, current and incoming Presidency.** During India's Presidency, the troika will comprise **Indonesia, India and Brazil, respectively**.

KEY OUTCOMES OF THE G20 SUMMIT 2023 INDIA

- The **18th G20 Summit** was held in New Delhi, India on **September 9th and 10th, 2023**. The summit was the first time India hosted the G20 Leaders' Summit.
- The theme of the summit was **"Vasudhaiva Kutumbakam",** which means "The world is one family". G20 Leaders' New Delhi Declaration achieved unanimous consensus, addressing diverse global issues, from Russia-Ukraine tensions to sustainable development, food security, and launching the Global Biofuel Alliance.

G20 NEW DELHI DECLARATION:

- All **83 paragraphs of the 2023 G20 New Delhi Leaders' Declaration were unanimously approved**, achieving a remarkable 100 percent consensus, even with China and Russia in agreement. Notably, this declaration stood out by containing no footnotes or Chair's Summary, marking a historic moment.
- **Regarding climate change**, the declaration stressed the urgency of mobilizing "US$5.8-5.9 trillion in the pre-2030 period for developing countries" and "US$4 trillion per year for clean energy technologies by 2030" to attain net-zero emissions by 2050. It called for a substantial increase in climate funding, transitioning from billions to trillions of dollars.
- **African Union accepted as part of the G20**: Prior to this, the only African member of the G20 was South Africa. At the Delhi Summit of the G20, the African Union, which represents the 55 countries in the African continent, was given full membership, like how the EU is represented.
- India also invited **Nigeria, Egypt, and Mauritius** as part of the 'Guest Countries' at the G20 summit.

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- State heads of all member nations participated in the G20 meeting New Delhi. However, Chinese President Xi Jinping and Russian President Vladimir Putin were conspicuously absent from the summit. Instead, China was represented by Premier Li Qiang, while Russia sent its Foreign Minister Sergey Lavrov.
- **India – Middle East – Europe Economic Corridor (IMEC):** During the G20 Summit in New Delhi, a Memorandum of Understanding (MoU) was signed among the governments of India, the U.S., Saudi Arabia, the European Union, the UAE, France, Germany, and Italy to establish the India – Middle East – Europe Economic Corridor. IMEC is envisioned as a network of transportation routes encompassing railways and sea lanes. Its primary objective is to promote economic development by fostering integration between Asia, the Arabian Gulf, and Europe.
- **Finance Track Agreements:** India's G-20 presidency has laid the foundation for a coordinated and comprehensive policy and regulatory framework for cryptocurrencies. The emergence of global consensus on crypto asset regulation was emphasized. G-20 leaders have recognized the pressing need for more robust and effective Multilateral Development Banks (MDBs) to address the high developmental demands globally. The India Stack model of digital public infrastructure for financial inclusion is acknowledged as a promising approach. The G-20 leaders' New Delhi Declaration underscores the monitoring of risks associated with the rapid developments in the crypto-asset ecosystem.
- **Climate action:** Leaders at the G20 Summit did not reach a consensus on the phase-out of fossil fuels, despite a United Nations report categorizing this phase-out as “indispensable” for achieving net-zero emissions. The G20 nations collectively contribute to approximately 80 percent of global emissions. The inability to agree on this crucial issue casts a shadow over upcoming climate discussions set to commence in November in the oil-rich UAE. Nevertheless, the G20 did endorse a goal to triple global renewable energy capacity and emphasized the necessity for emissions to peak before 2025. Additionally, the Declaration acknowledged that limiting global warming to 1.5 degrees Celsius (2.7 degrees Fahrenheit) necessitates a 43 percent reduction in greenhouse gases by 2030 compared to 2019 levels.
- The G20 New Delhi Leaders' Declaration also featured commitments to mainstream **Lifestyle for Environment (LiFE)**, implement sustainable energy transitions, provide sustainable finance, reaffirm the pursuit of Sustainable Development Goals (SDGs), address plastic pollution, preserve the ocean-based economy, and more. Additionally, the summit witnessed the launch of the Global Biofuel Alliance (GBA), a new organization aimed at promoting the development and adoption of sustainable biofuels, along with the establishment of relevant standards and certification.
- **India-Mercosur Preferential Trade Agreement (PTA):** India and Brazil agreed to work together for the expansion of India-Mercosur PTA to promote economic ties. Mercosur is a trading bloc in Latin America, comprising Brazil, Argentina, Uruguay and Paraguay. The India-Mercosur PTA came into effect on June 1, 2009, aimed to eliminate customs duties on a limited number of goods agreed between India and the Mercosur bloc.

INDIA'S CULTURAL SHOWCASE:

- Bharat Mandapam (inspired from Anubhav Mandapam).
- Bronze statue of Lord Nataraja (Chola style).
- Konark Chakra of Odisha's Sun Temple and Image of Nalanda University (used as iconic backdrops).
- Thanjavur Paintings and Dhokra art.
- Brass statue of Lord Buddha sitting under Bodhi tree.
- Diverse musical heritage (Hindustani, Folk, Carnatic, Devotional).

TRANSITION OF G20 PRESIDENCY: Prime Minister of India handed over the customary gavel of the G20 chair to **Brazilian President Luiz Inacio Lula da Silva**, who will officially take over the presidency on December 1, 2023.

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LATEST RBI GUIDELINES

KEY POLICY RATES: W.e.f 08.02.2023 (Last Change)	
Repo Rate	*6.50%*
SDF Rate	*6.25%*
Fixed Reverse Repo Rate	*3.35%*
Bank Rate	*6.75%*
Marginal Standing Facility	*6.75%*
CRR	***4.50%***
SLR (w.e.f 11.04.2020)	*18.00%*

KEY ECONOMIC/FINANCIAL POSITION		
Total Reserves (As on 08.12.2023)	*US$ 606.85 billion*	
Foreign Currency Assets (As on 08.12.2023)	*US$ 536.69 billion*	
Business of Commercial Banks as on 01.12.2023	*Aggregate figures*	*YOY Growth*
Aggregate Bank Deposits (Rs in Lakh crs)	*198.81*	*13.40%*
Bank Credit (Rs in Lakh crs)	*158.29*	*20.80%*

RESOLUTION OF THE MONETARY POLICY COMMITTEE (MPC) DECEMBER 06 TO 08 2023

RBI on 8th December released the monetary statement of the decisions made by the monetary committee as hereunder;

- Policy **Repo Rate** kept unchanged at **6.50 Percent**.
- The **SDF and MSF** rate also kept unchanged at **6.25 per cent 6.75 per cent** respectively.
- The MPC also decided to remain focused on withdrawal of accommodation to ensure that inflation progressively aligns to the target, while supporting growth.
- These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

Assessment of outlook:

- Global growth is slowing at a divergent pace across economies. Inflation continues to ebb though it remains above target with underlying inflationary pressures staying relatively stubborn. Market sentiments have improved since the last MPC meeting – sovereign bond yields have declined, the US dollar has depreciated, and global equity markets have strengthened. Emerging market economies (EMEs) continue to face volatile capital flows.
- On domestic front, real GDP grew 7.6 percent YoY in Q2:2023-24.
- RBI projected the **real GDP growth** for **2023-24** at **7.0 per cent** with Q3 at 6.5 per cent; and Q4 at 6.0 per cent. Real GDP growth for Q1:2024-25 is projected at 6.7 per cent.
- **CPI headline inflation** fell by about 2 percentage points since the last meeting of the MPC to **4.9 per cent in October 2023** on sharp correction in prices of certain vegetables and deflation in fuel.
- **CPI inflation is projected at 5.4 per cent for 2023-24**, with Q3 at 5.6 per cent; and Q4 at 5.2 per cent. Assuming a normal monsoon next year, CPI inflation for Q1:2024-25 is projected at 5.2 per cent; Q2 at 4.0 per cent; and Q3 at 4.7 per cent.

MAJOR ANNOUNCEMENTS MADE IN STATEMENT ON DEVELOPMENTAL AND REGULATORY POLICIES ON 8TH DECEMBER 2023:

RBI on 8th December released the Statements on developmental and regulatory policy measures as under;

- The regulatory framework governing the hedging of foreign exchange risks was comprehensively reviewed and by consolidating the directions in respect of all types of transactions – over-the-counter (OTC) and exchange traded - under a single Master Direction.
- It has been decided to come out with a unified regulatory framework on connected lending (lending to persons who are in a position to control or influence the decision of a lender can be of concern, if the lender does not maintain an arm's length relationship with such borrowers) for all the regulated entities of the Reserve Bank. A draft circular in this regard will be issued for public comments.
- Based on the recommendation of the Working Group on Digital Lending (Chairman: Shri Jayant Kumar Dash), it has been decided to bring loan aggregation services offered by the Lending Service Providers (LSPs) (web-aggregators of loan products (WALP)) under a comprehensive regulatory framework.

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- **UPI limit for payments to hospitals and educational institutions raised from ₹1 lakh to ₹5 lakh per transaction**: The transaction limit for UPI is capped at ₹1 lakh, except a few categories like Capital Markets (AMC, Broking, Mutual Funds, etc.), Collections (Credit card payments, Loan re-payments, EMI), Insurance etc. where the transactions limit is ₹2 lakh. In December 2021, the transaction limit for UPI payments for Retail Direct Scheme and for IPO subscriptions was increased to ₹5 lakh. To encourage the use of UPI for medical and educational services, it is proposed to enhance the limit for payments to hospitals and educational institutions from ₹1 lakh to ₹5 lakh per transaction
- Enhancement of the limits for execution of **e-mandates without Additional Factor of Authentication (AFA) to Rs.1.00 Lakh**: The limits for execution of e-mandates without Additional Factor of Authentication (AFA) currently stands at ₹15,000/-. It is, now, proposed to exempt the requirement of AFA for transactions up to ₹1 lakh for the following categories, viz., subscription to mutual funds, payment of insurance premium and payments of credit card bills. The other existing requirements such as pre- and post-transaction notifications, opt-out facility for user, etc. shall continue to apply to these transactions.

RBI INCREASED THE THRESHHOLD LIMIT FOR RELAXATION IN ADDITIONAL FACTOR AUTHENTICATION FOR PROCESSING OF e-MANDATES FOR RECURRING TRANSACTIONS

Relaxation in Additional Factor of Authentication (AFA) was permitted while processing e-mandates / standing instructions on cards, Prepaid Payment Instruments and Unified Payments Interface, for subsequent recurring transactions with values up to ₹15,000/-, subject to conditions.

In this regard, as announced in the Statement on Developmental and Regulatory Policies dated December 08, 2023, RBI has decided to increase the limit **from ₹15,000/- to ₹1, 00,000/- per transaction** for the following categories: (a) subscription to mutual funds, (b) payment of insurance premiums, and (c) credit card bill payments.

RBI NOTIFIES SOVERIGN GOLD BOND SCHEME 2023-24

Government of India, vide its Notification No F.No.4(6)-B (W&M)/2023 dated December 08, 2023, has announced Series III and IV of Sovereign Gold Bond Scheme 2023-24. Under the Scheme, there will be a distinct series (Series III and IV) as hereunder.

Tranche	Date of Subscription	Date of Issuance
2023-24 Series III	December 18 - December 22, 2023	December 28, 2023, Thursday
2023-24 Series IV	February 12 - February 16, 2024	February 21, 2024, Wednesday

RBI INCLUDES SOVEREIGN GREEN BONDS UNDER FULLY ACCESSIBLE ROUTE' FOR INVESTMENT BY NON-RESIDENTS IN GOVERNMENT SECURITIES: The Fully Accessible Route (FAR) was introduced by the Reserve Bank, on March 30, 2020, wherein certain specified categories of Central Government securities were opened fully for non-resident investors without any restrictions, apart from being available to domestic investors as well. There are certain government securities that are eligible for investment under the FAR ('specified securities'). It has now been decided to also designate all Sovereign Green Bonds issued by the Government in the fiscal year 2023-24 as 'specified securities' under the FAR.

GUIDELINES ON IMPORT OF SILVER BY QUALIFIED JEWELLERS AS NOTIFIED BY THE INTERNATIONAL FINANCIAL SERVICES CENTRES AUTHORITY (IFSCA): As per the existing guidelines issued on 25 May 2022, AD Category-I banks have been permitted to remit advance payments on behalf of Qualified Jewellers as notified by International Financial Services Centres Authority (IFSCA) for **eleven days for import of gold** through India International Bullion Exchange IFSC Ltd (IIBX). Now it has been decided that AD Category-I banks may allow Qualified Jewellers to remit advance payment for **eleven days for import of silver** through IIBX subject to the conditions of the guidelines for import of gold mentioned above.

RBI INCREASED RISK WEIGHT ON CONSUMER CREDIT AND BANK CREDIT, CREDIT CARD RECEIVABLES AND BANK CREDIT TO NBFCs: In order to control the high growth in certain components of consumer credit and consequent risks associated, and increasing dependency of NBFCs on bank borrowings, RBI has increased the risk weight on certain exposures by Banks/NBFCs as hereunder;

CHANGE IN RISK WEIGHTS UNDER CONSUMER CREDIT EXPOSURE:

Segment	Existing Risk weight	Proposed risk weight
Consumer credit exposure of commercial banks (outstanding as well as new), including personal loans, but excluding housing loans, education loans, vehicle loans and loans secured by gold and gold jewellery	100%	**125%**
Consumer credit exposure of NBFCs (outstanding as well as new) categorised as retail loans, excluding housing loans, educational loans, vehicle loans, loans against gold jewellery and microfinance/SHG loans	100%	**125%**
Credit card receivables of scheduled commercial banks (SCBs)	125%	**150%**
Credit card receivables of NBFCs (Applicable to two NBFCs permitted to issue credit cards , viz. SBI Cards and Payment Services Private Limited and BOB Financial Solutions Limited)	100%	**125%**

BANK CREDIT TO NBFCs: In terms of extant norms, exposures of SCBs to NBFCs, excluding core investment companies, are risk weighted as per the ratings assigned by accredited external credit assessment institutions (ECAI). Now, it has been decided to increase the risk weights on such exposures of SCBs **by 25 percentage points** (over

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and above the risk weight associated with the given external rating) in all cases where the extant risk weight as per external rating of NBFCs is **below 100**%. For this purpose, loans to HFCs, and loans to NBFCs which are eligible for classification as priority sector in terms of the extant instructions shall be excluded.

GUIDELINES ON STRENGTHENING CREDIT STANDARDS: Further, RBI has prescribed the following norms towards strengthening the credit standards.

- The REs should ensure to have Board approved limits in respect of various sub-segments under consumer credit as part of prudent risk management.
- Limits shall be prescribed for all unsecured consumer credit exposures and to be monitored on an ongoing basis by the Risk Management Committee.
- All top-up loans extended by REs against movable assets which are inherently depreciating in nature, such as vehicles, shall be treated as unsecured loans for credit appraisal, prudential limits and exposure purposes.

HIGHLIGHTS OF THE SECTORAL DEPLOYMENT OF BANK CREDIT (OCTOBER 2023): The highlights on sectoral deployment of bank credit for the month of October 2023 as per data collected from 41 select scheduled commercial banks, accounting for about 95 per cent of the total non-food credit deployed by all scheduled commercial banks are as hereunder;

- Non-food bank credit registered a growth of 15.3 % YoY in October 20233 as compared with 18.3 % a year ago.
- Credit growth to agriculture and allied activities improved to 17.5 % (YoY) in October 2023 from 13.8 % a year ago.
- Credit to industry grew by 5.4 % (YoY) in October 2023 as compared with 13.5 per cent in October 2022.
- Credit to services sector grew by 20.1 % (YoY) in October 2023 as compared with 22.5 % a year ago with NBFCs and 'trade' being the major contributors.
- Personal loans growth decelerated to 18.0 % (YoY) in October 2023 (20.5 % a year ago), due to moderation in credit growth to housing.

HIGHLIGHTS OF STATEMENT ON DEVELOPMENTAL AND REGULATORY POLICIES DATED 06 0CT 2023:

- **PRUDENTIAL FRAMEWORK FOR INCOME RECOGNITION, ASSET CLASSIFICATION AND PROVISIONING PERTAINING TO ADVANCES - PROJECTS UNDER IMPLEMENTATION:** The extant prudential norms for projects under implementation have been reviewed and a comprehensive regulatory framework is proposed to be issued.
- **CREDIT CONCENTRATION NORMS-CREDIT RISK TRANSFER:** The extant guidelines on Large Exposure Framework for Upper Layer NBFC (NBFC-UL) permits exposures to the original counterparty to be offset with certain credit risk transfer instruments. However, the extant credit concentration norms for NBFC in the Middle Layer (ML) and Base Layer (BL) do not explicitly envisage any such mechanism. With a view to harmonize the aforesaid norms among NBFCs, it has been decided to permit NBFCs in the ML and BL as well, to offset their exposures with eligible credit risk transfer instruments.
- **BULLET REPAYMENT SCHEME ON GOLD LOAN FOR UCBs:** RBI decided to increase the monetary ceiling of gold loans that can be granted under the bullet repayment scheme from ₹2.00 lakh to **₹4.00 lakh** for such UCBs who have met the overall PSL target and sub targets as on March 31, 2023. These banks will be required to continue to meet the targets and sub-targets thereafter.
- **EXTENSION OF PIDF SCHEME AND INCLUSION OF PM VISHWAKARMA SCHEME BENEFICIARIES:** The Payments Infrastructure Development Fund (PIDF) Scheme was operationalised by the Reserve Bank in January 2021 for a period of three years with an objective was to incentivise the deployment of payment acceptance infrastructure in tier-3 to tier-6 centres, north eastern states and Union Territories of Jammu & Kashmir and Ladakh. Beneficiaries of PM SVANidhi Scheme in Tier-1 and 2 centres were later included in August 2021. As at end-August 2023, over 2.66 crore new touch points have been deployed under the Scheme. It is now proposed to **extend the PIDF Scheme by a further period of two years, i.e., upto December 31, 2025**. Also, it is proposed to include beneficiaries of PM Vishwakarma Scheme in all centres under the PIDF Scheme.
- **NEW CHANNELS FOR CARD-ON-FILE TOKENISATION:** RBI introduced Card-on-File Tokenisation (CoFT) in September 2021 and began implementation from October 1, 2022. At present, Card-on-File(CoF) token can only be created through merchant's application or webpage. It is now proposed to introduce CoF token creation facilities directly at the issuer bank level. This measure will enhance convenience for cardholders to get tokens created and linked to their existing accounts with various e-commerce applications.

RBI INSTRUCTS ALL PVT. SECTOR BANKS AND WHOLLY-OWNED SUBSIDIARIES OF FOREIGN BANKS TO APPOINT AT LEAST TWO WHOLE TIME DIRECTORS (WTDs): Vide notification dated 25th October 2023, RBI directed all Private Sector Banks (excluding Payment Banks and Local Area Banks) and Wholly-Owned Subsidiaries of Foreign Banks, to ensure the presence of at least two Whole Time Directors (WTDs), including the MD&CEO, on their Boards.

GUIDELINES FOR STRENGTHENING OF CUSTOMER SERVICE RENDERED BY CREDIT INFORMATION COMPANIES AND CREDIT INSTITUTIONS: RBI came out with a comprehensive framework will be put in place for strengthening and improving the efficacy of the grievance redress mechanism and customer service provided by the Credit Institutions (CIs) and Credit Information Companies (CICs) as mentioned hereunder;

- **Intimation of access to Credit Information Report and updation of credit information with Credit Information Companies:** CICs shall send alerts through SMS/ email to customers when their Credit Information Report (CIR) is accessed by the Specified Users (SUs).
- **Setting up of Nodal points/ officials by CIs:** CIs shall have a dedicated nodal point/ official of contact for CICs for

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redressal of customer grievances.
- **Root Cause Analysis of the Complaints by CIs:** CIs shall undertake Root Cause Analysis (RCA) of the customer grievances at least on a half yearly basis.
- **Reasons for rejection of requests for data correction by CIs:** CIs shall inform the customers the reasons for the rejection of their request for data correction, if any.
- **Periodic review of match logic algorithm by CICs:** CICs shall have a board-approved policy for undertaking periodic review (at least on a half-yearly basis) of the 'Search & Match' logic algorithm implemented by them to provide Credit Information Report (CIR) of a borrower. Root Cause Analysis (RCA) of the complaints being undertaken by CICs shall be used to identify issues in the existing 'Search & Match' logic algorithm.
- **Ingestion of credit information data by CICs:** CICs shall ingest credit information data received from the Credit Institutions (CIs) as per its data acceptance rules, into their databases within seven calendar days of its receipt from the CIs.
- CICs shall disclose on their websites, details of complaints registered against them and CIs.
- **Easy access to Free Full Credit Report for the individuals by CICs:** CICs shall provide easy access to Free Full Credit Report (FFCR) including credit score, **once in a year** (January- December), to individuals whose credit history is available with the CIC by displaying the link prominently on their website (on the Home page itself).

The directions shall come into effect six (6) months from the date of this circular (26 October 2023).

COMPENSATION TO CUSTOMERS FOR DELAYED UPDATION/ RECTIFICATION OF CREDIT INFORMATION: RBI directed CICs and CIs to implement the compensation framework for delayed updation/rectification of credit information by CIs and CICs as detailed below:
- CI and the CIC, shall collectively, take an overall **maximum limit of 30 days to resolve/ dispose of the complaint**. In effect, this would mean that a **CI would get 21 days and CICs would effectively get the remainder of 9 days** for complete resolution of the complaint.
- Complainants shall be entitled to a **compensation of ₹100 per calendar day** in case their complaint is not resolved within a period of **30 calendar days** from the date of the initial filing of the complaint.
- The compensation amount shall be credited to the bank account of the complainant **within 5 working days** of the resolution of the complaint.

The compensation framework shall come into effect six months from the date of this circular (26 October 2023).

RBI RAISES THE THRESHOLD AMOUNT FOR TREATMENT AS BULK DEPOSIT BY RRBs TO RS.1.00 Cr: As per extant guidelines, "Bulk Deposit" means: Single Rupee term deposits of Rupees two crore and above for Scheduled Commercial Banks (excluding Regional Rural Banks) and Small Finance Banks and Single Rupee term deposits of Rupees fifteen lakhs and above for RRBs. On a review, RBI decided to enhance the bulk deposit limit for Regional Rural Banks Single Rupee term deposits **from Rs.15.00 Lakhs and above to Rs.1.00 cr and above**.

ALL DOMESTIC TERM DEPOSITS ACCEPTED FROM INDIVIDUALS FOR AMOUNT OF RUPEES ONE CRORE AND BELOW SHALL HAVE PREMATURE-WITHDRAWAL-FACILITY: In terms of existing instructions, banks have been permitted to offer domestic term deposits without premature withdrawal option, provided that all TDs accepted from individuals for an amount of Rupees fifteen lakh and below shall have premature-withdrawal-facility. Now, RBI has directed that, the minimum amount for offering non-callable TDs may be increased from Rupees fifteen lakh to Rupees one crore i.e., all domestic term deposits accepted from individuals for amount of Rupees one crore and below shall have premature-withdrawal-facility.

EXIT FROM REGULATORY SANDBOX THIRD COHORT ON "MSME LENDING": RBI has selected 8 entities to test their products in the third cohort under the Regulatory Sandbox (RS) with 'MSME Lending' as its theme. Now after evaluation of the products which has completed the test phase under the sandbox, RBI found five products viable within the boundary conditions defined during testing under RS.The details of the products that found viable are as under;
- **'Quick Cash Flow':** Developed by FinAGG Technologies Private Limited. The product 'Quick Cash Flow' enables a completely digital cash flow-based credit underwriting process. It provides credit line through co-lending to MSMEs to purchase inventory from large corporates via a smooth digital process.
- **'M1xchange Small-Small':** Developed by Mynd Solutions Private Limited is a one-stop plug and play platform for cash-flow based financing to small MSME seller on TReDS. The product tested invoice factoring, based on credit profile of small MSME buyers using its proprietary digital credit analytics engine.
- **'Pay by Rupifi':** Developed by Rupifi Technology Solutions Private Limited. Provides MSMEs real-time access to working capital through digital credit lines which can be used to make purchase from B2B marketplaces.
- **'GST Sahay'.** Developed by **SIDBI**. It is an application developed using Open Credit Enhancement Network (OCEN) and Account Aggregator framework for invoice-based finance to MSMEs. The entire loan cycle is real time, contactless, cash flow based and end to end digital using multiple data points for a smooth loan journey.
- **'LENDperfect – Shishu Mudra':** Developed by SysArc Infomatix Private Limited. The product enables end to end digital straight-through process (STP) journey for MSME Mudra Loan in partnership with banks. The entire loan journey is streamlined with real-time KYC verification, credit bureau checks, eSignatures, instant approvals, instant account opening and disbursement.

The products found acceptable under this Cohort may be considered for adoption by Regulated Entities subject to compliance with applicable regulatory requirements.

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RBI INITIATES ACTION AGAINST BANK OF BARODA AND SUSPENDS, ANY FURTHER ONBOARDING OF THEIR CUSTOMERS ONTO THE 'BOB WORLD' MOBILE APPLICATION: RBI has, in exercise of its power, under section 35A of the Banking Regulation Act, 1949, directed Bank of Baroda to suspend, with immediate effect, any further onboarding of their customers onto the 'bob World' mobile application. This action is based on certain material supervisory concerns observed in the manner of onboarding of their customers onto this mobile application.

ONBOARDING OF MORE BANKS ON UDGAM PORTAL: Reserve Bank of India had launched a Centralised Web Portal UDGAM (Unclaimed Deposits – Gateway to Access inforMation) on August 17, 2023 for the public to facilitate them to search their unclaimed deposits across multiple banks at one place. The search facility was initially made available on the portal for seven banks. Now RBI has announced that, search facility for **30 banks** has been made available on the portal on September 28, 2023, which covers around 90% of such unclaimed deposits (in value terms) in Depositor Education and Awareness (DEA) Fund.

RBI ISSUED GUIDELINES ON CROSS BORDER PAYMENT AGGREGATOR (PA-CB): RBI decided to bring all entities facilitating cross-border payment transactions for import and export of goods and services under direct regulation of the RBI. PAs-CB are entities that facilitate cross-border payment transactions for import and export of permissible goods and services in online mode. The brief of the guidelines issued are;

- AD Category-I banks do not require separate approval from the RBI for undertaking PA-CB activity.
- Non-banks which provide PA-CB services at present, shall apply to the RBI for authorisation by April 30, 2024 for any one of the following categories; (i) Export only PA-CB (PA-CB-E), (ii) Import only PA-CB (PA-CB-I) and Export and Import PA-CB (PA-CB- E&I).
- The entities, currently carrying out this activity should ensure adherence to the guidelines within a period of three months from the date of this circular (i.e. 31.10.2023).
- **Non-banks** providing PA-CB services presently, shall have a **minimum networth of ₹15 crore** at the time of submitting application to the RBI for authorisation and a minimum networth of **₹25 crore by March 31, 2026**.
- New non-bank PA-CBs shall have a minimum networth of ₹15 crore at the time of submitting application to the RBI for authorisation and shall attain a minimum networth of ₹25 crore by end of the third financial year of grant of authorisation.
- AD Category-I banks undertaking PA-CB activity shall ensure compliance with the requirements for PA-CBs by April 30, 2024.
- In respect of import and export transactions processed by PA-CBs, the maximum value per unit of goods / services sold / purchased shall be **₹25,00,000**.

OPERATION OF PRE-SANCTIONED CREDIT LINES THROUGH UPI: Currently, savings account, overdraft account, prepaid wallets and credit cards can be linked to UPI. As announced in the Statement on Developmental and Regulatory Policies dated April 06, 2023, the scope of UPI is now being expanded by inclusion of credit lines as a funding account. Under this facility, payments through a pre-sanctioned credit line issued by a Scheduled Commercial Bank to individuals, with prior consent of the individual customer, are enabled for transactions using the UPI System. Banks may, as per their Board approved policy, stipulate terms and conditions of use of such credit lines.

BRIEF OF THE CLASSIFICATION, VALUATION AND OPERATION OF INVESTMENT PORTFOLIO OF COMMERCIAL BANKS (DIRECTIONS), 2023: RBI on 12th September 2023 released the master direction on the captioned matter while introducing a symmetric treatment of fair value gains and losses, a clearly identifiable trading book under Held for Trading (HFT), **removing the 90-day ceiling on holding period under HFT, removal of ceilings on Held to Maturity** and more detailed disclosures on the investment portfolio which shall come into effect for accounting period commencing on or after April 1, 2024.The main points of the directions are summarized hereunder;

CATEGORIZATION OF INVESTMENTS BY BANKS: Banks shall classify their entire investment portfolio (except investments in their own subsidiaries, joint ventures and associates) under three categories, viz., H**eld to Maturity (HTM), Available for Sale (AFS) and Fair Value through Profit and Loss (FVTPL). Held for Trading (HFT) shall be a separate investment sub-category within FVTPL.** The category of the investment shall be decided by the bank **before or at the time of acquisition** and this decision shall be properly documented.

HTM: The security is acquired with the intention and objective of holding it to maturity and the contractual terms of the security give rise to cash flows that are solely payments of principal and interest on principal outstanding ('SPPI criterion') on specified dates.

Further, notwithstanding the intent with which the following securities are acquired, they shall not meet the SPPI criteria and therefore shall not be eligible for classification either as HTM or AFS;

- Instruments with compulsorily, optionally or contingently convertible features.
- Instruments with contractual loss absorbency features such as those qualifying for Additional Tier 1 and Tier 2 under Basel III Capital Regulations.
- Instruments whose coupons are not in the nature of interest.
- Preference shares and Equity shares.

AFS: The security is acquired with an objective that is achieved by both collecting contractual cash flows and selling securities; and the contractual terms of the security meet the 'SPPI criterion' as given above. AFS securities shall inter-alia include debt securities held for asset liability management (ALM) purposes that meet the SPPI criterion where the bank's intent is flexible with respect to holding to maturity or selling before maturity.

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FVTPL: The securities held in FVTPL shall be fair valued and the net gain or loss arising on such valuation shall be directly credited or debited to the Profit and Loss Account. Securities that are classified under the **HFT sub-category within FVTPL shall be fair valued on a daily basis, whereas other securities in FVTPL shall be fair valued at least on a quarterly basis.** Any discount or premium on the acquisition of debt securities under FVTPL shall be amortised over the remaining life of the instrument. Securities under FVTPL shall be subject to income recognition, asset classification and provisioning norms.

Investments in Subsidiaries, Associates and Joint Ventures: All investments in subsidiaries, associates and joint ventures shall be held sui generis i.e., in a distinct category for such investments separate from the other investment categories (viz. HTM, AFS and FVTPL).

INITIAL RECOGNITION: All investments shall be measured at fair value on initial recognition. In respect of government securities acquired through auction (including devolvement), switch operations and open market operations (OMO) conducted by the RBI, the price at which the security is allotted shall be the fair value for initial recognition purposes.

Where the securities are quoted or the fair value can be determined based on market observable inputs (such as yield curve, credit spread, etc.) any Day 1 gain/ loss shall be recognised in the Profit and Loss Account, under Schedule 14: 'Other Income' within the subhead 'Profit on revaluation of investments' or 'Loss on revaluation of investments', as the case may be.

"Day 1 Gain" is the difference between the fair value at initial recognition and acquisition cost where such fair value exceeds the acquisition cost. "Day 1 Loss" is the difference between acquisition cost and the fair value at initial recognition where the acquisition cost exceeds such fair value.

SUBSEQUENT MEASUREMENT:

- Securities held in **HTM shall be carried at cost and shall not be marked to market (MTM) after initial recognition.** Any discount or premium on the securities under HTM shall be amortised over the remaining life of the instrument. The amortised amount shall be reflected in the financial statements under item II 'Income on Investments' of Schedule 13: 'Interest Earned' with a contra in Schedule 8:'Investments'.
- The securities held in **AFS shall be fair valued at least on a quarterly basis**,
- The securities held in FVTPL shall be fair valued and the net gain or loss arising on such valuation shall be directly credited or debited to the Profit and Loss Account. Securities that are classified under the HFT sub-category within FVTPL shall be fair valued on a daily basis, whereas other securities in FVTPL shall be fair valued at least on a quarterly, if not on a more frequent basis.
- All investments (i.e., including debt and equity) in subsidiaries, associates and joint ventures shall be held at acquisition cost. When an investee ceases to be a subsidiary, associate or joint venture, the investments shall be reclassified to the respective category. Banks shall evaluate investments in subsidiaries, associates or joint ventures for impairment at least on a quarterly, if not more frequent basis.

RECLASSIFICATIONS BETWEEN CATEGORIES: Banks shall not reclassify investments between categories (viz. HTM, AFS and FVTPL17) without the approval of their Board of Directors. Further, reclassification shall also require the prior approval of RBI. The reclassification should be applied prospectively from reclassification date Details of sales out of HTM shall be disclosed in the notes to accounts of the financial statements.

In any financial year, the **carrying value of investments sold out of HTM shall not exceed five per cent** of the opening carrying value of the HTM portfolio. Any sale beyond this threshold shall require prior approval from RBI.

OPERATIONAL GUIDELINES:

- **Transactions through Subsidiary General Ledger (SGL) account:** Transactions in Government Securities shall be undertaken through SGL or Constituent Subsidiary General Ledger (CSGL) accounts, under the Delivery Versus Payment (DvP) System, in accordance with the guidelines issued by RBI from time to time.
- The **carrying amount of a bank's investment in unlisted non-SLR securities shall not exceed 10 per cent of the carrying amount** (i.e., value carried to the Balance Sheet) of its total investment in non-SLR securities as at the end (i.e., 31st March) of the previous financial year. Investment in unlisted securities that are proposed to be listed within one year shall be exempt from the ceiling of 10 per cent specified. Banks are permitted to make investment in unlisted non-SLR securities of an additional 10 per cent over and above the limit of 10 per cent, provided that such investment is in securitisation notes issued for infrastructure projects, and bonds/debentures issued by ARCs.
- **Banks shall not invest in non-SLR securities of original maturity of less than one-year.** Provided that this restriction shall not apply to investments in Commercial Paper, Certificates of Deposits and NCDs with original or initial maturity up to one year issued by corporates (including NBFCs), which are covered under RBI guidelines.
- **Banks shall not invest in unrated non-SLR securities.** Provided that the banks shall have the option to invest in unrated bonds of companies engaged in infrastructure activities, within the ceiling of 10 per cent for unlisted non-SLR securities.
- The total investment by banks in liquid/short term debt schemes of mutual funds with weighted average maturity of portfolio of not more than one year, shall be subject to a prudential **cap of 10 per cent of their net worth** as at the end of the previous financial year.
- A half-yearly review (as of March 31 and September 30) of the investment portfolio shall be undertaken by the banks which shall be placed before their Boards within two months, i.e., by end-May and end-November.

RESPONSIBLE LENDING CONDUCT: RBI GUIDELINES REGARDING RELEASE OF PROPERTY DOCUMENTS UPON CLOSURE OF CREDIT FACILITIES: As per the guidelines issued on this matter, The Regulated Entities shall

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release all the original movable / immovable property documents and remove charges registered with any registry **within a period of 30 days after full repayment/ settlement of the loan account**. The borrower shall be given the option of collecting the original movable / immovable property documents either from the banking outlet / branch where the loan account was serviced or any other office of the RE where the documents are available, as per her / his preference. The timeline and place of return of original movable / immovable property documents will be mentioned in the loan sanction letters issued on or after the effective date.

COMPENSATION FOR DELAY IN RELEASE OF MOVABLE / IMMOVABLE PROPERTY DOCUMENTS: In case of delay in releasing of original movable / immovable property documents or failing to file charge satisfaction form with relevant registry beyond 30 days after full repayment/ settlement of loan, the RE shall communicate to the borrower reasons for such delay. In case where the delay is attributable to the RE, it shall compensate the borrower at the rate of **₹5,000/- for each day of delay**. In case of loss/damage to original movable / immovable property documents, either in part or in full, the REs shall assist the borrower in obtaining duplicate/certified copies of the movable / immovable property documents and shall bear the associated costs, in addition to paying compensation as indicated above. However, in such cases, an additional time of 30 days will be available to the REs to complete this procedure and the delayed period penalty will be calculated thereafter (i.e., after a total period of 60 days).

These Directions shall be applicable to all cases where release of original movable / immovable property documents falls due on or after December 1, 2023.

DISPLAY OF INFORMATION ON ASSETS POSESSED UNDER SARFAESI BY SECURED CREDITORS: Regulated Entities (REs) of the Reserve Bank which are secured creditors as per the SARFAESI Act, 2002, are directed to display information on their website in respect of the borrowers whose secured assets have been taken into possession by the REs under the Act. The first such list shall be displayed on the website of REs within six months from the date of this circular, and the list shall be **updated on monthly basis**.

RBI DRAFT GUIDELINES PROPOSES LENDERS TO IDENTIFY 'WILFUL DEFAULTERS' WITHIN SIX MONTHS: The Reserve Bank of India proposed that lenders 9Banks and NBFCs) should label defaulting borrowers as "wilful defaulters" **within six months** of an account turning non-performing. RBI has suggested in its draft master directions that banks should set up a review committee and **allow the borrower up to 15 days to make a written representation**, as well as a chance for in-person hearing if needed. Once an account is identified as defaulting wilfully, banks should not grant additional credit it **till a year after the tag is taken off**. Such accounts will not be permitted to restructure either.

RBI INSTRUCTS BANKS FOR MANTAINING INCREAMENTAL CRR (I-CRR) ON THE INCREASE IN NDTL BETWEEN MAY 19, 2023 AND JULY 28, 2023: RBI has issued a directive requiring all Scheduled Commercial Banks / Regional Rural Banks / all Scheduled Primary (Urban) Co-operative Banks / all Scheduled State Co-operative Banks to maintain, an incremental CRR (I-CRR) of **10 per cent** on the increase in NDTL between May 19, 2023 and July 28, 2023, effective from the fortnight beginning August 12, 2023. The I-CRR will be reviewed on September 8, 2023 or earlier.(The I-CRR requirement has since been withdrawn)

RBI ISSUED GUIDELINES ON PENAL INTEREST CHARGED ON LOAN ACCOUNTS BY BANKS/FIs: On a review of the practices followed by Regulated Entities (REs) for charging penal interest/charges on loans, the following instructions are issued by RBI for adoption.

- Penalty, if charged, for non-compliance of material terms and conditions of loan contract by the borrower shall be treated as '**penal charges' and shall not be levied in the form of 'penal interest'** that is added to the rate of interest charged on the advances. There shall be no capitalization of penal charges i.e., no further interest computed on such charges.
- The penal charges in case of loans sanctioned to **'individual borrowers**, for purposes **other than businesses**, **shall not be higher than the penal charges applicable to non-individual borrowers** for similar non-compliance of material terms and conditions.
- The quantum and reason for penal charges shall be clearly disclosed by REs to the customers in the loan agreement and most important terms & conditions / Key Fact Statement (KFS) as applicable, in addition to being displayed on REs website under Interest rates and Service Charges.
- Whenever reminders for non-compliance of material terms and conditions of loan are sent to borrowers, the applicable penal charges shall be communicated. Further, any instance of levy of penal charges and the reason therefor shall also be communicated.
- These instructions shall come into **effect from January 1, 2024.**
- These instructions shall, however, **not apply to Credit Cards, External Commercial Borrowings, Trade Credits and Structured Obligations** which are covered under product specific directions.
- As complaints received against NBFCs generally pertain to charging of high interest / penal charges, applicable NBFCs shall mention the penalties charged for late repayment in bold in the loan agreement.

REVIEW OF REGULATORY FRAMEWORK FOR INFRASTRUCTURE DEBT FUND-NBFCs (IDF-NBFCs): An IDF-NBFC means a non-deposit taking NBFC which is permitted to (i) refinance post commencement operations date (COD) infrastructure projects that have completed **at least one year of satisfactory commercial operations**; and (ii) finance toll operate transfer (TOT) projects as the direct lender. In order to enable IDF-NBFCs to play a greater role in the financing of the infrastructure sector and to harmonise the regulations governing financing of infrastructure sector

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by the NBFCs, RBI has undertaken a review of the guidelines applicable to IDF-NBFCs in consultation with the Government of India and the details guidelines are as follows;

Net owned funds (NOF) and regulatory capital: An IDF-NBFC shall be required to have an NOF of **at least ₹300 crore** and **CRAR of minimum 15 per cent** (with minimum Tier 1 capital of 10 per cent).

Raising of funds: IDF-NBFC shall raise funds through issue of either rupee or dollar denominated bonds of minimum five-year maturity. However, they can raise funds through shorter tenor bonds and commercial papers (CPs) from the domestic market to the extent of up to 10 per cent of their total outstanding borrowings. In addition to the bond route, they can also raise funds under external commercial borrowings (ECBs) subject to minimum tenor of five years and the ECB loans should not be sourced from foreign branches of Indian banks.

Exposure Limit: The exposure limits for IDF-NBFCs shall be **30% of their Tier 1 capital for single borrower**/ party and **50% of their Tier 1 capital for single group** of borrowers/ parties.

Requirements of a sponsor and tripartite agreement: Under the earlier guidelines, an IDF-NBFC was required to be sponsored by a bank or an NBFC-Infrastructure Finance Company (NBFC-IFC). The requirement of a sponsor for an IDF-NBFC has now been withdrawn and shareholders of IDF-NBFCs shall be subjected to scrutiny as applicable to other NBFCs, including NBFC-IFCs. Earlier, IDF-NBFCs were required to enter into a tripartite agreement with the concessionaire and the project authority for investments in the Public Private Partnership (PPP) infrastructure projects having a project authority. The requirement of the tripartite agreement has now been made optional.

Sponsorship of IDF-MFs by NBFCs: All NBFCs shall be eligible to sponsor IDF-MFs with prior approval of the RBI subject to;

a. The NBFC shall have a minimum NOF of ₹300 crore and CRAR of 15 percent and net NPA of less than 3 percent.
b. It shall have been in existence for at least 5 years and earning profits for the last three years.
c. The CRAR of the NBFC post investment in the IDF-MF shall not be less than the regulatory minimum prescribed for it and shall continue to maintain the required level of NOF after accounting for investment in the proposed IDF-MF.
d. There shall be no supervisory concerns with respect to the NBFC.

RBI ISSUED GUIDELINES REGARDING RESET OF FLOATING INTEREST RATE ON EMI BASED PERSONAL LOANS: In terms of extant RBI guidelines, regulated entities (REs) have the freedom to offer all categories of advances either on fixed or on floating interest rates basis. However, in respect of EMI based floating rate personal loans, the REs shall ensure the following requirements for implementation and compliance:

- At the time of sanction, REs shall clearly communicate to the borrowers about the possible impact of change in benchmark interest rate on the loan leading to changes in EMI and/or tenor or both. Subsequently, any increase in the EMI/ tenor or both on account of the above shall be communicated to the borrower immediately.
- At the time of reset of interest rates, **REs shall provide the option to the borrowers to switch over to a fixed rate** as per their Board approved policy. The policy, inter alia, may also specify the number of times a borrower will be allowed to switch during the tenor of the loan.
- The borrowers shall also be given the **choice to opt for (i) enhancement in EMI or elongation of tenor** or for a combination of both options; and, (ii) **to prepay**, either in part or in full, at any point during the tenor of the loan. Levy of foreclosure charges/ pre-payment penalty shall be subject to extant instructions.
- REs shall ensure that the elongation of tenor in case of floating rate loan does not result in negative amortization.(Negative amortization means that even when you pay, the amount you owe will still go up because you are not paying enough to cover the interest.)
- REs shall share / make accessible to the borrowers, a statement at the end of each quarter which shall at the minimum, enumerate the principal and interest recovered till date, EMI amount, number of EMIs left and annualized rate of interest / Annual Percentage Rate (APR) for the entire tenor of the loan.

REs shall ensure that the above instructions are extended to the existing as well as new loans suitably **by December 31, 2023.**

ENHANCEMENT IN TRANSACTION LIMITS FOR SMALL VALUE DIGITAL PAYMENTS IN OFFLINE MODE: As announced in the Statement on Development and Regulatory Policies dated August 10, 2023, the upper limit of an offline payment transaction including for National Common Mobility Card (NCMC) and UPI Lite is increased **from ₹200 to ₹500.** The overall limit is (maximum balance in upi lite account), however, **retained at ₹2000** to contain the risks associated with relaxation of two-factor authentication.

RBI LAUNCHES - UDGAM - CENTRALISED WEB PORTAL FOR SEARCHING UNCLAIMED DEPOSITS: RBI on 17th August 2023, launched a Centralised Web Portal उद्गम **UDGAM (Unclaimed Deposits – Gateway to Access inforMation).** This portal has been developed by RBI for use by members of public to facilitate and make it easier for them to **search their unclaimed deposits across multiple banks at one place**. Reserve Bank Information Technology Pvt Ltd (ReBIT), Indian Financial Technology & Allied Services (IFTAS) and participating banks have collaborated on developing the portal. To begin with, users would be able to access the details of their unclaimed deposits in respect of seven banks presently available on the portal (SBI, PNB, Central Bank of India, Dhanlaxmi Bank, South Indian Bank, DBS Bank India Ltd, and Citi Bank NA). The search facility for remaining banks on the portal would be made available in a phased manner by October 15, 2023.

RBI ISSUED MASTER CIRCULAR ON MANAGEMENT OF ADVANCES FOR UCBs:

On 25th July 2023, RBI issued comprehensive guidelines on management of advances by Urban Co-operative Banks (UCBs).

WORKING CAPITAL REQUIREMENTS:

- The assessment of working capital requirement of borrowers, other than micro and small enterprises, requiring fund based working capital limits **up to ₹1 crore** and micro and small enterprises requiring fund based working capital limits **up to ₹5 crore** from the banking system may be made on the basis of their **projected annual turnover**. The banks may, at their discretion, carry out the assessment based on projected turnover basis or the traditional method. If the credit requirement based on traditional production / processing cycle is higher than the one assessed on projected turnover basis, the same may be sanctioned, as borrower must be financed up to the extent of minimum 20 per cent of their projected annual turnover.
- In respect of borrowers other than micro and small enterprises, requiring working capital limits above ₹1 crore and for micro and small enterprises/units requiring fund based working capital limits above ₹5 crore, UCBs may determine the working capital requirements according to their perception of the credit needs of borrowers. UCBs may ensure that the book-debt finance does not exceed 75% of the limits sanctioned to borrowers for financing inland credit sales. The remaining 25% of the credit sales may be financed through bills to ensure greater use of bills for financing sales.

LOAN SYSTEM FOR DELIVERY OF BANK CREDIT:

- In the case of borrowers enjoying working capital credit limits of **₹10 crore and above** from the banking system, the loan component should normally be **80%** and the remaining Cash Credit component. UCBs have been given freedom to change the composition of working capital by increasing the cash credit component beyond 20 per cent or increase the loan component beyond 80 per cent, as the case may be, if they so desire. In the case of borrowers with working capital (fund based) credit limit of less than ₹10 crore, banks may persuade them to go in for the Loan System by offering an incentive in the form of lower rate of interest on the 'loan component' as compared to the 'cash credit component' The actual percentage of 'loan component' in these cases may be settled by the bank with its borrower clients.
- UCBs are allowed to fix separate lending rates for 'loan component' and 'cash credit component'.
- The minimum period of the loan for working capital purposes may be fixed by banks in consultation with borrowers.
- In respect of borrowers enjoying export credit limit, the bifurcation of the working capital limit into loan and cash credit components, would be effected after excluding the export credit limits (pre-shipment and post-shipment).
- Bills limit for inland sales may be fully carved out of the 'loan component'.

RBI PERMITS BANKS TO OPEN VOSTRO ACCOUNTS FROM 22 COUNTRIES FOR TRADE IN RUPEE: The Reserve Bank has permitted 20 banks operating in the country to open 92 Special Rupee Vostro Accounts (SRVAs) of partner banks from 22 countries as part of efforts to promote bilateral trade in local currencies. As on July 23, 20 banks in India have been permitted to open SRVAs of partner banks from 22 countries, including Bangladesh, Belarus, Botswana, Fiji, Germany, Guyana and Israel. Other countries are Kazakhstan, Kenya, Malaysia, Maldives, Mauritius, Myanmar, New Zealand, Oman, Russia, Seychelles, Singapore, Sri Lanka, Tanzania, Uganda, and United Kingdom.

RBI ALLOWS BANKS OPERATING IFSC BANKING UNITS (IBUs) TO OFFER NON-DELIVERABLE DERIVATIVE CONTRACTS (NDDCs) TO RESIDENT NON-RETAIL USERS: As per the extant regulatory framework, AD Cat-I banks operating International Financial Services Centre (IFSC) Banking Units (IBUs) are permitted to offer non-deliverable derivative contracts (NDDCs) to persons resident outside India. Such derivatives are cash-settled in foreign currency. With a view to developing the onshore INR NDDC market and providing residents the flexibility to efficiently design their hedging programmes, RBI decided to permit AD Cat-I banks operating IBUs to offer NDDCs involving INR to resident non-retail users for the purpose of hedging. Such transactions shall be cash settled in INR; with flexibility of cash settlement of NDDCs transactions between two AD Cat-I banks, and between an AD Cat-I bank and a person resident outside India in INR or any foreign currency.
Non-deliverable derivative contract (NDDC) means an OTC foreign exchange derivative contract in which there is no delivery of the notional amount of the underlying currencies of the contract and which is cash settled.

RBI EXPANDS THE SCOPE UNDER TRADE RECEIVABLES DISCOUNTING SYSTEM: To ease constraints faced by MSMEs in converting their trade receivables to liquid funds and as announced in the Statement on Developmental and Regulatory Policies dated February 8, 2023, RBI has decided to make the following enhancements to the TReDS guidelines;

1. **Introduction of insurance facility for transactions:** Financiers place their bids on the TReDS platforms keeping in view the credit rating of buyers and generally not inclined to bid for payables of low rated buyers. To overcome this, insurance facility is being permitted for TReDS transactions, which would aid financiers to hedge default risks. Accordingly, apart from MSME sellers, buyers and financiers, insurance companies are permitted to participate as **"fourth participant**" in TReDS. The TReDS platform operators may specify the stage at which insurance facility can be availed. **Premium for insurance shall not be levied on the MSME seller**.
2. **Expansion of the pool of financers:** TReDS transactions fall under the ambit of "factoring business", and banks, NBFC-Factors and other financial institutions (as permitted by RBI) can presently participate as financiers in TReDS. However, the Factoring Regulation Act, 2011 (FRA) allows certain other entities / institutions to undertake factoring transactions. Accordingly, all entities / institutions allowed to undertake factoring business under FRA and the rules / regulations made thereunder, are now permitted to participate as financiers in TReDS.
3. **Enabled secondary market for factoring units (FUs):** TReDS guidelines provide for the discounted / financed FUs to have a secondary market, which is, however, not introduced yet. Given the experience gained, TReDS platform operators may, at their discretion, enable a secondary market for transfer of FUs within the same TReDS

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platform subject to applicable RBI guidelines.

4. **Settlement of FUs not discounted / financed:** For the FUs that remain not financed or discounted, TReDS guidelines require buyers to pay MSME sellers outside the system. To overcome the inconvenience caused to MSME sellers and buyers as well as for better reconciliation, TReDS platform operators shall now be permitted to undertake settlement of all FUs – financed / discounted or otherwise – using the NACH mechanism used for TReDS.
5. **Display of bids:** TReDS platforms facilitate transparent and competitive bidding by the financiers. To make the process more transparent, the platforms may display details of bids placed for an FU to other bidders; name of the bidder shall, however, not be revealed.

RBI ALLOWS REMITTANCES UNDER LRS FOR PAYING FEES TO FOREIGN INSTITUTIONS IN IFSCs: RBI on June 22 said it has allowed remittances under liberalised remittance scheme (LRS) for payments of educational fees in foreign universities or foreign institutions in International Financial Services Centres (IFSCs). Presently, remittances to IFSCs under liberalised remittance scheme (LRS) can be made only for making investments in securities.

MIFOR SHALL CEASE TO BE A 'SIGNIFICANT BENCHMARK' AFTER JUNE 30, 2023: In light of the cessation of the publication/non-representativeness of US Dollar London Interbank Offered Rate (USD LIBOR) settings after June 30, 2023, FBIL has been accorded approval to **cease the publication of the MIFOR (Mumbai Interbank Forward Outright Rate) after June 30, 2023**.

RBI ALLOWS SCHEDULED COMMERCIAL BANKS TO SET THEIR OWN LIMITS FOR BORROWING IN CALL AND NOTICE MONEY MARKETS: As per the existing guidelines, the prudential limits for Scheduled Commercial Banks (including Small Finance Banks) for Call and Notice Money were (i) 100% of capital funds, on a daily average basis in a reporting fortnight, and (ii) 125% of capital funds on any given day.
As announced in the Statement on Developmental and Regulatory Policies, dated June 08, 2023, RBI has allowed Scheduled Commercial Banks (**excluding small finance banks and payment banks**) to **set their own limits** for borrowing in Call and Notice Money Markets as in the case of Term Money Market borrowing.
The limits for other financial institutions remain unchanged as hereunder;

Participant category	Prudential limit	
Small Finance Banks	Call and Notice Money:	(i) 100% of capital funds, on a daily average basis in a reporting fortnight, and (ii) 125% of capital funds on any given day.
	Term Money:	Internal board approved limit within the prudential limits for inter-bank liabilities.
Payment Banks, and Regional Rural Banks	Call, Notice and Term Money:	(i) 100% of capital funds, on a daily average basis in a reporting fortnight, and (ii) 125% of capital funds on any given day.
Co-operative Banks	Call, Notice and Term Money:	2.0% of aggregate deposits as at the end of the previous financial year.
Primary Dealers	Call and Notice Money:	225% of Net Owned Fund (NOF) as at the end of the previous financial year on a daily average basis in a reporting fortnight.
	Term Money	225% of Net Owned Fund (NOF) as at the end of previous financial year.

RBI RATIONALIZES BRANCH AUTHORISATION POLICY FOR URBAN CO-OPERATIVE BANKS (UCBs): In order to rationalise the process of branch opening and to enable the UCBs to tap growth opportunities in the sector, RBI will **grant general permission for branch expansion** in the approved area of operation to financially strong UCBs.

- The general permission of branch expansion in the approved area of operation will be available to UCBs in all Tiers (except Salary Earners' Banks) which comply with applicable **Financially Sound and Well Managed (FSWM)** criteria. The eligible FSWM UCBs shall put in place a policy, approved by their Board of Directors for opening branches.
- The eligible UCBs are permitted to **open new branches up to 10 per cent of the number of full-fledged branches** (at the end of previous financial year) in a financial year, subject to a **maximum of five branches** without having the need to take permission from Reserve Bank of India. However, if the total number of full-fledged branches (at the end of previous financial year) is less than 10, the bank will be eligible to open at least one branch.
- UCBs shall report to concerned Regional Office of Department of Supervision (Central Office, in case of UCBs under jurisdiction of Mumbai office) of the Reserve Bank, immediately and in any case not later than 15 calendar days, after opening of the branch complying with all the rules.

FRAMEWORK FOR COMPROMISE SETTLEMENTS AND TECHNICAL WRITE-OFFS: RBI issued the framework in this regard as outlined hereunder;

- **BOARD APPROVED POLICY:** Regulated Entities (REs) shall put in place Board-approved policies for undertaking compromise settlements with the borrowers as well as for technical write-offs.
- **DELEGATION OF POWER:** The delegation of powers for approval/sanction of compromise settlements and technical write-offs shall rest with an authority (individual or committee, as the case may be) which is **at least one level higher in hierarchy than the authority vested with power to sanction the credit / investment exposure**.

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Provided that **any official who was part of sanctioning** the loan (as individual or part of a committee) **shall not be part of the approving the proposal for compromise** settlement of the same loan account, in any capacity. Proposals for compromise settlements in respect of debtors **classified as fraud or wilful defaulter, shall require approval of the Board in all cases**.

- **PRUDENTIAL TREATMENT:** Compromise settlements where the **time for payment of the agreed settlement amount exceeds three months shall be treated as restructuring.** In case of partial technical write-offs, the prudential requirements in respect of residual exposure, including provisioning and asset classification, shall be with reference to the original exposure. Provided that the amount of provision including the amount representing partial technical write-off shall meet the extant provisioning requirements, as computed on the gross value of the asset.
- **REPORTING MECHANISM:** There shall be a reporting mechanism to the next higher authority, at least on a quarterly basis, with respect to compromise settlements and technical write offs approved by a particular authority. Compromise settlements and technical write-offs approved by the MD & CEO / Board Level Committee would be reported to the Board.
- **COOLING PERIOD:** In respect of borrowers subject to compromise settlements, there shall be a cooling period as determined by the respective Board approved policies before the REs can assume fresh exposures to such borrowers. Provided that: The cooling period in respect of exposures other than farm credit exposures shall be subject to a **floor of 12 months**. The cooling period for farm credit exposures shall be determined by the REs as per their respective Board approved policies.
- **TREATMENT OF ACCOUNTS CATEGORIZED AS FRAUD AND WILFUL DEFAULTER:** REs **may undertake compromise settlements or technical write-offs in respect of accounts categorized as wilful defaulters or fraud** without prejudice to the criminal proceeding underway against such debtors. However, the **penal measures currently applicable to borrowers classified as fraud or wilful defaulter, remain unchanged** and shall continue to be applicable in cases where the banks enter into compromise settlement with such borrowers. Such penal measures entail inter alia that no additional facilities should be granted by any bank/ FI to borrowers listed as wilful defaulters, and that such companies (including their entrepreneurs/ promoters) get debarred from institutional finance for floating new ventures **for a period of five years** from the date of removal of their name from the list of wilful defaulters. In addition, borrowers classified as fraud are debarred from availing bank finance for a period of five years from the date of full payment of the defrauded amount.

DEFAULT LOSS GUARANTEE (DLG) IN DIGITAL LENDING: RBI has permitted Arrangements between Regulated Entities (REs) and Lending Service Providers (LSPs) or between two REs involving default loss guarantee (DLG), commonly known as FLDG. DLG arrangements conforming to these guidelines shall not be treated as **'synthetic securitisation'** (a structure where credit risk of an underlying pool of exposures is transferred, in whole or in part, through the use of credit derivatives or credit guarantees that serve to hedge the credit risk of the portfolio which remains on the balance sheet of the lender) and/or shall also not attract the provisions of **'loan participation'** (a transaction through which the transferor transfers all or part of its economic interest in a loan exposure to transferee(s) without the actual transfer of the loan contract, and the transferee(s) fund the transferor to the extent of the economic interest transferred which may be equal to the principal, interest, fees and other payments, if any, under the transfer agreement).

Definition: Default Loss Guarantee (DLG) is a contractual arrangement, between the Regulated Entity (RE) and an entity meeting the criteria laid down guidelines, under which the latter guarantees to compensate the RE, loss due to default up to a certain percentage of the loan portfolio of the RE, specified upfront. DLG shall not involve any actual transfer of the underlying loan exposure from the books of the RE to the books of the DLG Provider.

Eligible entities: These guidelines are applicable to DLG arrangements entered in 'Digital Lending' operations undertaken Commercial Banks (including Small Finance Banks), Primary (Urban) Co-operative Banks, State Co-operative Banks, Central Co-operative Banks; and NBFCs (including Housing Finance Companies). RE may enter into DLG arrangements only with a Lending Service Provider (LSP)/ other RE with which it has entered into an outsourcing (LSP) arrangement. Further, the LSP providing DLG must be incorporated as a company under the Companies Act, 2013.

Forms of DLG: RE shall accept DLG only in one or more of the following forms i.e; Cash deposited with the RE, Fixed Deposits maintained with a Scheduled Commercial Bank with a lien marked in favour of the RE and Bank Guarantee in favour of the RE.

Cap on DLG: RE shall ensure that total amount of DLG cover on any outstanding portfolio which is specified upfront shall not exceed **five per cent** of the amount of that loan portfolio.

Invocation of DLG: The RE shall invoke DLG within a **maximum overdue period of 120 days**, unless made good by the borrower before that.

Tenor of DLG: The period for which the DLG agreement will remain in force shall not be less than the longest tenor of the loan in the underlying loan portfolio.

Exceptions: Guarantee covered by Guarantee schemes of Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) and individual schemes under National Credit Guarantee Trustee Company Ltd (NCGTC), Credit guarantee provided by Bank for International Settlements (BIS), International Monetary Fund (IMF) as well as Multilateral Development Banks shall not be covered within the definition of DLG.

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RBI EXTENDS TIME LINE FOR UCBs FOR PRIORITY SECTOR TARGETS: In order to address implementational challenges faced by the UCBs and to make the transition non-disruptive, it has been decided to extend the glide path for these PSL targets by an additional period of two years as under;

Financial Year ended	March 31, 2024	March 31, 2025	March 31, 2026
Overall PSL Target	60% of ANBC or CEOBSE, whichever is higher	65% of ANBC or CEOBSE, whichever is higher	75% of ANBC or CEOBSE, whichever is higher
Sub-target for advances to weaker sections#,	11.50% of ANBC or CEOBSE, whichever is higher	11.75% of ANBC or CEOBSE, whichever is higher	12.00% of ANBC or CEOBSE, whichever is higher
@ The targets for March 31, 2023 (at 60 %) shall continue till March 31, 2024. # The sub-target set for March 31, 2023 (at 11.50%) shall continue till March 31, 2024.			

RBI LAUNCHES 'ANTARDRISHTI' FINANCIAL INCLUSION DASHBOARD: RBI launched a Financial Inclusion Dashboard, named, ANTARDRISHTI. The dashboard will provide the required insight to assess and monitor the progress of financial inclusion. This facility will also enable to gauge the extent of financial exclusion at granular levels across the country so that such areas can be addressed. The dashboard, presently intended for internal use in the RBI, will further facilitate greater financial inclusion through a multi-stakeholder approach. The Reserve Bank has been promoting financial inclusion through various policy initiatives. To measure the extent of financial inclusion, RBI had constructed the Financial Inclusion (FI) Index in 2021, based on three dimensions of financial inclusion, viz., 'Access', 'Usage' and 'Quality'.

RBI COMMITTEE PROPOSES NEW RULES TO IMPROVE CUSTOMER SERVICE STANDARDS: An expert panel appointed by the RBI under the chairmanship of former deputy governor B.P. Kanungo has proposed a list of recommendations to improve customer service standards in regulated entities. The proposals include reviewing charges levied by entities and extending deposit insurance cover to bank PPIs (prepaid instruments) and later to non-bank PPIs. Also, cross selling of third-party products by the sales team of the regulated entities should be subject to verification by the audit function to ensure that there was no mis-selling and all instructions / guidelines with respect to sale of such products were adhered to, the panel has recommended. The RBI had set up the panel on May 23, 2022.

FORMALISATION OF INFORMAL MICRO ENTERPRISES ON UDYAM ASSIST PLATFORM: As per the revised guidelines on MSMEs, all lenders were advised to obtain 'Udyam Registration Certificate' for classification of entities as MSME. The Ministry of Micro, Small and Medium Enterprises ('MSME'), Government of India has launched the **Udyam Assist Platform (UAP)** to facilitate formalisation of Informal Micro Enterprises (IMEs) through online generation of Udyam Assist Certificate. Further, govt. has clarified that, certificate issued on the UAP to IMEs shall be treated at par with Udyam Registration Certificate for the purpose of availing Priority Sector Lending (PSL) benefits. In view of the above, RBI has notified that, IMEs with an Udyam Assist Certificate shall be treated as Micro Enterprises under MSME for the purposes of PSL classification.

RBI WITHDRAWS OF RS.2000 NOTES FROM CIRCULATION BUT WILL CONTINUE AS LEGAL TENDER: RBI vide notification dated 19 May 2023 has decided withdrawal of Rs.2000 notes from circulation following **clean note policy**. ₹2000 denomination banknote was introduced in November 2016 **under Section 24(1) of RBI Act, 1934** primarily to meet the immediate currency requirement of the economy after withdrawal of the legal tender status of all ₹500 and ₹1000 banknotes in circulation at that time. With fulfilment of the objective of introduction of ₹2000 denomination and availability of banknotes in other denominations in adequate quantity, printing of ₹2000 banknotes was stopped in 2018-19. Accordingly, to implement the decision stated above, the following plan of action has been formulated;

- All banks shall discontinue issue of ₹2000 denomination banknotes with immediate effect. ATMs/Cash Recyclers may also be reconfigured accordingly.
- Banks holding Currency Chests (CCs) shall ensure that no withdrawal of ₹2000 denomination is allowed from the CCs. All balances held in the CCs shall be classified as unfit and kept ready for dispatch to respective RBI offices.
- All banknotes in this denomination received by the banks shall be deposited in the currency chests or kept ready for dispatch to the nearest Issue Office of RBI.
- The facility for deposit and/or exchange of ₹2000 banknotes shall be available for members of the public from 23rd May 2023 and **up to September 30, 2023 (which was later extended upto October 07, 2023)** by all banks and also at the 19 Regional Offices (ROs) of RBI having Issue Departments.
- Deposit of ₹2000 banknotes into accounts maintained with all banks can be made in the usual manner, that is, without restrictions and subject to compliance with extant KYC norms and other applicable Statutory requirements.
- Banks may exchange ₹2000 banknotes upto a **limit of ₹20,000/- at a time**.
- Business Correspondents (BCs) may also be allowed to exchange ₹2000 banknotes **upto a limit of ₹4000/-** per day for an account holder.
- However, the banknotes in ₹2000 denomination **will continue to be legal tender**.

RBI MANDATES COMPLETE INFO ABOUT ORIGINATOR & BENEFICIARY FOR DOMESTIC AS WELL AS CROSS BORDER WIRE TRANSFERS: The Reserve Bank instructed banks and other financial institutions to ensure cross-border as well as domestic wire transfers contain complete information about the originator and beneficiary, aligned the same with the relevant recommendation of the Financial Action Task Force (FATF). As per the updated RBI master directions on KYC norms, "All cross-border wire transfers shall be accompanied by accurate, complete,

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and meaningful originator and beneficiary information,". Also, domestic wire transfers, where the originator is an account holder of the ordering regulated entity (RE), should be accompanied by originator and beneficiary information, as in the case of cross-border wire transfers. "Domestic wire transfers of Rs 50,000 and above, where the originator is not an account holder of the ordering RE, shall also be accompanied by originator and beneficiary information as indicated for cross-border wire transfers,"

RESERVE BANK LAUNCHED '100 DAYS 100 PAYS' CAMPAIGN FOR RETURN OF UNCLAIMED DEPOSITS: Balances in savings / current accounts which are not operated for 10 years, or term deposits not claimed within 10 years from date of maturity are classified as "Unclaimed Deposits". These amounts are transferred by banks to "Depositor Education and Awareness" (DEA) Fund maintained by the Reserve Bank of India. Recently, the Reserve Bank has also announced the setting up of a **Centralised Web portal for public to search unclaimed deposits** across multiple banks. RBI announced a '100 Days 100 Pays' campaign for banks to **trace and settle the top 100 unclaimed deposits of every bank in every district of the country within 100 days**.The banks will commence the campaign **from June 01, 2023**.

RBI BOARD APPROVES TRANSFER OF RS 87,416 CRORE AS DIVIDEND TO GOVT FOR 2022-23: The Reserve Bank of India's Central Board of Directors has approved the transfer of **Rs 87,416 crore as surplus to the Central government for 2022-23**. The board also decided to **raise the Contingency Risk Buffer to 6.00 percent from 5.50 percent.** The dividend for 2022-23, transferred in 2023-24, is sharply higher than what the government had expected to receive, i.e Rs 48,000 crore as dividend from the central bank and state-owned lenders in 2023-24. For 2021-22, the RBI was forced to make a provision of Rs 1.15 lakh crore towards its Contingency Fund on account of the hit its investments in foreign securities took because of higher interest rates globally. This led to the central bank transferring a dividend of only Rs 30,307 crore for 2021-22 in May 2022, well below the budgeted estimate of Rs 73,948 crore.

MODIFICATION IN GUIDELINES RELATED TO REMITTANCES TO INTERNATIONAL FINANCIAL SERVICES CENTRES (IFSCs) UNDER LRS: AD Category-I banks have been permitted, on "Remittances to International Financial Services Centres (IFSCs) in India under the Liberalised Remittance Scheme (LRS)". As per the modification in the guidelines, "**Resident Individuals may also open a Foreign Currency Account (FCA) in IFSCs, for making permissible investments under LRS**." Thus, the existing condition of repatriating any funds lying idle in the account for a period up to 15 days from the date of its receipt is withdrawn with immediate effect.

PROVISIONING FOR STANDARD ASSETS BY PRIMARY (URBAN) CO-OPERATIVE BANKS: The standard asset provisioning norms applicable to all (Tier I, Tier 2, Tier 3 and Tier 4) UCBs under the revised framework shall be as under;

- Direct advances to **agriculture and SME** sectors which are standard, shall attract a uniform provisioning requirement of **0.25 percent** of the funded outstanding on a portfolio basis.
- Advances to commercial real estate (**CRE**) sector shall attract a uniform provisioning requirement of **1.00 percent** of the funded outstanding on a portfolio basis.
- For advances to commercial real estate - residential housing (**CRE-RH**) sector, the provisioning requirement shall be **0.75 percent**.
- For all other advances, banks shall maintain a uniform general standard asset provision of a minimum of **0.40 percent** of the funded outstanding on a portfolio basis.

The erstwhile Tier I UCBs, which are currently maintaining standard asset provision of 0.25% on 'all other loans are permitted to achieve the provisioning requirement of 0.40% on such advances in a staggered manner by March 31, 2025. Thus, provision on all such standard loans and advances outstanding as on March 31, 2023 shall be increased to 0.30% by March 31, 2024, to 0.35% by September 30, 2024 and to 0.40% by March 31, 2025.

RBI ISSUED FRAMEWORK FOR ACCEPTANCE OF GREEN DEPOSITS: To encourage regulated entities (REs) (Scheduled Commercial Banks including Small Finance Banks (excluding Regional Rural Banks, Local Area Banks and Payments Banks) and all deposit taking NBFCs to offer green deposits to customers, protect interest of the depositors, aid customers to achieve their sustainability agenda, address green washing concerns and help augment the flow of credit to green activities/projects, RBI issued comprehensive framework on acceptance of green deposits.

Green Deposit: An interest-bearing deposit, received by the RE for a fixed period and the proceeds of which are earmarked for being allocated towards green finance.

Green finance: Means lending to and/or investing in the activities/projects that contributes to climate risk mitigation, climate adaptation and resilience, and other climate-related or environmental objectives - including biodiversity management and nature-based solutions.

Greenwashing: Means the practice of marketing products/services as green, when in fact they do not meet requirements to be defined as green activities/projects.

Denomination, interest rates and tenor of deposits: REs shall issue green deposits as cumulative/non-cumulative deposits. On maturity, the green deposits would be renewed or withdrawn at the option of the depositor. The green deposits shall be denominated in Indian Rupees only.

Third-Party Verification/Assurance and Impact Assessment: The allocation of funds raised through green deposits by REs during a financial year shall be subject to an independent Third-Party Verification/Assurance which shall be done on an annual basis. REs, with the assistance of external firms, shall annually assess the impact associated with the funds lent for or invested in green finance activities/projects through an Impact Assessment Report.

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APConnect – ONLINE APPLICATION FOR FFMCs AND AD CATEGORY II FOREX DEALERS: RBI has recently developed a software application called „APConnect" to process the application for licensing of Full-Fledged Money Changers (FFMCs), non-bank AD Cat-II merchant bankers, authorisation as MTSS (Money Transfer Service Scheme) Agents, renewal of existing licence / authorisation etc. Existing FFMCs / non-bank AD Category-II should register themselves on the APConnect application within three months i.e. before July 2023. Hence forth, non-bank AD category II dealers, FFMCs and MTSS agents should submit various statements/returns through this application only.

AMENDMENT TO THE MASTER DIRECTION (MD) ON KYC: RBI vide circular dated 28 April 2023, announced certain amendments to Master Direction on KYC Norms as detailed hereunder.
BENEFICIAL OWNER: The threshold for "Controlling ownership interest" for the purpose of determination of Beneficial Owner (BO) has been revised to **10 percent for both companies and trusts** from earlier threshold of 25 percent and 15 percent, respectively.
Exemption from identification of BO: Where the customer or the owner of the controlling interest is (i) an entity listed on a stock exchange in India, or (ii) is an entity resident in jurisdictions notified by the Central Government and listed on stock exchanges in such jurisdictions, or (iii) is a subsidiary of such listed entities; it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such an entity.
CDD MEASURES IN CASE OF CERTAIN CATEGORIES OF NON-INDIVIDUAL CUSTOMERS: The CDD measures pertaining to following categories of non-individual customers have been amended to include certain additional information / document requirements:
- Companies -The names of the relevant persons holding senior management position; and the registered office and the principal place of its business, if it is different.
- Partnership firms –The names of all the partners; and address of the registered office, and the principal place of its business, if it is different.
- Trusts -The names of the beneficiaries, trustees, settlor and authors of the trust, the address of the registered office of the trust; and list of trustees and documents, as specified in Section 16, for those discharging role as trustee and authorised to transact on behalf of the trust.

Further, Section 33B has been amended to extend its applicability to a customer who purports to act on behalf of juridical person or individual or trust.
RECORD MANAGEMENT: Regulated Entities (REs) to ensure that in case of customers who are non-profit organisations, the details of such customers are registered on the **DARPAN Portal of NITI Aayog**. REs shall also maintain such registration records **for a period of five years** after the business relationship between the customer and the RE has ended or the account has been closed, whichever is later.
UPDATION/PERIODIC UPDATION OF KYC
- Aadhaar OTP based e-KYC in non-face to face mode has been permitted to be used for periodic updation. Declaration of current address, if the current address is different from the address in Aadhaar, shall not require positive confirmation in this case. REs shall, however, ensure that the mobile number for Aadhaar authentication is same as the one available with them in the customer's profile.
- REs shall advise the customers that, in order to comply with the PML Rules, in case of any update in the documents submitted by the customer at the time of establishment of business relationship / account-based relationship and thereafter, as necessary, customers shall submit to the REs the update of such documents. This shall be done **within 30 days** of the update to the documents for the purpose of updating the records at REs' end.

AMENDED DEFINATION OF SHELL BANKS: "Shell bank means a **bank that has no physical presence** in the country in which it is incorporated and licensed, and which is **unaffiliated with a regulated financial group** that is subject to effective consolidated supervision. Physical presence means meaningful mind and management located within a country. The existence simply of a local agent or low-level staff does not constitute physical presence".
ENHANCED DUE DILIGENCE (NON-FACE TO FACE CUSTOMER ONBOARDING): RE shall verify the current address through positive confirmation before allowing operations in the account, PAN shall be obtained from the customer and shall be verified, customers shall be categorized as high-risk customers and accounts opened in non-face to face mode shall be subjected to enhanced monitoring until the identity of the customer is verified in face-to-face manner or through V-CIP, etc.
RISK CATEGORIZATION: The indicative list of parameters for risk categorization has been expanded to include geographical risk covering customers as well as transactions, type of products/services offered, delivery channel used for delivery of products/services, types of transaction undertaken, etc. REs shall treat the risk categorization and its reasons of customers as confidential.
CUSTOMER DUE DILIGENCE (CDD) OF INDIVIDUALS: REs can obtain KYC Identifier with explicit customer consent to download KYC records from CKYCR, for the purpose of CDD.
VIDEO BASED CUSTOMER IDENTIFICATION PROCESS (V-CIP): The requirement of 'three days' for - (i) the validity of Aadhaar XML file / Aadhaar Secure QR Code and (ii) to undertake the video process has been amended to '**three working days'**.
CDD MEASURES FOR SOLE PROPRIETARY FIRMS: Section 28 has been amended to clarify that "Registration certificate" as a proof of business/ activity in the name of the proprietary firm includes "**Udyam Registration Certificate (URC)** issued by the Government"

GOVERNOR, RBI LAYS THE FOUNDATION STONE OF A 'NEW GREENFIELD DATA CENTRE' AND 'ENTERPRISE COMPUTING & CYBERSECURITY TRAINING INSTITUTE' OF RBI AT BHUBANESWAR: Shri Shaktikanta Das, Governor, RBI, has laid the foundation stone for establishment of a "Greenfield Data Centre' and

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'Enterprise Computing & Cybersecurity Training Institute' in Bhubaneswar, Odisha. The New Data Centre and the Enterprise Computing & Cybersecurity Training Institute will cater to the emerging requirements of the Reserve Bank and the financial sector.

RESERVE BANK OF INDIA AND CENTRAL BANK OF THE UAE SIGN MOU TO PROMOTE INNOVATION IN FINANCIAL PRODUCTS AND SERVICES: RBI and the Central Bank of the United Arab Emirates (CBUAE) signed an MoU to enhance cooperation and jointly enable innovation in financial products and services. Under the MoU, the two central banks will collaborate on various emerging areas of FinTech, especially Central Bank Digital Currencies (CBDCs) and explore interoperability between the CBDCs of CBUAE and RBI. CBUAE and RBI will jointly conduct proof-of-concept (PoC) and pilot(s) of bilateral CBDC bridge to facilitate cross-border CBDC transactions of remittances and trade.

DIGITAL PAYMENTS AWARENESS WEEK 2023 – LAUNCH OF MISSION "HAR PAYMENT DIGITAL": Reserve Bank of India launched the Mission 'Har Payment Digital' on the occasion of the Digital Payments Awareness Week (DPAW) 2023. This is part of RBI's endeavour to make every person in India a user of digital payments. DPAW 2023 observed from **March 6 to 12, 2023**. The campaign theme is "**Digital Payment Apnao, Auron ko bhi Sikhao"** (Adopt digital payments and also teach others). The Reserve Bank will also initiate a '75 Digital Villages' programme in observance of 75 years of Independence. Under this programme, Payment System Operators (PSOs) will adopt 75 villages across the country and convert them into digital payment enabled villages.

RBI EXCLUDES "ABU DHABI COMMERCIAL BANK PJSC" FROM THE SECOND SCHEDULE TO THE RESERVE BANK OF INDIA ACT, 1934: Upon the cessation of "Abu Dhabi Commercial Bank PJSC" as a banking company within the meaning of sub section (2) of Section 36 A of Banking Regulation Act, 1949, the same has been removed from second schedule of RBI Act published in the Gazette of India dated March 25 – March 31, 2023.

REVISED RBI GUIDELINES FOR APPOINTMENT / RE-APPOINTMENT OF STATUTORY BRANCH AUDITORS OF PUBLIC SECTOR BANKS AND NORMS ON BUSINESS COVERAGE UNDER STATUTORY BRANCH AUDIT OF PUBLIC SECTOR BANKS:

Presently, RBI accords prior approval for the appointment/ re-appointment of statutory branch auditors (SBAs) of Public Sector Banks (PSBs) as required by various applicable statutes. Based on a review of the matter, it has now been decided to grant general permission to PSBs for appointment/ re-appointment of SBAs subject to the requirements mentioned herein.

ELIGIBILITY CRITERIA: In order to be eligible for appointment/ re-appointment as SBA, an audit entity (i.e., audit firms or sole proprietorship auditors) shall meet all the following conditions:

- The audit entity satisfies all the criteria laid down in section 141 of the Companies Act, 2013.
- The audit entity or any of its partners have not been barred from exercising duties as auditor by any regulatory body including the RBI.
- The audit entity is not undertaking audit engagements, either as SBA or Statutory Central Auditor (SCA), of any other PSB for the period of appointment.
- In case the auditor has previously completed **four consecutive years as SBA of the bank**, **at least four years have elapsed** after the completion of the last audit engagement as SBA of the same PSB.
- In case the auditor has been appointed as an SCA of the bank in the past, **at least six years have elapsed** after the completion of the last audit engagement as SCA of the same PSB.
- None of the partners of the audit firm or the proprietor of the audit entity are Directors in the same PSB.
- The audit entity does not have any common partner(s) with any other SBA of the same PSB and that they are not under the same audit firms.
- The audit entity meets the criteria for bank audit experience, number of partners, standing, etc.

POLICY ON STATUTORY AUDIT:

- The Board of the bank shall lay down a policy for engagement of SBAs for statutory branch audit. The methodology approved by the Board for business coverage and selection of branches shall, inter-alia, consider bank-specific characteristics, degree of centralisation of processes, need to address fraud risk and credit risk, adverse reports from internal/ concurrent auditors, whistle blower complaints and unusual patterns/ activity shown by internal MIS reports. It should also ensure that a representative cross section of rural, semi-urban, urban and metropolitan branches are covered, including branches that are not subjected to concurrent audit.
- PSBs shall allot the top 20 branches (to be selected strictly in descending order of outstanding advances) to the Statutory Central Auditors SCAs and shall ensure that **at least 15 per cent of the gross advances of the bank are covered by branches under SCAs.**
- The actual selection of branches as well as the allocation of SBAs shall be done as per the Board approved methodology and approved by the Audit Committee of the Board (ACB).
- **Not more than two branches** shall be allotted to each SBA.
- The Board approved policy for selection and appointment of auditors shall be placed on the official website of the bank. PSBs shall also disclose on their website the extent of business coverage under statutory branch audit for the respective year and the previous year with effect from FY 2023-24.

APPOINTMENT/ RE-APPOINTMENT AND REMOVAL

- Prior to appointment/ re-appointment, the names of the audit entities selected shall be uploaded to the RBI's Auditor Allocation System (AAS) to ensure that any audit entity which is preferred by multiple PSBs is allocated only to one PSB on 'first-come, first-served' basis by the AAS. Post appointment/ re-appointment, the banks shall report

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to RBI (through AAS) the list of SBAs appointed, along with details of allocation of branches thereof.

- The bank shall appoint the SBA **for a period of one year at a time upto a period of four consecutive years**, subject to the audit firm meeting the eligibility criteria.
- The bank shall ensure that as a part of the terms of engagement, the **SBA shall report any fraud entailing an amount of 1 crore or more directly to the Fraud Monitoring Group**, Department of Supervision, Reserve Bank of India. Further, the terms of engagement shall require reporting of all material irregularities, including frauds, concurrently to the Chairman of the ACB as well as the Managing Director & Chief Executive Officer of the bank.
- The ACB of the bank shall review the performance of SBAs on an annual basis. Any serious lapses, negligence in audit responsibilities, conduct issues or any other matter considered as relevant as observed by the ACB shall be reported to the RBI within two months from the completion of the annual audit, with the full details of the audit firm.
- Non-reappointment / removal of SBAs by PSBs before completion of audit tenure of four years will continue to be subject to RBI's prior approval. Such request for prior approval shall be forwarded to RBI with the approval of Board/ACB.

BUSINESS COVERAGE: For **FY 2022-23**, statutory branch audit of PSBs shall be carried out so as to cover a minimum of **70% of all funded and 70% of all non-funded credit exposures** of the bank. For **FY 2023-24 and onwards, the PSBs are being given the discretion to determine business coverage** under statutory branch audit, as per their Board approved policy, after considering bank-specific aspects relating to business and financial risks.

INTRODUCTION OF FOREIGN CONTRIBUTION (REGULATION) ACT (FCRA) RELATED TRANSACTION CODE IN NEFT AND RTGS SYSTEMS: Under the FCRA, 2010 (amended as on September 28, 2020), foreign contributions must be received only in the "**FCRA account" of State Bank of India, New Delhi Main Branch**. The contributions to the FCRA account are received directly from foreign banks through SWIFT and from Indian intermediary banks through NEFT and RTGS systems. In terms of extant requirements of Ministry of Home Affairs (MHA), Government of India, the **donor details such as name, address, country of origin, amount, currency, and purpose of remittance** are required to be captured in such transactions and SBI is required to report the same to MHA on daily basis. Keeping in view the above, necessary changes have been introduced in NEFT and RTGS systems and accordingly, the member banks are advised to incorporate necessary changes in their core banking / middleware solutions to capture the requisite details while forwarding the foreign donations through NEFT and RTGS systems to SBI. The instructions will be effective from March 15, 2023.

- Originating banks in case of NEFT, are required to select the field 6305 (in N06 message) and the code to be used is '41' whereas in case of RTGS, banks are required to select the field PmtTpInf/CtgyPurp/Cd (in Pacs.008 message) and the code to be used is FCRA.
- Originating banks are required to pass on donor details in the formats of 'Sender to remitter information' (field no. 7495) of NEFT and 'RmtInf' tag of RTGS.

INDIA AND SINGAPORE LAUNCHED REAL-TIME PAYMENT SYSTEMS LINKAGE BETWEEN THE TWO COUNTRIES: Hon'ble Prime Minister of India, Shri Narendra Modi and Hon'ble Prime Minister of Singapore, Mr. Lee Hsien Loong on 21st February 2023 witnessed the launch of cross-border linkage between India and Singapore using their respective Fast Payment Systems, viz. **Unified Payments Interface (UPI) and PayNow**. The facility was launched through token transactions by Reserve Bank Governor, Shri Shaktikanta Das and Managing Director of Monetary Authority of Singapore, Mr. Ravi Menon using the UPI-PayNow linkage. The UPI-PayNow linkage will enable users of the two fast payment systems in either country to make convenient, safe, instant, and cost-effective cross-border funds transfers using their respective mobile apps. Funds held in bank accounts or e-wallets can be transferred to / from India using just the UPI-id, mobile number, or Virtual Payment Address (VPA).

To begin with, State Bank of India, Indian Overseas Bank, Indian Bank and ICICI Bank will facilitate both inward and outward remittances while Axis Bank and DBS India will facilitate inward remittances. For Singapore users, the service will be made available through DBS-Singapore and Liquid Group (a non-bank financial institution). More number of banks will be included in the linkage over time. **To begin with, an Indian user can remit up to ₹60,000 in a day (equivalent to around SGD 1,000)**. At the time of making the transaction, the system shall dynamically calculate and display the amount in both the currencies for convenience of the user.

The UPI-PayNow linkage is the product of extensive collaboration between Reserve Bank of India (RBI), Monetary Authority of Singapore (MAS), and Payment System Operators of both countries viz. NPCI International Payments Limited (NIPL) and Banking Computer Services Pte Ltd. (BCS), and participating banks / non-bank financial institution.

SBI, ICICI BANK, AND HDFC BANK CONTINUE TO BE IDENTIFIED AS DOMESTIC SYSTEMICALLY IMPORTANT BANKS (D-SIBs): State Bank of India, ICICI Bank, and HDFC Bank continue to be identified as Domestic Systemically Important Banks (D-SIBs), under the same bucketing structure as in the 2021 list of D-SIBs. SBI is placed at Bucket 3 requiring additional Common Equity Tier 1 (CET1) of 0.60% and ICICI and HDFC Bank in Bucket 1 requiring additional Common Equity Tier 1 (CET1) of 0.20%.

RBI NOTIFIES THE LIST OF ELIGIBLE CREDIT RATINGS FOR THE PURPOSE OF BASEL-III CAPITAL REGULATIONS: On the basis of Basel III Capital Regulations, list of domestic credit rating agencies accredited for the purpose of risk weighting banks' claims for capital adequacy purposes has been prescribed by RBI. On a review, banks are advised to use the ratings of the following domestic credit rating agencies for risk weighting their claims for capital adequacy purposes: i) Acuite Ratings & Research Limited (Acuite), ii) Credit Analysis and Research Limited (CARE), iii) CRISIL Ratings Limited, iv) ICRA Limited, v) India Ratings and Research Private Limited (India Ratings)

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and INFOMERICS Valuation and Rating Pvt Ltd. (INFOMERICS). **No fresh ratings/evaluations shall be obtained from Brickwork Ratings India Private Limited**.

RBI ISSUES DRAFT ON EXPECTED CREDIT LOSS-BASED PROVISIONING BY BANKS: The RBI has issued a discussion paper on expected credit loss (ECL)-based loan loss provisioning by banks, which when implemented, will bring provisioning requirements for banks on par with those for NBFCs. The central bank has sought comments and feedback on the paper by February 28, from which regional rural banks and smaller co-operative banks will be excluded. It is proposed that the requirement for estimating impairment losses under the expected credit loss approach would apply to all loans and advances, lease receivables, irrevocable financial guarantee contracts, and investments classified as held-to-maturity or available-for-sale," said the discussion paper.
The expected credit loss will be measured as a probability-weighted estimate of credit losses (present value of all cash shortfalls) over the expected life of the financial instrument, it added.
The key requirement under the framework will be for banks to classify stressed assets into **three categories**; Stage 1, Stage 2 and Stage 3, like NBFCs. Banks will be allowed to design and implement their own models for measuring expected credit losses for the purpose of estimating loss provisions.
Banks would be allowed to design and implement their own models for measuring expected credit losses for the purpose of estimating loss provisions in line with the proposed principles. In order to enable a seamless transition, as permitted under the Basel guidelines, banks shall be provided an option to phase out the effect of increased provisions on Common Equity Tier I capital, over a maximum period of five years.

RBI ISSUED MASTER DIRECTION ON ACQUISITION AND HOLDING OF SHARES OR VOTING RIGHTS IN BANKING COMPANIES: In exercise of the powers conferred by Sections 12, 12B, and 35A of the Banking Regulation Act, 1949, the Reserve Bank of India on 16 January 2023, issued the directions which may be called as, the Reserve Bank of India (Acquisition and Holding of Shares or Voting Rights in Banking Companies) Directions, 2023. The brief of the guidelines are as under;

- **PRIOR APPROVAL FOR ACQUISITION:** Any person who intends to make an acquisition which is likely to result in major shareholding in a banking company, is required to seek previous approval of the Reserve Bank. On receipt of the reference from the Reserve Bank, the board of the banking company shall, deliberate on the proposed acquisition, and assess the 'fit and proper' status of the person and shall furnish its comments along with a copy of the relevant board resolution and information to the Reserve Bank within 30 days. The Reserve Bank would undertake due diligence to assess the 'fit and proper' status of the applicant before granting permission for acquisition. Subsequent to such acquisition, if at any point in time the aggregate holding **falls below five per cent**, the person will be required to seek fresh approval from the Reserve bank if the person intends to again raise the aggregate holding to five percent or more of the paid-up share capital or total voting rights of the banking company. The persons from Financial Action Task Force (FATF) non-compliant jurisdictions shall not be permitted to acquire major shareholding in a banking company.
- **DUE DILIGENCE AND MONITORING ARRANGEMENTS:** The banking companies shall put in place a mechanism to obtain information on any change in Significant Beneficial Owner or acquisition by a person to the extent of **10 per cent or more of paid-up equity share capital** of the major shareholder.
- **DIVERSIFIED SHAREHOLDING IN THE BANKING COMPANY:** The banking companies (excluding Payments Banks) where the aggregate holding of a person is not in conformance with the Guidelines shall within six months from the date of issue of these directions submit a shareholding dilution plan.
- **REPORTING REQUIREMENTS:** After issue and allotment of shares, a banking company shall report the details in the Form A2 within 14 days of completion of the allotment process to RBI. The banking company shall forward the details on encumbrance of shares reported by promoter(s) and promoter group to the Department of Supervision within one working day. Further, the banking company shall place the report before its board and within 30 days from the date of event submit a report to Department of Regulation, Reserve Bank of India.

GUIDELINES ON ACQUISITION AND HOLDING OF SHARES OR VOTING RIGHTS IN BANKING COMPANIES:
PRIOR APPROVAL FOR ACQUISITION OF SHARES OR VOTING RIGHTS IN A BANKING COMPANY: Every person, who intends to acquire shares or voting rights and intends to be a major shareholder of a banking company, is required to obtain previous approval of the Reserve Bank. Subsequent to such acquisition, if at any point in time the aggregate holding of the person falls below five per cent, the person will be required to again obtain prior approval from the Reserve Bank to raise the aggregate holding to five per cent or more of total paid-up share capital or voting rights of the banking company.
LIMITS ON SHAREHOLDING: Permission of the Reserve Bank to acquire shares or voting rights in a banking company shall be subject to the following limits:

- **Non-Promoter: 10 per cent** of the paid-up share capital or voting rights of the banking company in case of **natural persons**, non-financial institutions, financial institutions directly or indirectly connected with Large Industrial Houses and financial institutions that are owned to the extent of 50 per cent or more or controlled by individuals, or **15 per cent** of the paid-up share capital or voting rights of the banking company in case of **financial institutions** (excluding those mentioned above), **supranational institutions, public sector undertaking and central/state government.**
- **Promoter: 26 per cent** of the paid-up share capital or voting rights of the banking company **after the completion of 15 years from commencement of business** of the banking company. In case of SFBs which already transited from UCBs the period of 15 years will begin from reaching the net-worth of ₹200 crores.

- During the period prior to the completion of the 15 years, the promoters of banking companies may be allowed to hold a higher percentage of shareholding as part of the licensing conditions or as part of the shareholding dilution plan submitted by the banking company and approved by the Reserve Bank with such conditions as deemed fit.

Reserve Bank may also permit higher shareholding [than the limits prescribed above] on a case-to-case basis under circumstances such as relinquishment by existing promoters, supervisory intervention including under Prompt Corrective Action, reconstruction/restructuring of banks, entrenchment of existing promoters or any other action in the interest of the banking company and its depositors or in the interest of consolidation in the banking sector, etc.

LOCK-IN REQUIREMENTS: In case of a person permitted by the Reserve Bank to have a shareholding of 10 per cent or more of the paid-up equity share capital of the banking company but less than 40 per cent of the paid-up equity share capital, the shares acquired shall remain under **lock-in for first five years** from the date of completion of acquisition. In case of any person permitted to have a shareholding of 40 per cent or more of the paid-up equity share capital of the banking company, only 40 per cent of paid-up equity share capital shall remain under lock-in for first five years from the date of completion of acquisition.

CEILING ON VOTING RIGHTS: As per the provisions of sub-section (2) of Section 12 of B R Act, 1949, no shareholder in a banking company can exercise voting rights on poll in excess of **26 per cent of total voting rights** of all the shareholders of the banking company.

RBI EXTENDS THE DEADLINE FOR BANKS TO RENEW THE LOCKER AGREEMENTS TO 31ST DECEMBER 2023: In terms of RBI circular dated 18th August 2021, banks were required to renew their locker agreements with existing locker customers by January 1, 2023. Considering certain difficulties, the deadline for banks is being extended in a phased manner **to December 31, 2023.** Banks were advised to notify all their customers of the revised requirements **by April 30, 2023** and ensure that at least 50 per cent and 75 per cent of their existing customers have executed the revised agreements by June 30 and September 30, 2023 respectively.

PERIODIC UPDATION OF KYC DETAILS OF CUSTOMERS: As per the present guidelines, **if there is no change in KYC information**, a **self-declaration** to that effect from the individual customer is sufficient to complete the re-KYC process. The banks have been advised to provide facility of such self-declaration to the individual customers through various non-face-to-face channels such as registered email-id, registered mobile number, ATMs, digital channels (such as online banking / internet banking, mobile application), letter, etc., without need for a visit to bank branch. Further, if there is only a change in address, customers can furnish revised / updated address through any of these channels after which, the bank would undertake **verification of the declared address within two months**. However, a fresh KYC process / documentation may have to be undertaken in certain cases including where the KYC documents available in bank records do not conform to present list of the Officially Valid Documents or where the validity of the KYC document submitted earlier may have expired. Fresh KYC process can be done by visiting a bank branch, or remotely through a Video based Customer Identification Process (V-CIP) (wherever the same has been enabled by the banks).

RESERVE BANK OF INDIA SAYS NO FOREIGN INVESTMENT CAP ON SOVEREIGN GREEN BONDS: The sovereign green bonds issued by the Indian government will not have any restrictions on foreign investment. Such securities will be counted as specified securities under the fully accessible route.

ELIGIBILITY CRITERIA FOR OFFERING INTERNET BANKING FACILITY BY REGIONAL RURAL BANKS: RBI has issued the revised eligibility criteria for providing Internet Banking with transactional facility by RRBs to their customers with effect from 1st November 2022. Accordingly the RRBs fulfilling the following criteria may seek approval from RBI for providing Internet Banking with transactional facility to their customers;

- Full implementation of Core Banking Solutions (CBS) and **migration to IPv6**.
- Compliance with minimum prescribed CRAR requirement as applicable from time to time.
- **Net worth of ₹50 crore** or more as on March 31 of the previous financial year.
- **Net NPA of not more than 5%** as on March 31 of the previous financial year.
- **Net profit** in the **two** immediately preceding financial years.
- No instance of default in maintenance of CRR/SLR during the immediately preceding financial year.
- The bank shall have a satisfactory track record of regulatory compliance and there shall be no instances of monetary penalty imposed for violation of RBI directives/guidelines during the two preceding financial years.
- The bank shall have a sound internal control system approved by a CISA qualified independent auditor.

MODIFIED INTEREST SUBVENTION SCHEME FOR SHORT TERM LOANS THROUGH KISAN CREDIT CARD (KCC) DURING THE FINANCIAL YEARS 2022-23 AND 2023-24:

- In order to provide short term crop loans and short term loans for allied activities including animal husbandry, dairy, fisheries, bee keeping etc. upto an overall **limit of ₹3 lakh** to farmers through KCC at **concessional interest rate of 7.00% p.a,** during the years 2022-23 and 2023-24, GoI will provide **interest subvention @ 1.50%** to lending institutions viz. Public Sector Banks, Private Sector Banks (in respect of loans given by their rural and semi-urban branches only), Small Finance Banks and computerized Primary Agriculture Cooperative Societies (PACS) which have been ceded with Scheduled Commercial Banks (SCBs). This interest subvention will be calculated on the loan amount from the date of disbursement/drawal up to the date of actual repayment of the loan by the farmer or up to the due date of the loan fixed by the banks, whichever is earlier, **subject to a maximum period of one year**.
- An **additional interest subvention of 3% per annum** will be provided to such of those farmers **repaying in time**,

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- Interest subvention and prompt repayment incentive benefits on short term crop loans and short term loans for allied activities will be available **on an overall limit of ₹3 lakh per annum subject to a maximum sub-limit of ₹2 lakh per farmer in respect of those farmers involved only in activities related to animal husbandry, dairy, fisheries, bee keeping etc.**
- In order to discourage distress sale by farmers and to encourage them to store their produce in warehouses, the benefit of interest subvention under KCC will be available to **small and marginal farmers for a further period of upto six months post the harvest of the crop against negotiable warehouse receipts** on the produce stored in warehouses accredited with Warehousing Development Regulatory Authority (WDRA), at the same rate as applicable to the crop loan.
- To provide relief to farmers affected by natural calamities, the applicable rate of interest subvention for that year will be made available to banks **for the first year on the restructured loan amount**. Such restructured loans will attract normal rate of interest from the second year onwards. However, to provide relief to **farmers affected due to severe natural calamities, the applicable rate of interest subvention for that year will be made available to banks for first three years/entire period (subject to a maximum of five years) on the restructured loan amount.** Further, in all such cases, the benefit of **prompt repayment incentive @3% per annum shall also be provided to the affected farmers.** The grant of such benefit in cases of severe natural calamities shall, however, be decided by a High Level (HLC) based on the recommendations of the Inter-Ministerial Central Team (IMCT) and Sub Committee of National Executive Committee (SC-NEC).

OPERATIONALIZATION OF CENTRAL BANK DIGITAL CURRENCY – RETAIL (e₹-R) PILOT: The Reserve Bank launched the first pilot for retail digital Rupee (e₹-R) on **December 01, 2022**. The pilot would cover select locations in **closed user group (CUG) comprising participating customers and merchants**. The e₹-R would be in the form of a digital token that represents legal tender. It would be issued in the same denominations that paper currency and coins are currently issued. It would be distributed through intermediaries, i.e., banks. Users will be able to transact with e₹-R through a digital wallet offered by the participating banks and stored on mobile phones / devices. Transactions can be both Person to Person (P2P) and Person to Merchant (P2M). Payments to merchants can be made using QR codes displayed at merchant locations. The e₹-R would offer features of physical cash like trust, safety and settlement finality. As in the case of cash, it will not earn any interest and can be converted to other forms of money, like deposits with banks.

Eight banks have been identified for phase-wise participation in this pilot. The **first phase will begin with four banks, viz., State Bank of India, ICICI Bank, Yes Bank and IDFC First Bank in four cities across the country**. Four more banks, viz., Bank of Baroda, Union Bank of India, HDFC Bank and Kotak Mahindra Bank will join this pilot subsequently. The pilot would initially cover four cities, viz., **Mumbai, New Delhi, Bengaluru and Bhubaneswar** and later extend to Ahmedabad, Gangtok, Guwahati, Hyderabad, Indore, Kochi, Lucknow, Patna and Shimla.

RBI ASKS BANKS TO TREAT THE EXTERNAL RATINGS WITHOUT LENDERS DETAILS AS UNRATED EXPOSURE: As per BASEL-III guidelines, In case of consortium/multiple lending arrangements, banks are permitted to derive risk weights for their unrated exposures based on the ratings available for a specific rated debt subject to the conditions specified that the bank's facility ranks pari passu or senior to the specific rated debt in all respects and the maturity of the unassessed claim is not later than the maturity of the rated claim.

As per the guidelines regarding publication of bank loan ratings by External Credit Assessment Institutions (ECAIs), the **press release of the ECAI in rating a company should disclose the name of the banks** and the corresponding credit facilities rated by them, after obtaining requisite consent from the borrowers.

However, on a review it has been observed that the above disclosures are not available in a large number of Press Releases issued by ECAIs owing to the absence of requisite consent by the borrowers to the ECAIs. It is, therefore, advised that a bank loan rating without the above disclosure by the ECAI shall not be eligible for being reckoned for capital computation by banks. Banks shall treat such exposures as unrated and assign applicable risk weights in terms of the Master Circular on BASEL-III norms.For example, in a scenario, where a borrower has availed credit facilities from Banks A, B and C and external rating from an ECAI is obtained only in respect of the credit facility extended by Bank A. If the ECAI has disclosed the name of Bank A and the corresponding credit facility rated by it, then Bank A can reckon the said rating for risk weighting purpose. Banks B and C are permitted to derive risk weights for their respective unrated credit facilities. In the event of ECAI not making the above disclosure, none of the banks shall reckon the said rating, and therefore shall apply risk weights of 100 percent or 150 percent as applicable in terms of extant instructions.

RBI DIRECTIONS ON ISSUANCE AND CONDUCT OF DEBIT AND CREDIT CARDS: On 21st April 2022, RBI has issued guidelines on issuance and conduct of Debit and Credit cards to every Scheduled Bank (excluding Payments Banks, State Co-operative Banks and District Central Co-operative Banks) and all Non-Banking Financial Companies (NBFCs) operating in India with effect from 1st July 2022. The brief of the guidelines are as follows;

ELIGIBILITY TO UNDERTAKE CREDIT CARD BUSINESS:

- Scheduled Commercial Banks (SCBs) other than Regional Rural Banks (RRBs) with **net worth of ₹100 crore and above** are permitted to undertake credit card business either independently or in tie-up arrangement with other card issuing banks/NBFCs.SCBs (excluding Small Finance Banks and Regional Rural Banks) desirous of setting up separate subsidiaries for undertaking credit card business shall require prior approval of the Reserve Bank. RRBs are permitted to issue credit cards in collaboration with their sponsor bank or other banks.

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- Scheduled Urban Cooperative Banks (UCBs) with minimum net worth of ₹100 crore which are CBS enabled may issue Credit Cards subject to with approval from RBI to issue credit cards to their regular members and nominal members only, but not to non-members. Further, UCBs are not allowed to issue co-branded credit cards. The total unsecured loans and advances (with surety or without surety or cheque purchases) granted by a UCB to its members together with cumulative approved credit card limits shall not exceed 10 percent of its total assets as per audited balance sheet as on March 31st of the preceding financial year, as prescribed under exposure norms.
- NBFCs shall not undertake credit card business without prior approval of the Reserve Bank.

ISSUE OF CREDIT CARDS:

- Card-issuers shall provide a one-page Key Fact Statement along with the credit card application containing the important aspects of the card. In case of rejection of a credit card application, the card-issuer shall convey in writing the specific reason/s which led to the rejection of the application.
- The Most Important Terms and Conditions (MITC), shall be highlighted and published/sent separately to the customers, at the acceptance stage (welcome kit) and in important subsequent communications, and each time, a condition is modified with notice to the customer. The MITC and copy of the agreement signed between the card-issuer and cardholder shall be sent to the registered email address of the cardholder or postal address as per the choice of the customer. The **font size of MITC shall be minimum Arial-12**.
- Card-issuers may consider introducing, at the option of the customers, an insurance cover to take care of the liabilities arising out of lost cards, card frauds, etc.
- In case, an unsolicited card is issued/existing card is upgraded and activated without the explicit consent of the recipient and the latter is billed for the same, the card-issuer shall not only reverse the charges forthwith, but also **pay a penalty without demur to the recipient amounting to twice the value of the charges reversed**. In addition, the person in whose name the card is issued can also approach the RBI Ombudsman who would determine the amount of compensation.
- Card-issuers shall seek OTP based consent from the cardholder for activating a credit card, if the same has not been activated by the customer **for more than 30 days** from the date of issuance. If no consent is received for activating the card, card-issuers **shall close** the credit card account without any cost to the customer **within seven working days** from date of seeking confirmation from the customer.
- No card-issuer shall report any credit information relating to a new credit card account to Credit Information Companies prior to activation of the card. Any credit information relating to such inactivated credit cards already reported to Credit Information Companies shall be withdrawn immediately; under no circumstances it shall take more than 30 days from the effective date of these directions.
- Written consent of the applicant shall be required before issuing a credit card. Alternatively, card-issuers may use other digital modes with multifactor authentication to obtain explicit customer consent.
- The card-issuer's representatives shall contact the customers **only between 10:00 hrs and 19:00 hrs.**
- Card-issuers shall assess the credit limit for a credit card customer taking into consideration all the limits enjoyed by the cardholder from other entities on the basis of self-declaration/credit information obtained from a Credit Information Company, as appropriate.
- Any **request for closure of a credit card shall be honored within seven working days** by the credit card-issuer, subject to payment of all dues by the cardholder. Cardholders shall be provided option to submit request for closure of credit card account through multiple channels such as helpline, dedicated e-mail-id, Interactive Voice Response (IVR), prominently visible link on the website, internet banking, mobile-app or any other mode. The card-issuer shall not insist on sending a closure request through post or any other means. Failure on the part of the card-issuers to complete the process of closure within seven working days shall result in a **penalty of ₹500 per day** of delay payable to the customer, till the closure of the account provided there is no outstanding in the account.
- If a credit card has not been used for a period of **more than one year**, the process to close the card shall be initiated after intimating the cardholder. If no reply is received from the cardholder within a period of 30 days, the card account shall be closed by the card-issuer, subject to payment of all dues by the cardholder. The information regarding the closure of card account shall also be updated with the Credit Information Company/ies within a period of 30 days.
- Card-issuers shall quote Annualized Percentage Rates (APR) on credit cards for different situations such as retail purchases, balance transfer, cash advances, non-payment of minimum amount due, late payment etc., if different.
- **Changes in charges** shall be made only with prospective effect **giving prior notice of at least one month**. If a cardholder desires to surrender his/her card on account of any change in charges to his/her disadvantage, he/she shall be permitted to do so without levying any extra charge for such closure, subject to payment of all dues by the cardholder.
- Card-issuers shall ensure that there is no delay in sending/dispatching/emailing bills/statements and the customer has sufficient number of days (at least one fortnight) for making payment before the interest starts getting charged.
- In case, a cardholder protests any bill, the card-issuer shall provide explanation and, wherever applicable, documentary evidence shall be provided to the cardholder within a maximum period of 30 days from the date of complaint.
- No charges shall be levied on transactions disputed as 'fraud' by the cardholder until the dispute is resolved.
- Cardholders shall be provided a one-time option to modify the billing cycle of the credit card as per their convenience.

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- Card-issuers shall seek explicit consent of the cardholder to adjust credit amount beyond a cut-off, one percent of the credit limit or ₹5000, whichever is lower, arising out of refund/failed/reversed transactions or similar transactions against the credit limit for which payment has already been made by the cardholder. The consent shall be obtained through e-mail or SMS within seven days of the credit transaction. The card-issuers shall reverse the credit transaction to the cardholder's bank account, if no consent/response is received from the cardholder.

ISSUE OF DEBIT CARDS: Prior approval of the Reserve Bank is not necessary for banks desirous of issuing debit cards to their customers. Debit cards shall only be issued to customers having Savings Bank/Current Accounts.

CO-BRANDED CARDS: Prior approval of the Reserve Bank is not necessary for the issuance of co-branded debit cards/co-branded prepaid cards by banks and co-branded credit cards. However, UCBs shall not issue debit/credit cards in tie-up with other non-bank entities.

CHARGE CARD: This is a type of credit card where the user has to pay the billed amount in full on due date after the billing cycle, and no rolling over of credit to the next billing cycle is permitted.

FORM FACTOR: This is the physical or virtual instrument that can be used in place of a card to undertake a payment/banking transaction.

GUIDELINES ON PCA FRAMEWORK FOR SCHEDULED COMMERCIAL BANKS:

RBI has revised the existing Prompt Corrective Action (PCA) framework for Scheduled Commercial Banks and the revised guidelines shall be effective from 1st January 2022. The PCA Framework would apply to all banks operating in India including foreign banks operating through branches or subsidiaries. **Capital (CRAR/ Common Equity), Asset Quality (Net NPA Ratio) and Leverage (Tier I Leverage Ratio) will be the key areas** for monitoring in the revised framework. Breach of any risk threshold (as detailed under) may result in invocation of PCA

PCA MATRIX				
Parameter	**Indicator**	**Risk Threshold 1**	**Risk Threshold 2**	**Risk Threshold 3**
Capital (Breach of either CRAR or CET 1 ratio)	CRAR - Minimum regulatory prescription for Capital to Risk Weighted Assets Ratio + applicable Capital Conservation Buffer (CCB) and/or	Upto 250 bps below the indicator prescribed	More than 250 bps but not exceeding 400 bps below the indicator prescribed.	In excess of 400 bps below the indicator prescribed.
	Regulatory Pre-Specified Trigger of Common Equity Tier 1 Ratio (CET 1 PST) + applicable Capital Conservation Buffer (CCB) **Breach of either CRAR or CET 1 ratio to trigger PCA**	Upto 162.50 bps below the indicator prescribed.	More than 162.50 bps below but not exceeding 312.50 bps below the indicator prescribed.	In excess of 312.50 bps below the indicator prescribed.
Asset Quality	Net Non-Performing Advances (NNPA) ratio	>=6.0% but <9.0%	>=9.0% but < 12.0%	>=12.0%
Leverage	Regulatory minimum Tier 1 Leverage Ratio	Upto 50 bps below the regulatory minimum.	More than 50 bps but not exceeding 100 bps below the regulatory minimum.	More than 100 bps below the regulatory minimum.

A bank will generally be placed under PCA Framework based on the Audited Annual Financial Results and the ongoing Supervisory Assessment made by RBI.

CORRECTIVE ACTIONS: When a bank is placed under PCA, one or more of the following corrective actions may be prescribed.

Specifications	**Mandatory actions**	**Discretionary actions**
Risk Threshold 1	• Restriction on dividend distribution/remittance of profits. • Promoters/Owners/Parent (in the case of foreign banks) to bring in capital.	<u>Common menu;</u> 1. Special Supervisory Actions. 2. Strategy related. 3. Governance related. 4. Capital related. 5. Credit risk related. 6. Market risk related. 7. HR related. 8. Profitability related. 9. Operations/Business related. 10. Any other
Risk Threshold 2	In addition to mandatory actions of Threshold 1, Restriction on branch expansion; domestic and/or overseas	
Risk Threshold 3	In addition to mandatory actions of Threshold 1 & 2, Appropriate restrictions on capital expenditure, other than for technological upgradation within Board approved limits	

Exit from PCA and withdrawal of restrictions under PCA: Once a bank is placed under PCA, taking the bank out of PCA Framework and/or withdrawal of restrictions imposed under the PCA Framework will be considered: a) if no

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breaches in risk thresholds in any of the parameters are observed as per **four continuous quarterly financial statements, one of which should be Audited Annual Financial Statement** (subject to assessment by RBI); and b) based on Supervisory comfort of the RBI, including an assessment on sustainability of profitability of the bank.

SCHEME OF PENALTY IN CASE OF ATMS OUT OF CASH: With an objective to ensure that sufficient cash is available to public through ATMs**,** RBI has formulated the scheme of penalty for non-replenishment of ATMs which shall be effective from October 01, 2021.

Quantum of Penalty: Cash-out at any ATM of **more than 10 hours in a month will attract a flat penalty of ₹ 10,000/- per ATM**. In case of White Label ATMs (WLAs), the penalty would be charged to the bank which is meeting the cash requirement of that particular WLA. The bank, may, at its discretion, recover the penalty from the WLA operator.

ENHANCEMENT OF COLLATERAL FREE LOANS FROM ₹10 LAKH TO ₹20 LAKH PER SHGS UNDER DAY-NRLM: Government of India, vide Gazette Notification dated July 1, 2021, has notified amendments in the Credit Guarantee Fund for Micro Units (CGFMU) Scheme. In view of this RBI has made following modifications in DAY-NRLM scheme;

- For loans to SHGs **up to ₹10.00 lakh, no collateral and no margin** is required. No lien should be marked against savings bank account of SHGs and no deposits should be insisted upon while sanctioning loans.
- For loans to SHGs above ₹10 lakh and up to **₹20 lakh**, no collateral should be charged and no lien should be marked against savings bank account of SHGs. However, the entire loan (irrespective of the loan outstanding, even if it subsequently goes below ₹10 lakh) would be eligible for coverage under Credit Guarantee Fund for Micro Units (CGFMU)."

THE DEPOSIT INSURANCE AND CREDIT GUARANTEE CORPORATION (AMENDMENT) ACT, 2021: The DICGC (Amendment Act) 2021 has come into force on its notification in Official Gazette with effect from 13th August 2021. The key points of the bill which is enacted are as follows;

- Under the Act, the Corporation is liable to pay the insured deposit amount to depositors of an insured bank when an insured bank undergoes liquidation, reconstruction or any other arrangement under a scheme.
- **Timeline for interim payment:** The Corporation to pay the insured amount to the depositors **within 90 days** of the date such liability arises. Within the first 45 days, the insured bank must furnish the details of all outstanding deposits to the Corporation. Within 30 days of the receipt of details, the Corporation will verify the authenticity of the claims and within 15 days of the verification, make the payment to such depositors. The date on which the Corporation becomes liable to pay the depositors **may be extended by an additional 90 days by RBI**.
- **Rate of Premium to be paid by Banks to DICGC:** Insured banks are required to pay a premium to the Corporation on their deposits at a maximum rate of **0.15%** of its total outstanding deposits per annum and the same is **presently at 12 paise per Rs.100/- assessable deposit per annum**.

PRE-PACKAGED INSOLVENCY RESOLUTION: The Insolvency and Bankruptcy Code (Amendment) Bill, 2021, notified in Official Gazette dated 12th August 2021 introduced an alternate insolvency resolution process for **MSMEs**, called the pre-packaged insolvency resolution process (PIRP). Unlike CIRP, **PIRP may be initiated only by debtors**. During PIRP, the management of the company will remain with the debtor.

- **Minimum default amount:** Application for initiating PIRP may be filed in the event of a default of **at least one lakh rupees**. The central government may increase the threshold of minimum default **up to one crore rupees**. GoI has prescribed the minimum amount of default for the matters relating to the pre-packaged insolvency resolution process of corporate debtor is **Rs. 10.00 Lakhs**. (Against the minimum default amount of Rs.1.00 crore under Corporate Insolvency Resolution Process).
- **Debtors eligible for PIRP:** PIRP may be initiated in the event of a default by a corporate debtor classified as an MSME. For initiating PIRP, the corporate debtor himself must apply to the National Company Law Tribunal (NCLT). The authority must approve or reject the application for PIRP **within 14 days of its receipt**.
- **Approval of financial creditors:** For applying for PIRP, the debtor must obtain approval of **at least 66% of its financial creditors** (in value of debt due to creditors) who are not related parties of the debtor. Before seeking such approval, the debtor must provide creditors with a base resolution plan. The debtor must also propose the name of RP along with the application for PIRP. The proposed RP must be approved by at least 66% of the financial creditors.
- **Proceedings under PIRP:** The debtor will submit the base resolution plan to the RP **within two days of the commencement of the PIR**P. A committee of creditors will be constituted **within seven days** of the PIRP commencement date, which will consider the base resolution plan. The committee may provide the debtor with an opportunity to revise the plan. The RP may also invite resolution plans from other persons. Alternative resolution plans may be invited if the base plan: (i) is not approved by the committee, or (ii) is unable to pay the debt of operational creditors (claims related to the provision of goods and services).
- A **resolution plan must be approved by the committee (with at least 66% of the voting shares) within 90 days from the commencement date of PIRP**. The resolution plan approved by the committee will be examined by the NCLT. If no resolution plan is approved by the committee, the RP may apply for the termination of PIRP. The authority must either approve the plan or order termination of PIRP within 30 days of receipt. Termination of PIRP will result in the liquidation of the corporate debtor.

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- **Initiation of CIRP:** At any time from the PIRP commencement date but before the approval of the resolution plan, the committee of creditors may decide (with at least 66% of the voting shares) to terminate PIRP and instead initiate CIRP.
- A timeline of a total period of **120 days has been provided for completion of the pre-pack process**, out of which 30 days have been reserved for Adjudicating Authority (AA) to approve/reject the resolution plan, and the other entire process (till submission of resolution plan with AA) is required to be completed within 90 days period.
- A cooling-off period of **three years** has been provided for initiating a fresh pre-pack process from completion of the previous CIRP or pre-pack process. However, it should be noted that the Committee of Creditors (CoC), may at any time after commencement of pre-pack process but prior to the approval of the resolution plan, resolve (with at least 66 per cent voting share) to initiate CIRP against CD. In such a case, the Adjudicating Authority (AA) may approve termination of the pre-pack process and initiation of CIRP.

INCREASE IN RESTRICTIONS ON UPPER CAP ON LOANS AND ADVANCES TO DIRECTORS OF OTHER BANKS AND RELATIVES OF BANKS OWN DIRECTORS AND OTHER BANKS DIRECTORS: RBI has amended its master direction on statutory restrictions on Loans and advances with respect to Loans to other Banks directors and loans given by Banks to relatives of the directors of their Bank and other Banks and made the following amendments;

<table>
<tr><th>Existing guidelines</th><th>Revised Guidelines</th></tr>
<tr><td>Unless sanctioned by the Board of Directors/Management Committee, banks should not grant loans and advances aggregating Rs. 25.00 Lakhs and above to directors (including the Chairman/Managing Director) of other banks, any firm in which any of the directors of other banks is interested as a partner or guarantor; and any company in which any of the directors of other banks holds substantial interest or is interested as a director or as a guarantor.</td><td rowspan="2">The threshold limit of Rs.25.00 Lakhs has been revised to Rs.5.00 crores.</td></tr>
<tr><td>Unless sanctioned by the Board of Directors/Management Committee, banks should not grant loans and advances aggregating Rs. 25.00 Lakhs and above to any relative other than spouse and minor / dependent children of their own or other Bank's Chairmen/Managing Directors or other Directors, any firm/company in which any of the relatives other than spouse and minor / dependent children is interested as a partner/ major shareholder or as a director or guarantor.</td></tr>
</table>

The proposals for credit facilities of an amount less than Rs.5.00 crs to these borrowers may be sanctioned by the appropriate authority in the financing bank, but the matter should be reported to the Board.
The term "major shareholder" shall mean a person holding **10% or more of the paid-up share capital** or **five crore rupees in paid-up shares**, whichever is less.
The term "control" shall include the right to appoint majority of the directors or to control the management or policy decisions exercisable by a person or persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding or management rights or shareholders agreements or voting agreements or in another manner.

REVISION IN RATE OF INTEREST PAYABLE ON UNCLAIMED INTEREST-BEARING DEPOSITS TRANSFERRED TO DEAF: RBI has decided that the rate of interest payable by banks to the depositors/claimants on the unclaimed interest-bearing deposit amount transferred to the Fund under Depositor Education and Awareness Fund Scheme, 2014 shall be **3 per cent simple interest per annum** with effect from 11 May 2021.

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GUIDELINES OF GOVT/REGULATORS

REVISION IN GOVT. SAVINGS PROMOTION RULES 2018: Department of Economic Affairs, Ministry of Finance vide notification dated 07 November 2023 has made following amendments under various small savings schemes.

Senior Citizen's Savings (Fourth Amendment) Scheme, 2023:

Scheme	Existing Norms	Revised Norms
Senior Citizens' Savings Scheme (SCSS)	Individuals Attained the age of 55 years or more who have retired on superannuation or otherwise can open the account **within one month** of the date of receipt of retirement benefit.	Individuals Attained the age of 55 years or more who have retired on superannuation or otherwise can open the account **within three months** of the date of receipt of retirement benefit.
	Period of maturity is five years which can be extended by another 3 years only once	The account holder may extend the account for a further block period of three years by making an application in Form4 within a period of one year from the date of maturity or from the date of end of each block period of three years.

In addition to above changes, the following clauses are inserted in the scheme;

- The **spouse of the government employee shall be allowed to open an account** under this Scheme, if the government employee who has attained the **age of fifty years** and has died in harness, subject to the fulfilment of other specified conditions.
- In case of an account extended after maturity, the deposit in such account shall earn interest at the rate applicable to the Scheme **on the date of maturity or on the date of extended maturity**.
- In case the account is **closed before expiry of one year from the date of extension**, an amount equal to **one per cent of the deposit shall be deducted** and the balance shall be paid to the account holder.
- In case of a joint account, or where the spouse is the sole nominee, the spouse may continue the account by applying to the accounts office, on the same terms and conditions as specified under this scheme, if the spouse meets eligibility conditions under the Scheme on the date of death of the account holder."

Further, in case of National Savings Time Deposit Scheme, Premature closure of an account shall be allowed on an application by the account holder in Form-4, subject to the condition that; **no deposit shall be withdrawn before the expiry of six months from the date of deposit.**

CREDIT GUARANTEE SCHEME FOR PM VISHWAKARMA (CGS-PMV)

Ministry of Micro, Small and Medium Enterprises (MoMSME), Government of India, has implemented a scheme called "PM Vishwakarma", for providing collateral free credit to artisans and craftspeople. The Scheme facilitates a quantum of loan assistance of **Rs. 3.00 Lakh**, wherein, the **first loan tranche will be upto Rs.1.00 Lakh** and **second loan tranche will be upto Rs.2.00 Lakh.** In this connection, a "Credit Guarantee Scheme for PM Vishwakarma" (CGS-PMV) has been launched by CGTMSE to provide guarantee cover to eligible lending institutions providing credit support to Vishwakarmas. The salient features of the scheme are as hereunder;

- There are **no eligibility criteria for Banks/Financial Institutions** to become MLI under this scheme.
- **Eligible Financial Institutions:** Scheduled Commercial Banks, Regional Rural Banks, Small Finance Banks, Cooperative Banks, Non-Banking Finance Companies and Micro Finance Institutions.
- **Type of guarantee:** Portfolio based guarantee (the portfolio will be created on an annual basis ending with the financial year).
- **Credit Assistance and guarantee ceiling:** The total quantum of loan assistance would be Rs.3.00 Lakh wherein, the beneficiaries can avail the first loan tranche upto Rs.1.00 Lakh and second loan tranche upto Rs.2.00 Lakh.
- **Tenure of guarantee:** Guarantee cover shall run through the agreed tenure of the credit facility.
- **Guarantee fees:** No fee shall be charged from the Member Lending Institution / borrower.
- **Lock-in period for invocation: 9 months** from the first disbursement of the loan.

EXTENT OF GUARANTEE COVER:

For first tranche loans:

a) First Loss Default (0 to 7.5%): **100%** coverage.
b) Second Loss (More than 7.5% and up to 20%): **80%** coverage of default portfolio, and
c) Third Loss (More than 20% and up to 50%): **60%** coverage of default portfolio.

Maximum guarantee coverage will be **50% of the year portfolio** for the First tranche of loan.

For second tranche loans:

a) First Loss Default (Up to 5%): 100% coverage and
b) Second Loss (beyond 5% and up to 15%): 80% coverage of default portfolio, and

Maximum guarantee coverage will be **15% of the year portfolio** for the second tranche of loan.

Based on above, the **effective guarantee cover will be 35.50% for first tranche of loan and 13% for second tranche** of the loan.

INVOCATION OF GUARANTEE:

- **Lock-in period for invocation:** 9 months from the first disbursement of the loan.
- The Member Lending Institution (MLIs) are required to inform the date on which the account was classified as NPA in a particular calendar quarter, by end of subsequent quarter.
- MLI can lodge claim within 2 years from the NPA date after completion of lock-in period.

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- Claim will be settled by CGTMSE in a single installment.
- **Legal action:** No legal action is required for lodgment of claim.
- **Recovery:** Any recovery made from the NPA portfolio against which claim has been settled by CGTMSE will be allowed to be adjusted against future claim, if any, else will be returned to CGTMSE by the concerned lending institutions. The recovered amount, if any, shall be deposited by the lending institution with the Trust, after adjusting the legal cost incurred for recovery of dues.

CENTRAL SECTOR SCHEME FOR PROVIDING DRONES TO THE WOMEN SELF HELP GROUPS: The Union Cabinet has approved Central Sector Scheme for providing Drones to the Women Self Help Groups (SHGs), with an outlay of Rs. 1261 Crore for the period from 2024-25 to 2025-26. The salient features of the scheme are hereunder;

- The scheme aims to provide drones to **15,000 selected Women SHGs** during the period 2023-24 to 2025-2026 for providing rental services to farmers for agriculture purpose.
- The scheme approves holistic interventions by converging the resources and efforts of Department of Agriculture & Farmers Welfare (DA&FW), Department of Rural development (DoRD) and Department of Fertilizers (DoF), Women SHGs and Lead Fertilizer Companies (LFCs).
- Appropriate clusters where usage of Drones is economically feasible will be identified and progressive 15,000 women SHGs in various States in the identified clusters will be selected for providing drones.
- **Central Financial Assistance @ 80% of the cost of drone** and accessories/ancillary charges up to a **maximum of Rs. Eight Lakh** will be provided to the women SHGs for purchase of drones. The Cluster Level Federation (CLFs) of SHGs may raise the balance amount (total cost of procurement minus subsidy) as loan under National Agriculture Infra Financing Facility (AIF). **Interest subvention @ 3%** on the AIF loan will be provided.
- One of the members of the women SHGs, who is well qualified, 18 and above years of age will be elected by the SRLM and LFCs for 15 day training comprising of 5 day mandatory drone pilot training and additional 10 day training for agriculture purpose of nutrient and pesticide application. The other member / family member of the SHG with inclination to take up repairs of electrical goods, fitting and mechanical works will be selected by the State Rural Livelihood Mission (SRLM) and LFCs who will be trained as drone technician/assistant. These training shall be provided as a package along with the supply of drones.LFCs will also promote use of Nano Fertilizers such as Nano Urea and Nano DAP by the drones with SHGs. SHGs will rent out the drone services to the farmers for Nano fertilizer and also for pesticide applications.
- It is envisaged that the approved initiatives under the scheme will provide sustainable business and livelihood support to 15,000 SHGs and they would be able to earn additional income of at least Rs.One lakh per annum.

BSE COMES OUT WITH NEW GUIDELINES FOR SHIFTING OF SMES TO MAIN BOARD: BSE has put in place fresh guidelines for small and medium enterprises looking to migrate from its SME platform to the main board. Under the guidelines, the applicant firm needs to be **listed on the SME platform for at least three years**. Besides, they need to have **250 public shareholders** before shifting to the main board. In addition, the SME should have **a positive operating profit for at least any two out of three financial years** and have a **positive profit after tax (PAT)** in the immediate financial year of making the migration application to the bourse. "The applicant should have a **net worth of at least Rs 15 crore for two preceding full financial years**. Further, the paid-up equity capital of the applicant should be more than **Rs 10 crore** and the market capitalization should be at least **Rs 25 crore**. Among other parameters, the applicant company should not have received any winding-up petition admitted by the National Company Law Tribunal (NCLT) and no material regulatory action should have been taken against the firm in the past three years like suspension of trading against the SME and its promoters by any stock exchange. Also, the applicant company, its promoters as well as its subsidiary should not be debarred by capital markets regulator SEBI.

SEBI BOARD GIVES NOD TO SMALL & MEDIUM REITs AND PROVIDES GREATER FLEXIBILITY TO SOCIAL STOCK EXCHANGES: The SEBI board has approved a proposal to provide greater flexibility to social stock exchanges (SSEs) and introduce a framework for small & medium (SM) REITs. The board approved halving of the minimum issue size of **Zero Coupon Zero Principal Instruments (ZCZPs)** by Not for Profit Organizations (NPOs) on SSEs to **₹50 lakh from ₹1 crore**. The minimum application size will be reduced to **₹ 10,000** from ₹2 lakh to enable wider participation. More NPOs will be made eligible for registration and fundraising through the issuance and listing of ZCZPs on SSEs.
The board gave its nod for a new framework on SM REITs, with an asset value of at least ₹50 crore vis-à-vis ₹500 crore for existing REITs. The framework will provide for the structure of SM REITs, migration of existing structures meeting certain specified criteria and obligations of the investment manager.
The Board approved a regulatory framework for index providers. This will include a framework for registration of index providers which license 'Significant Indices' that shall be notified by SEBI based on objective criteria and in accordance with IOSCO Principles for Financial Benchmarks. "Changes in the SSE framework will help the NPOs to raise funds. Reducing the minimum application size in ZCZP issue will ensure wider participation of public at large in the fund raising process by NPOs.

NOW, INSURANCE OMBUDSMAN OFFICES CAN ADJUDICATE COMPLAINTS UP TO RS 50 LAKH: Insurance ombudsman offices across India have started admitting policyholder complaints that involve compensation claims of **up to Rs 50 lakh**. Until November 10, when the finance ministry amended the insurance ombudsman rules, the maximum compensation that these offices could award to policyholders was capped at Rs 30 lakh.

PM SCHOLARSHIPS FOR HIGHER EDUCATION FOR YOUNG ACHIEVERS SCHEME (SHREYAS) FOR OBC & OTHERS: The scheme, Scholarships for Higher Education for Young Achievers Scheme- SHREYAS, has been

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proposed for implementation during the 2021-22 to 2025-26 by placing two ongoing Central Sector schemes for OBC and others namely – (i) National Fellowship for OBC (ii) Dr.Ambedkar Central Sector Scheme of Interest Subsidy on Educational Loans for Overseas Studies for Other Backward Classes (OBCs) and Economically Backward Classes (EBCs). The main objective of the schemes is Educational Empowerment of OBC & EBC students by way of awarding fellowship (financial assistance) in obtaining quality higher education and interest subsidy on educational loan for overseas studies.

The Scheme comprises following 2 components:

1. National Fellowship for OBC students: The scheme aims at providing financial assistance to the OBC students in obtaining quality higher education leading to degrees such as M.Phil and Ph.D in universities, research institutions and scientific institutions. The scheme is designed to provide a total number of 1000 Junior Research Fellowships per year to undertake advanced studies and research leading to M.Phil. /Ph.D. Degrees, who have qualified in the following tests: i)National Eligibility Test – Junior Research Fellowship (NET-JRF) of UGC (for Humanities/Social Sciences) or ii) UGC-Council of Scientific and Industrial Research (UGC-CSIR) NET-JRF Joint Test (for Sciences).

The rate of fellowship for JRF level is Rs.31000 per month and for SRF level it is Rs.35000 per month, besides contingencies amount.

2. "Dr. Ambedkar Scheme of Interest Subsidy on Educational Loans for Overseas Studies for Other Backward Classes (OBCs) and Economically Backward Classes (EBCs)"

This is a Central Sector Scheme to provide interest subsidy to the student belonging to the OBCs and EBCs on the interest payable for the period of moratorium for the Education Loans for overseas studies to pursue approved courses of studies abroad at Masters, M.Phil. and Ph.D. level.

For OBC candidates, total income from all sources of the employed candidate or his/her parents/guardians in case of unemployed candidate shall not exceed present Creamy Layer criteria. For EBC candidates, total income from all sources of the employed candidate or his/her parents/guardians in case of unemployed candidate shall not exceed **Rs.5.00 lakh per annum**, **50%** of the total financial assistance is reserved for women candidates.

Maximum limit of loan is **Rs 20 Lakhs**

SBI AUTHORISED TO ISSUE AND ENCASH ELECTORAL BONDS THROUGH ITS 29 AUTHORISED BRANCHES, IN THE 29TH PHASE OF SALE, W.E.F. 06.11.2023 TO 20.11.2023: The Government of India has authorised the State Bank of India, in the XXIX Phase of sale, to issue and encash Electoral Bonds through its 29 Authorised Branches w.e.f. 06.11.2023 to 20.11.2023. The Electoral Bonds shall be **valid for 15 calendar days** from the date of issue and no payment shall be made to any payee Political Party if the Electoral Bond is deposited after expiry of the validity period. The Electoral Bond deposited by an eligible Political Party in its account shall be credited on the same day. As per provisions of the Scheme, Electoral Bonds may be purchased by a person, who is a citizen of India or incorporated or established in India.Only the Political Parties registered under Section 29A of the Representation of the People Act, 1951 (43 of 1951) and which secured not less than one per cent of the votes polled in the last General Election to the House of the People or the Legislative Assembly of the State, shall be eligible to receive the Electoral Bonds.

AePS TRANSACTION LIMITS: NPCI vide circular dated 20th December 2021 advised the issuer Banks to implement a standardized limit of a minimum 5 approved cash withdrawal transactions per month, per customer under AePS. Keeping in mind the profile of customers using AePS and on further review of the monthly usage within the ecosystem, Issuer Banks are now advised to review the AePS monthly transactions limits set for their customers. It is advised to allow their customers AePS Cash Withdrawal and BHIM Aadhaar Pay transactions with a **cumulative limit up to Rs. 50,000/- per month.** The Issuer Bank to mandatorily send the response code as '61 - Exceeds withdrawal amount limit' for declining the AePS transactions due to above mentioned reason.

SEBI EXTENDS DEADLINE FOR FIRMS TO VERIFY MARKET RUMOURS BY 4 MONTHS: SEBI has extended the timeline for verification of market rumours to **February 1, 2024, for the top 100 listed firms by market capitalisation and to August 1, 2024, for the top 250 listed entities.** The norms for the top 100 listed firms were supposed to be effective from October 1 this year, and those for the top 250 listed entities from April 1, 2024. As per the new norms, companies are required to confirm, deny, or clarify any reported events or information in mainstream media that are not general in nature and that indicate that rumours of an impending specific material event or information are circulating among the investing public. This is to be done **no later than 24 hours from the reporting of the event or information**. If the reported information is confirmed, the firm has to provide the current stage of such an event/information.

INTERNATIONAL TRANSACTIONS ABOVE ₹50,000 TO COME UNDER FURTHER SCRUTINY: The Centre has notified an amendment to the Prevention of Money-laundering (Maintenance of Records) Rules, 2005, further tightening the record keeping in case of international transactions **above ₹50,000** to prevent terror financing. Every international transaction above ₹50,000 will be subject to closer scrutiny and a reporting entity will have to identify clients, verify their identity and also ascertain purpose of the business if not well defined.

FINANCE MINISTRY NOTIFIES PROSPECTIVE 18% GST ON PARENT COMPANY'S GUARANTEES: As recommended by the GST Council on October 7, the parent company's **corporate guarantee to its subsidiary for a bank loan will attract 18 per cent GST**. Now, a notification dated October 26 says: "The value of supply of services by a supplier to a recipient who is a related person, by way of providing a corporate guarantee to any banking company or financial institution on behalf of the said recipient, shall be deemed to be **one per cent of the amount of**

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such guarantee offered, or the actual consideration, whichever is higher." This means if the corporate guarantee were ₹100 crore, then ₹18 lakh would be the GST liability.

GOVT TIGHTENS LLP RULES; PARTNERS HAVE TO DECLARE BENEFICIAL INTERESTS, INTANGIBLE CONTRIBUTIONS: The government has made the disclosure rules tougher for limited liability partnerships (LLPs), which will now be required to maintain a register of partners with details of their beneficial interests and both tangible and intangible contributions. According to the Limited Liability Partnership (Third Amendment) Rules, 2023, notified by the Ministry of Corporate Affairs (MCA), even upcoming LLPs have to maintain such a register, at their registered offices, within 30 days of incorporation.

MCA MANDATES DEMATERIALISATION FOR PRIVATE COMPANIES: The Corporate Affairs Ministry (MCA) now mandating private companies to go in for dematerialisation of their securities. All private companies, except small and government companies, can henceforth issue new securities only in dematerialised form. Private companies have to facilitate dematerialisation of existing securities and the time period allowed to conform to the latest directives is until the end of September 2024. MCA has also specifically said that no private company can issue securities or buyback its securities. Also, every holder of securities in a private company who intends to transfer such securities on or after September 30, 2024 shall get them dematerialised before the transfer. s after September 30, 2024, until the entire holding of securities of its promoters, directors, and key managerial personnel has been dematerialised.

MCA MANDATES NEW DESIGNATED PERSON FOR BENEFICIAL INTERESTS IN SHARES: Corporate Affairs Ministry (MCA) now mandating that companies should designate a person responsible for furnishing information and extending cooperation to authorities on this front. A designated person at the company level is expected to aid the Registrar of Companies or other MCA authorities as a single point of assistance in their inquiries on the beneficial interest of shares and ascertaining the actual owners of enterprises. Also, companies would now be required to disclose the details of the designated person in the annual return filed with the Registrar of Companies (RoC). Put simply, Beneficial interest in shares refers to the ownership interest or rights associated with shares of a company held by an individual or entity, even if the legal title or ownership of those shares is registered in someone else's name. MCA has now specified that a designated person could be a Company Secretary or a Key Managerial Personnel (other than a company secretary) or every director (in case there is no company secretary or KMP).

PM VISHWAKARMA SCHEME:

PM Vishwakarma, a Central Sector Scheme, was launched on **17th September, 2023** by the Prime Minister to provide end-to-end support to artisans and craftspeople who work with their hands and tools. The Scheme covers artisans and craftspeople engaged in **18 trades**, viz.(i) Carpenter (Suthar/Badhai); (ii) Boat Maker; (iii) Armourer; (iv) Blacksmith (Lohar); (v) Hammer and Tool Kit Maker; (vi) Locksmith; (vii) Goldsmith (Sonar); (viii) Potter (Kumhaar); (ix) Sculptor (Moortikar, stone carver), Stone breaker; (x) Cobbler (Charmkar)/ Shoesmith/Footwear artisan; (xi) Mason (Rajmistri); (xii) Basket/Mat/Broom Maker/Coir Weaver; (xiii) Doll & Toy Maker (Traditional); (xiv) Barber (Naai); (xv) Garland maker (Malakaar); (xvi) Washerman (Dhobi); (xvii) Tailor (Darzi); and (xviii) Fishing Net Maker.

PM Vishwakarma will be implemented as a Central Sector Scheme, fully funded by the Government of India, with an **initial outlay of Rs 13,000 crore**.

The Scheme will be conjointly implemented by the Ministry of Micro, Small and Medium Enterprises (MoMSME), the Ministry of Skill Development and Entrepreneurship (MSDE) and the Department of Financial Services (DFS), Ministry of Finance (MoF), Government of India. MoMSME will be the Nodal Ministry for the Scheme and Additional Secretary & Development Commissioner (MSME) in Ministry of MSME will be the focal point for all aspects of implementation and coordination.

The scheme will be initially implemented **for five years up to 2027-28**.

ELIGIBILITY:

- An artisan or craftsperson working with hands and tools and engaged in one of the family-based traditional trades specified above, in the unorganized or informal sector, on self-employment basis, shall be eligible for registration under PM Vishwakarma.
- The minimum age of the beneficiary should be **18 years** on the date of registration.
- The beneficiary should not have availed loans under similar credit-based schemes of Central Government or State Government for self-employment/ business development, e.g. PMEGP, PM SVANidhi, MUDRA, in the past 5 years. However, the beneficiaries of MUDRA and SVANidhi who have fully repaid their loan, will be eligible under PM Vishwakarma. This period of 5 years will be calculated from the date of sanction of the loan.
- The registration and benefits under the Scheme shall be restricted to **one member of the family**. For availing benefits under the Scheme, a 'family' is defined as consisting of the husband, wife and unmarried children.
- A person in government service and his/her family members shall not be eligible under the Scheme.

The Scheme envisages provisioning of the following benefits to the artisans and crafts persons:

Recognition: Recognition of artisans and craftspeople through PM Vishwakarma certificate and ID card.

Skill Upgradation: 40 hours basic Training of 5-7 days and **Advanced Training of 15 days or more**, with a **stipend of Rs. 500 per day**. Beneficiaries interested in pursuing further skill upgradation after the Basic Training will be enrolled for Advanced Training of 15 days/ 120 hours or more at designated Training Centres.

Toolkit Incentive: A toolkit incentive of upto **Rs. 15,000** in the form of e-vouchers at the beginning of Basic Skill Training.

Credit Support: Collateral free 'Enterprise Development Loans' of **upto Rs. 3 lakh in two tranches of Rs. 1 lakh and Rs. 2 lakh with tenures of 18 months and 30 months, respectively, at a concessional rate of interest fixed**

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at 5%, with Government of India subvention to the extent of 8%. Beneficiaries who have completed Basic Training will be eligible to avail the first tranche of credit support of upto Rs. 1 lakh. The second loan tranche will be available to beneficiaries who have availed the 1st tranche and maintained a standard loan account and have adopted digital transactions in their business or have undergone Advanced Training.

Incentive for Digital Transaction: An amount of **Re.1 per digital transaction, upto maximum 100 transactions monthly** will be credited to the beneficiary's account for each digital pay-out or receipt.

Marketing Support: Marketing support will be provided to the artisans and craftspeople in the form of quality certification, branding, onboarding on e-commerce platforms such as GeM, advertising, publicity and other marketing activities to improve linkage to value chain.

In addition to the above-mentioned benefits, the Scheme will onboard the beneficiaries on Udyam Assist Platform as 'entrepreneurs' in the formal MSME ecosystem.

Enrolment of beneficiaries shall be done through Common Service Centres with Aadhaar-based biometric authentication on PM Vishwakarma portal. The enrolment of beneficiaries will be followed by a three-step verification which will include (i) Verification at Gram Panchayat/ ULB level, (ii) Vetting and Recommendation by the District Implementation Committee (iii) Approval by the Screening Committee.

CREDIT GUARANTEE: A Graded Guarantee Cover for all loans sanctioned by the Lending Institutions will be covered by the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), which will be operated on a portfolio basis. The portfolio will be created on annual basis ending with the financial year, subject to the following conditions:

i) Graded Guarantee Cover for first tranche of the loans:

- First Loss Default (0 to 7.5%): 100% coverage
- Second Loss (More than 7.5% and up to 20%): 80% coverage of default portfolio, and
- Third Loss (More than 20% and up to 50%): 60% coverage of default portfolio.

Maximum guarantee coverage will be **50%** of the year portfolio for the first tranche of loan.

ii) Graded Guarantee Cover for the second tranche of the loan will be as follows:

- First Loss Default (Up to 5%): 100% coverage and for,
- Second Loss (beyond 5% and up to 15%): 80% coverage of default portfolio.
- Maximum guarantee coverage will be **15%** of the year portfolio for the second tranche of loan.

EXTENSION OF RoDTEP SCHEME FOR EXPORTS MADE FROM 01.10.2023: **RoDTEP (Remission of Duties or Taxes on Export Products)**,has been introduced by the Government of India by making amendments in the Foreign Trade Policy 2015-20 which was notified till 30th September 2023 is now being extended till 30th June 2024 at the same rates to the existing export items, i.e. the RoDTEP scheme is extended for exports made from 01.10.2023 and shall be applicable till 30.06.2024.

The scheme has been introduced with an objective to neutralize the taxes and duties suffered on exported goods which are otherwise not credited or remitted or refunded in any manner and remain embedded in the export goods. This scheme provides for rebate of all hidden Central, State, and Local duties/taxes/levies (such as VAT and Excise duty on the fuel used in self-incurred transportation costs; on the fuel used in generation of electricity via power plants or DG Sets; on the fuel used in running of machineries/plants, Mandi tax etc.) on the goods exported which have not been refunded under any other existing scheme. This does not only include the direct cost incurred by the exporter but also the prior stage cumulative indirect taxes on goods. It is a WTO compliant Scheme and follows the global principle that the taxes/duties should not be exported; they should be either exempted or remitted to exporters, to make the goods competitive in the global market. The RoDTEP scheme has been made effective for the exports from 1st January 2021.

WMA LIMIT FOR GOVERNMENT OF INDIA FOR THE SECOND HALF OF THE FINANCIAL YEAR 2023-24: RBI in consultation with the Government of India, has decided that, the limit for Ways and Means Advances (WMA) for the second half of the financial year 2023-24 (October 2023 to March 2024) will be **Rs. 50,000 crore**. The Reserve Bank of India may trigger fresh floatation of market loans when the Government of India utilises 75 per cent of the WMA limit. The interest rate on WMA / Overdraft will be @ Repo Rate for WMA and Repo Rate + 2 percent for Overdraft.

OBSERVANCE OF VIGILANCE AWARENESS WEEK 2023: Vigilance Awareness Week is observed every year during the week in which the **birthday of Sardar Vallabhbhai Patel (31st October) falls** in. The Central Vigilance Commission has decided that this year Vigilance Awareness Week would be observed from **30th October to 5th November, 2023 with the theme "Say no to Corruption; commit to the Nation".**

GOVT TIGHTENS 'BENEFICIAL OWNER' RULES UNDER PMLA:

- The government has further tightened rules for the ultimate beneficiary and fine-tuned the definition of reporting entity under the PMLA. The Finance Ministry has notified changes in the Prevention of Money Laundering (Maintenance of Records) Rules, 2005. Accordingly, a person having **ownership of more than 10 % of the capital or profits of a partnership will be brought within the ambit of the sub-rule 3 as a 'beneficial owner'.** Earlier, this limit was 15 %. Similarly, a person, who does not have any ownership or entitlement to more than 10 % (earlier 15 %) of capital or profits of the partnership but exercises control over the partnership through other means, will be treated as a beneficial owner.
- Change has also been made in the definition of **'principal officer of a reporting entity'.** The principal officer is responsible for furnishing the information to the Financial Intelligence Unit. Prior to the amendment, a reporting entity had the discretion to appoint any officer as 'Principal Officer'. After the amendment, only an officer at the

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management level can be appointed as 'Principal Officer'.

- Another amendment prescribes the reporting entity shall ensure that in case of a Trust, the trustees shall disclose their status or position they occupy in the trust. After this amendment, where the client is a trust, a reporting entity will be required to ensure that trustees disclose their status at the time of commencement of an account-based relationship or when carrying out any transaction of an amount equal to or exceeding ₹50,000, whether conducted as a single transaction or several transactions that appear to be connected or any international money transfer operations.
- One amendment is related with records of the identity of clients. Now reporting entities will be required to keep records containing analysis of transactions and client due diligence **for a period of five years** after the business relationship with the client had ended or the account has been closed, whichever is later.

SEBI EASES NORMS FOR LARGE CORPORATES TAPPING DEBT MARKET: The Securities and Exchange Board of India (SEBI) has provided for a number of relaxations to large corporates (LCs) for meeting their financing needs from the debt market. The regulator had mandated LCs **to meet 25 per cent of their financing needs from the debt market**, with an aim of deepening the corporate bond market in India. However, SEBI had found that about a third of the identified LCs did not raise the minimum 25 per cent of their incremental borrowing through issuance of debt securities in FY21-22. While the SEBI release did not specify the quantum of the threshold, a consultation paper last month had proposed to raise the threshold for the outstanding long-term borrowings to at least ₹500 crore from the current ₹100 crore for identifying any entity as LCs. The SEBI board has proposed removing the penalty on LCs which are not able to raise a certain percentage of incremental borrowing from the debt market. At present, a monetary penalty of 0.2 per cent of the shortfall in the borrowed amount at the end of three years is to be levied.

EMPOWERING HOME BUYERS: IBBI's GAME CHANGING AMENDMENTS IN IBC REGULATION: Home buyers as a class of financial creditors may now get an effective say in IBC with the insolvency regulator, IBBI, enhancing the role and responsibilities of their Authorised Representative (AR) in the resolution process. As per the latest corporate insolvency regulation changes, the AR will now have to act as a bridge between the Committee of Creditors (CoCs) and the home buyers in addressing the latter's information gaps and updating them with procedural clarity. Till date, one of the biggest challenges for home buyers was that, although they had been categorised as financial creditor for IBC purposes, they have been the lack of complete information on the functioning of the CoC, in which they are represented through AR. Now AR has been mandated legally to assist the Home Buyers in understanding the discussions and considerations of the CoC. Also AR is required to review the contents of the minutes prepared by the resolution professional (RP) and provide his comments to the RP, if any. Now, the AR has also been tasked to help the home buyers prepare a marketing strategy for the assets of the company going through the CIRP.

SEBI REDUCES TIMELINE FOR LISTING SHARES TO T+3 FROM T+6; MANDATORY FROM DECEMBER 1: The market regulator has reduced the timeline for listing of securities after the closure of public issue **to three days, from the current six working days**. With T as the issue-closing date, the securities will now have to be listed on T+3 day versus the current T+6 day. This will be an option for public issues opening after September 1, 2023, and will be a **mandatory requirement for issues opening after December 1, 2023**. Accordingly, application submission by investors, bid modification, validation of bid details with depositories, reconciliation of UPI mandate transactions, UPI mandate acceptance and issue closure will be done on T day. Third-party checks on UPI applications, third-party checks on non-UPI applications, submission of final certificates, finalisation of rejections and completion of basis and approval of basis by the stock exchange should be done by T+1 day. Issuance of fund transfer instructions in separate files for debit and unblock will need to be initiated and completed on T+1 day. Corporate action execution of credit of shares, filing of listing application with stock exchanges and issuance of the trading notice, and publishing of allotment advertisement on the relevant website should also be done on T+2 day. Publishing the allotment advertisement in newspapers can be completed by T+3 day but not later than T+4 day.

CBDT NOTIFIES RULE FOR DETERMINATION OF VALUE OF PERQUISITE IN RESPECT OF RESIDENTIAL ACCOMMODATION PROVIDED BY EMPLOYER: The Finance Act, 2023 brought in an amendment for the purposes of calculation of "perquisite" with regard to the value of rent-free or concessional accommodation provided to an employee, by his employer. Accordingly, CBDT has modified Rule 3 of the Income-tax Rules, 1961 to provide for the same. The categorisation and the limits of cities and population have now been based on the 2011 census as against the 2001 census earlier. The revised limits of population are **40 lakh in place of 25 lakh and 15 lakh in place of 10 lakh.** The earlier perquisite rates of 15%, 10% and 7.5% of the salary have now been reduced to 10%, 7.5% and 5% of the salary respectively in the amended Rule.

SEBI NOTIFIES STRICTER DELISTING RULES FOR NON-CONVERTIBLE DEBT SECURITIES: SEBI has notified a new framework prohibiting listed entities, with more than 200 non-QIB (qualified institutional buyer) holders of non-convertible debt securities, from delisting voluntarily. Under the new rule, the listed entity will have to obtain permission from all holders of non-convertible debt securities **within 15 working days** of receiving the notification of delisting. The present rule allows entities to delist by giving a prior intimation to the stock exchange about the meeting of the board of directors, where the proposal for a voluntary delisting is considered. Unlike equity, wherein approval by a threshold majority is sufficient for approval of delisting, in the new framework, approval of 100 per cent of the debt security holders has been mandated for delisting of debt securities.

TIMELINE FOR SUBMISSION OF INCOME CERTIFICATE AND OTHER DOCUMENTS FOR CLAIMING INTEREST SUBSIDY IN EDUCATION LOANS: In order to increase the number of claims under Central Sector Subsidy Scheme

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(CSIS) on Education loans DFS suggested the following measure to be undertaken (as per IBA circular dated 25 August 2023).

- **Maximum limit of 45 days** may be given to the students for submission of the income certificate / other documents.
- Banks should 'red flag' the proposals and SMS / emails to be sent to the Borrowers / Parents on their registered mobile number / email ID for submission of required documents to enroll them under the Scheme.
- Banks may display Poster / Banners related to the Scheme in their Branches / ATM sites including their web sites to popularize the scheme amongst customers / Public.

MANDATE DURATION AND MANDATORY FINAL COLLECTION DATE UNDER NACH: The mandate management system facilitates the acceptance, digitization, processing, and transmission of mandates across banks, allowing customer requests for debits based on amounts and periodicity through NACH. In order bring in more robustness in the process NPCI decided to implement the following measures as per its circular dated 18 August 2023 with effect from 1st October 2023..

- Mandate can be issued for a **maximum duration of 30 years** from the date of issuance.
- It has been decided to remove the option of "until cancelled" for all categories of mandates, it will be mandatory to provide the Final collection date (end date) for all the categories of mandates and the end date cannot be more than 30 years from the date of the mandate.

Apart from the above it has been decided to discontinue A001 (API Mandate) category code.

CORPORATE DEBT MARKET DEVELOPMENT FUND (CDMDF): Vide Gazette notification dated June 15, 2023, in order to facilitate constitution of an Alternative Investment Fund namely, **Corporate Debt Market Development Fund** ("CDMDF" or "the Fund"), has been notified to act as a Backstop Facility for purchase of investment grade corporate debt securities, to instill confidence amongst the participants in the Corporate Debt Market during times of stress and to generally enhance secondary market liquidity by creating a permanent institutional framework for activation in times of market stress. The fund shall deal only in following securities during normal times :

- Low duration Government Securities.
- Treasury bills.
- Tri-party Repo on G-sec.
- Guaranteed corporate bond repo with maturity not exceeding 7 days.

Corporate debt securities to be bought by CDMDF during market dislocation include listed money market instruments. The long term rating of issuers shall be considered for the money market instruments. However, if there is no long term rating available for the same issuer, then based on credit rating mapping of CRAs between short term and long term ratings, the most conservative long term rating shall be taken for a given short term rating.

GoI APPROVED THE GUARANTEE SCHEME FOR CORPORATE DEBT (GSCD): The Central Government has approved the 'Guarantee Scheme for Corporate Debt' (GSCD) for the purpose of providing guarantee cover against debt raised / to be raised by Corporate Debt Market Development Fund (CDMDF). The Trust / Fund to manage the scheme shall be named as **Guarantee Fund for Corporate Debt (GFCD)**. GFCD shall be a Trust Fund formed by Department of Economic Affairs (DEA), Ministry of Finance, Government of India and shall be managed by National Credit Guarantee Trustee Company Ltd. (**NCGTC**).

PURPOSE OF THE SCHEME: To provide 100% guarantee cover against debt raised / to be raised by CDMDF, an Alternative Investment Fund (AIF) created / to be created under relevant SEBI Regulations, for the purpose of investing in corporate debt securities at times of market dislocation with a view to stabilize the markets. The guarantee shall cover debt raised, along with interest accrued and other bank charges thereon, and **shall not exceed Rs.30,000 crore.**

DURATION: The Scheme would be initially for a period of **15 years** from the initial closing date of CDMDF, extendable at the discretion of the DEA in consultation with SEBI.

ELIGIBLE MEMBERS OF CDMDF: Debt-oriented Mutual Fund schemes, as may be specified by SEBI from time to time. These schemes shall contribute 25 bps of their Assets Under Management (AUM) and provide additional incremental contributions as their AUM increases on half-yearly basis. Existing / new Asset Management Companies (AMCs) of specified debt-oriented MF schemes shall make a one-time contribution equivalent to 2 bps of their AUM. The contributions made by the Debt-oriented Mutual Fund schemes and AMC thereof shall be held in the form of investment in units of CDMDF by the contributors.

GUARANTEE ISSUE AND MONITORING MECHANISM:

- The MLI, after due screening of the application of CDMDF, shall sanction the loan to CDMDF and enter the requisite details on NCGTC's portal designed for the said purpose.
- A Guarantee Number, based on preliminary screening by the portal and approval by NCGTC, shall be auto generated indicating the availability of guarantee on the said loans.
- Once the guarantee number is issued to MLI, the MLI shall enter the details of the loans disbursed to CDMDF on NCGTC's portal within two days of disbursement.
- CDMDF shall arrange to forward details of utilization of the loans on NCGTC's portal on a daily basis.
- The guarantee against the drawl amount shall remain valid for the period of five years from the last day of market dislocation. However, guarantee shall be valid upto the date of claim in case of claim.

GUARANTEE FEES: GFCD shall charge guarantee fee at **0.5% p.a.** of outstanding loans on daily pro-rata basis (i.e. for the period for which loans are raised) till a claim is lodged. This fee shall be paid by the MLIs. The demand advice

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for guarantee fees shall be auto generated and forwarded to the authorized officer of the MLIs on 1st day of each quarter for loans outstanding during the previous quarter. The MLIs shall recover this guarantee fee from CDMDF.

FIRST EVER "CREDIT GUARANTEE SCHEME" FOR LIVESTOCK SECTOR LAUNCHED: Department of Animal Husbandry & Dairying, Ministry of Fishries, Animal Husbandry and Dairying is implementing the **Credit Guarantee Scheme under Animal Husbandry Infrastructure Development Fund (AHIDF)** to strengthen credit delivery system and facilitate smooth flow of credit to MSMEs engaged in Livestock sector without hassles of collateral security. For operationalizing the scheme, DAHD has established a Credit Guarantee fund Trust of **Rs. 750.00 crores**, which will provide credit guarantee coverage **up to 25% of the credit facilities** extended to the MSMEs by the eligible lending institutions. The establishment of credit guarantee fund trust was approved under the Prime Minister's AtmaNirbhar Bharat Abhiyan stimulus package of Rs.15000 crores" Animal Husbandry Infrastructure Development Fund" (AHIDF) for incentivizing investments by individual entrepreneurs, private companies, MSMEs, Farmers Producers Organizations (FPOs) and Section 8 companies to establish (i) the dairy processing and value addition infrastructure, (ii) meat processing and value addition infrastructure, (iii) Animal Feed Plant, (iv) Breed Improvement technology and Breed Multiplication Farm (v) Animal Waste to Wealth Management (Agri Waste Management) and (vi) Setting up of Veterinary Vaccine and Drugs Manufacturing facilities. One of the key features of the AHIDF scheme is the establishment of a Credit Guarantee Fund Trust of Rs. 750.00 Crores. DAHD has formed a trust with NABSanrakshan Trustee Company Private Limited, a wholly owned subsidiary of NABARD.

GOVT. AUTHORIZES PSBs AND SELECTED PVT. SECTOR BANKS TO IMPLEMENT AND OPERATIONALISE MAHILA SAMMAN SAVINGS CERTIFICATE, 2023: The Department of Economic Affairs, Ministry of Finance permitted all Public Sector Banks and eligible Private Sector Banks to implement and operationalise the Mahila Samman Savings Certificate, 2023. The scheme has been in operation since April 1, 2023 through the Department of Post.

Key Features of the Scheme are;

- Provides attractive and secured investment option to all girls and women
- An account can be opened under this scheme on or before the **March 31, 2025 for a tenure of two year**.
- The deposit made under MSSC will bear interest at the rate of **7.5% per annum** which will be compounded quarterly. Therefore, the effective interest rate will be roughly 7.7 percent.
- **Minimum of ₹1000** and any sum in multiple of 100 may be deposited within the **maximum limit of ₹200,000**.
- Maturity of the investment under this scheme is two years from the date of opening of the account under the scheme.
- It envisions flexibility not only in investment but also in partial withdrawal during the scheme tenor. The account holder is eligible to withdraw maximum up to 40% of the eligible balance in the scheme account.

GST ASSESSES WITH TURNOVER BETWEEN ₹5-10 CRORE MUST PREPARE FOR e-INVOICE SYSTEM TRANSITION: GST assesses, with a turnover of ₹5 crore or more but less than ₹ 10 crore will now be able to familiarize themselves with the invoice reporting mechanism and ensure a seamless transition to the e-Invoice system. This is critical as these assesses mandatorily require issuing e-invoices from August 01."GSTN has enabled all eligible taxpayers with an Aggregate Annual Turnover (AATO) 5 crores and above as per GSTN (GST Network or IT backbone of the indirect tax system) records in any preceding financial year for e-Invoicing. These taxpayers are now enabled on all six IRP (Invoice Registration Portal) portals.

HIGHER RATE OF TCS ON FOREIGN CURRENCY SPENDING BEYOND ₹7 LAKH DEFERRED TILL SEPTEMBER 30: Finance Ministry deferred the new mechanism of Tax collected at Sources (TCS) on Liberalised Remittance Scheme beyond a certain threshold to **October 1** from July 1. This also mean no TCS will be applicable on international credit card spending abroad for the next three months. However, there will not be any change in the rate to be applicable from October 1. "**Threshold of Rs. 7 Lakh per financial year** per individual in clause (i) of sub-section (1G) of section 206C shall be restored for TCS on all categories of LRS payments, through all modes of payment, regardless of the purpose," the Ministry said while clarifying for first ₹7 Lakh remittance under LRS there will be no TCS. Beyond this ₹7 Lakh threshold, the TCS rate would be **0.5 per cent if remittance for education is financed by an education loan and 5 per cent in case of remittance for education/medical treatment**. For other expenses, it would be **20 per cent**. For purchase of overseas tour program packages, the TCS will remain at 5 per cent for the first ₹7 lakhs per individual per annum; the 20 per cent rate will only apply for expenditure above this limit.

NEW GST RULE MAKING 7 DAYS' LIMIT TO REPORT OLD INVOICES ON THE E-INVOICE IRP PORTALS: From May 01, the new invoicing rule is coming into effect. Under this, every **assesses with a turnover of ₹100 crore or more is prohibited from reporting invoices that are more than 7 days old on the date of reporting**. Od invoices can be reported on e-invoice IRP (Invoice Registration Portal). Also, the credit/debit note will have to be reported within 7 days of issue. For example, if an invoice has a date of May 1, 2023, it cannot be reported after May 8, 2023. There will be no such reporting restriction on taxpayers with an annual turnover of less than ₹100 crores, as of now.

GoI LAUNCHED VIVAD SE VISHWAS I – RELIEF FOR MSMEs SCHEME LAUNCHED TO REFUND 95% FORFEITED AMOUNT DURING COVID: The Department of Expenditure (DoE), under the Ministry of Finance, announced the launch of the Vivad se Vishwas I – Relief for MSMEs scheme. As per the scheme, announced by finance minister in this year's budget, ministries have been asked to refund performance security, bid security and liquidated damages forfeited/ deducted during the Covid pandemic from MSMEs which were unable to execute government contracts due to Covid. The scheme has already commenced on April 17. The last date for submission of

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claims is June 30, 2023. According to the scheme, **95 per cent** of the performance security, 95 per cent of the bid security, 95 per cent of the liquidated damages (LD), and 95 per cent of the risk purchase amount forfeited or deducted from MSMEs during the Covid period will be refunded. Moreover, in case any firm has been debarred only due to default in the execution of such contracts, such debarment will also be revoked by issuing an appropriate order by the procuring entity, DoE noted. However, "in case a firm has been ignored for placement of any contract due to debarment in the interim period (date of debarment and the date of revocation), no claim shall be entertained."

FINANCE MINISTRY LOWERS e-INVOICING TURNOVER THRESHOLD UNDER GST TO ₹5 CRORE FROM AUGUST 1: The Finance Ministry has issued a notification stating that businesses with a **turnover of ₹5 crore or more will be required to adopt e-invoicing from August 1**, whereas the current threshold stands at ₹10 crore. As per Rule 48(4) of CGST Rules, notified class of registered persons have to prepare invoice by uploading specified particulars of invoice (in FORM GST INV-01 on Invoice Registration Portal (IRP) and obtain an Invoice Reference Number (IRN). After following above 'e-invoicing' process, the invoice copy containing inter alia, the IRN (with QR Code) issued by the notified supplier to buyer is commonly referred to as 'e-invoice' in GST.

LEAVE ENCASHMENT UP TO RS 25 LAKH TO BE TAX-FREE FOR NON-GOVERNMENT WORKERS: The tax exemption on leave encashment of non-government salaried employees (in respect of the period of earned leave at his credit at the time of his retirement, whether on superannuation or otherwise) was earlier upto a limit of Rs.3 lakh only under section **10(10AA)(ii) of the Income-tax Act,1961**. In pursuance to the proposal in the Budget Speech, 2023, by the hon'ble FM, the Central Government has notified the increased limit for tax exemption on leave encashment on retirement or otherwise of non-government salaried employees to **Rs. 25 lakh w.e.f. 01.04.2023**.

GOVT CAPS INTEREST SUBVENTION AMOUNT UNDER INTEREST EQUALIZATION SCHEME AT RS 10 CR PER IEC IN A FISCAL: The government capped the amount of interest subvention at **Rs 10 crore** per IEC (import-export code) holder in one financial year. In March last year, the RBI extended the interest equalisation scheme for pre and post-shipment rupee credit for MSME exporters till March 2024 with the objective of boosting outbound shipments. Exporters get subsidies under the 'Interest Equalisation Scheme for pre and post-shipment Rupee Export Credit'. "The annual net subvention amount would be capped at Rs 10 crore per IEC in a given financial year. All disbursements made from April 1, 2023, shall be counted for an IEC for the current financial year. The interest equalisation rates under the scheme have been revised to **2 per cent**. (3 per cent for specified categories of MSME manufacturer exporters).

BANKS WERE ADVISED NOT TO ACCEPT FRESH APPLICATIONS UNDER DR. AMBEDKAR CENTRAL SECTOR SCHEME ON INTEREST SUBSIDY (ACSIS) TILL FURTHER ORDERS: Dr. Ambedkar Central Sector Scheme of Interest Subsidy (ACSIS) provides interest subsidy for students belong to OBCs and EBCs who are pursuing higher studies abroad. Ministry of Social Justice and Empowerment (MoSJE) is the implementating agency of the scheme. The ministry has recently conveyed that the Banks should not consider/ accept any fresh applications under the ACSIS Scheme till further guidelines. The claims that were already uploaded for the first-time during FY 2022-23 and due for renewal during this financial year i.e., FY 2023-24 will not be considered. The students who have not been given any benefit till now (pending fresh cases) may also be kept on hold till further notice from the MoSJE.

INCREASE IN CEILING OF CGTMSE GUARANTEE COVERAGE FROM RS.200 LAKH TO RS.500 LAKH UNDER CGS I: CGTMSE vide its circular dated 31st March 2023, has increased the ceiling for coverage under the CGS -I from Rs.200 lakh to **Rs.500 lakh per borrower** for the credit facilities extended by eligible MLIs to the Micro and Small Enterprises (MSEs) for all guarantees approved on or after April 01, 2023 including enhancement in Working Capital of existing covered accounts. The extent of guarantee coverage as per the revised guidelines is;

<table>
<tr><th>Category (including Trading activity)</th><th colspan="3">Maximum extent of Guarantee Coverage where guaranteed credit facility is</th></tr>
<tr><th></th><th>Upto ₹ 5 lakh</th><th>Above ₹ 5 lakh & upto ₹ 50 lakh</th><th>Above ₹ 50 lakh & upto ₹ 500 lakh</th></tr>
<tr><td>Micro Enterprises</td><td>85%</td><td>75%</td><td rowspan="2">75%</td></tr>
<tr><td>MSEs located in North East Region (incl. Sikkim, UT of Jammu & Kashmir & UT of Ladakh)</td><td colspan="2">80%</td></tr>
<tr><td>Women entrepreneurs /SC/ST entrepreneurs / PwD)/ MSE promoted by Agniveers / MSEs situated in Aspirational District/ ZED certified MSEs</td><td colspan="3">85%</td></tr>
<tr><td>All other category of borrowers</td><td colspan="3">75%</td></tr>
</table>

REDUCTION IN ANNUAL GUARANTEE FEE BY CGTMSE: Vide circular dated November 30, 2022, CGTMSE had substantially reduced the AGF to benefit the MSEs. In order to further bring down the cost of credit for MSEs, it has been decided to partially modify the above-mentioned Circular to reduce the guarantee fee **for loans upto `1 crore**. Accordingly, the revised fee structure is as under:

Slab	Revised Standard Rate (% pa)
Up to Rs.10.00 Lakh	0.37
Above 10 lakh upto 50 lakh	0.55
Above 50 lakh upto 1 crore	0.60
Above 1 crore upto 2 crore	1.20
Above 2 crore upto 5 crore	1.35

The Banking Updates

CGTMSE INCREASED THE THRESHOLD FOR WAIVER OF LEGAL ACTION TO RS.10.00 LAKHS FOR CLAIM SETTLEMENT IN SINGLE INSTALMENT: As per circular dated January 02, 2023 the threshold limit of was fixed at Rs.5 lakh for waiver of legal action while invoking guarantee. In order to further simplify the procedure for filing claim in respect of small account, the threshold limit for waiver of legal action is raised to **Rs.10,00,000/- per claim** while invoking the guarantee.
Further, as per existing process, the claim is settled in 2 instalments i.e 75% of eligibility amount as first instalment & balance 25% of eligibility amount as second instalment. In this connection, it has been decided to offer MLIs two options for claim settlement at the time of claim lodgment for cases where waiver of legal action is applicable.
Option 1: Single instalment of claim settlement with **reduced extent of guarantee by 15%.** Eg: in respect of extent of coverage of 75%, reduced coverage would be 60%, 80% would be 65% and likewise.
Option 2: Existing claim settlement process **in two instalments** i.e. 75% of eligibility amount as first instalment & balance 25% as second instalment. **For legal waiver accounts**, second instalment of claim -would be **settled after three years** from the date of settlement of 1st claim or OTS whichever is earlier.
The above modification shall be applicable in respect of those claims lodged on or after April 01, 2023.

DOMESTIC SYSTEMICALLY IMPORTANT INSURERS (D-SIIs): The LIC, GIC and New India Assurance continue to be identified as Domestic Systemically Important Insurers (D-SIIs), the IRDAI said. D-SIIs are being subjected to enhanced regulatory supervision, the IRDAI said in a statement.

AMENDMENT IN NATIONAL SAVINGS (MONTHLY INCOME ACCOUNT) SCHEME, 2019: National Savings (Monthly Income Account) Scheme, 2019 has been amended through National Savings (Monthly Income Account) (Amendment) Scheme, 2023 and the **maximum investment limit has been raised from ₹ 4.5 lakh to ₹ 9 lakh for a single account and from ₹ 9 lakh to ₹ 15 lakh for a joint account with effect from 1 st April 2023**.

AMENDMENT IN SCSS SCHEME: Senior Citizen Savings Scheme, 2019 has been amended through Senior Citizens Savings (Amendment) Scheme, 2023 and the maximum investment limit has been raised from ₹ 15 lakh to **₹ 30 lakh** with effect from 1 st April 2023.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) & THE BANKING SECTOR

- The ESG Policy seeks to ensure compliance with the respective host country regulations and envisages evolution of a common policy approach for all lenders in the consortium.
- The Reserve Bank of India, which has acknowledged climate change as a source of financial risk, will likely use the findings to frame the first set of guidelines to boost green finance.
- Indian banks are not prepared to adopt environmental, social and governance (ESG) norms as part of their lending models due to reasons including a lack of clarity on how they apply to lenders, a survey conducted by an industry body on behalf of the central bank showed.
- The Reserve Bank of India's (RBI) recent report on Currency and Finance for the financial year (FY) 2022-23, had a focus on 'Towards a Greener Cleaner India'. India has been at the forefront of sustainable development, despite the challenge of lack of adequate climate financing. India has been ambitious in its climate actions and has taken bold policy steps towards its Net Zero goals. This report of the RBI only further cements this reputation. With a focus on achieving a greener and cleaner India, the report outlines a comprehensive roadmap for transitioning towards a more sustainable and environment-friendly economy.

Financial institutions should start to assess the implications that ESG factors may have on their business model and core operations in order to map and prioritize the key functions to be addressed (e.g. investment processes, product governance, risk controls, etc.) based on already publicly available regulatory guidelines and market trends.

The Banking Updates

HIGHLIGHTS OF UNION BUDGET 2023-24

Finance Minister Smt. Nirmala Sitharaman presented the Union Budget in Parliament on 1st February 2023. The highlights of the Union Budget 2022-23 are as follows:

IMPORTANT FIGURES

REVISED ESTIMATES 2022-23:

- The total receipts other than borrowings are Rs 24.3 lakh crore, of which the net tax receipts are Rs 20.9 lakh crore.
- The total expenditure is Rs 41.9 lakh crore, of which the capital expenditure is about Rs 7.3 lakh crore.
- The **fiscal deficit stands at 6.4 per cent of GDP**, adhering to the Budget Estimate.

BUDGET ESTIMATES 2023-24:

- The total receipts other than borrowings is estimated at Rs 27.2 lakh crore and the total expenditure is estimated at **Rs 45 lakh crore**.
- The net tax receipts are estimated at Rs 23.3 lakh crore.
- The **fiscal deficit is estimated to be 5.9 per cent of GDP**.
- To finance the fiscal deficit in 2023-24, the net market borrowings from dated securities are estimated at Rs 11.8 lakh crore.
- The gross market borrowings are estimated at Rs 15.4 lakh crore.
- **Targeted Fiscal Deficit to be below 4.5% by 2025-26**.

RECEIPTS AND EXPENDITURE

[Rs. In Crores]

	2021-22 Actuals	2022-23 BE	2022-23 RE	2023-24 BE
Revenue Receipt	2169905	2204422	2348413	**2632281**
Capital Receipt	1623896	1740487	1838819	**1870816**
Total Receipt	3793801	3944909	4187232	**4503097**
Revenue Expenditure	3200926	3194663	3458959	**3502136**
Capital Expenditure	592874	750246	728274	**1000961**
Total Expenditure	3793801	3944909	4187232	**4503097**
Revenue Deficit	1031021	990241	1110546	**869855**
(%)	4.4	3.8	4.1	**2.9**
Fiscal Deficit	1584521	1661196	1755319	**1786816**
(%)	6.7	6.4	6.4	**5.9**

 # BE: Budget Estimate, RE: Revised Estimate

** Nominal GDP for BE 2023-2024 has been projected at Rs.3,01,75,065 crore assuming 10.5 % growth over the estimated Nominal GDP of Rs.2,73,07,751 crore as per the first Advance Estimates of FY 2022-23.*

** Fiscal Deficit = Total Expenditure – (Revenue Receipts+ Recovery of loans as part of capital receipt + Other Capital receipts except borrowings)*

ESTIMATED EXPENDITURE ON MAJOR ITEMS (FY 2023-24)

[Rs. In Crores]

	Amt in crs		Amt in crs
Pension	234359	**Energy**	94915
Defence	432720	**External Affairs**	18050
Subsidy (Fertilizer, Food & petroleum)	374707	**Health**	88956
Agri & Allied Activities (excluding PM Kissan)	84214	**Home Affairs**	134917
PM Kissan	60000	**Interest**	1079971
Commerce and Industry	48169	**IT & Telecom**	93478
Development of North East	5892	**Social Welfare**	55080
Education	112899	**Urban Development**	76432
Finance	13574	**Rural Development**	238204

OUTLAY ON MAJOR SCHEMES (FY 2023-24)

[Rs. In Crores]

Scheme	Budget estimates
Mahatma Gandhi National Rural Employment Guarantee Program	60000
National Social Assistance Program	9636
Umbrella Programme for Development of Minorities	610
Umbrella Programme for Development of Other Vulnerable Groups	2194

Umbrella Programme for Development of Scheduled Tribes	4295
Umbrella Scheme for Development of Schedule Castes	9409
Ayushman Bharat - Pradhan Mantri Jan Arogya Yojna (PMJAY)	7200
Blue Revolution	2025
Border Area Development Programme	600
Environment, Forestry and Wildlife	759
Jal Jeevan Mission (JJM)/National Rural Drinking Water Mission	70000
National Education Mission	38953
National Health Mission	36785
National Livelihood Mission - Ajeevika	14129
Pradhan Mantri Awas Yojna (PMAY)	79590
Pradhan Mantri Gram Sadak Yojna	19000
Pradhan Mantri Krishi Sinchai Yojna	10787
Rashtriya Gram Swaraj Abhiyan(RGSA)	895
Swachh Bharat Mission	5000
Swachh Bharat Mission (Gramin)	7192
Urban Rejuvenation Mission: AMRUT and Smart Cities Mission	16000
Assistance to States Agencies for Intra-State Movement of Foodgrains and FPS Dealers Margin under NFSA	7425
Computerization of Primary Agricultural Credit Societies	968
Mission Shakti (Mission for Protection and Empowerment for Women)	3144
PM Schools for Rising India (PM SHRI)	4000
Pradhan Mantri Ayushman Bharat Health Infrastructure Mission (PMABHIM)	4200
Pradhan Mantri Poshan Shakti Nirman (PM POSHAN)	11600
Prime Minister Formalisation of Micro Food Processing Enterprises Scheme (PM FME)	639
Rashtriya Krishi Vikas Yojna	7150
Interlinking of Rivers	3500
Pradhan Mantri Kisan Samman Nidhi (PMKisan)	60000
Formation and Promotion of 10,000 Farmer Producer Organizations (FPOs)	955
Crop Insurance Scheme	13625
Modified Interest Subvention Scheme (MISS)	23000
Urea Subsidy	131100
Interest Equalisation Scheme	2932
National Industrial Corridor Development and Implementation Trust (NICDIT)	2000
Domestic Industry Incentivisation Scheme	915
Food Subsidy to Food Corporation of India under National Food Security Act	137207
Food Subsidy for Decentralized Procurement of Foodgrains under NFSA	59793
Research and Development	12850
Prime Minister's Development Initiative for North East Region (PM-DevINE)	2200
PM Uchchatar Shiksha Protsahan (PM-USP) Yojna	1554
Promotion of Digital payment	1500
National Investment and Infrastructure Fund (NIIF)	2000
Government Co-contribution to Atal Pension Yojana	521
Pradhan Mantri Kisan Sampada Yojana	923
Atal Bhujal Yojna	1000
Aatmanirbhar Bharat Rojgar Yojana	2273
Raising and Accelerating MSME Performance - RAMP	1170
Prime Minister Employment Generation Programme (PMEGP)	2700
Guarantee Emergency Credit Line (GECL) facility to eligible MSME borrowers	14100
Khadi Gramodyog Vikas Yojana	917
PM-Viraasat Ka Samvardhan (PM VIKAS)	540
Kisan Urja Suraksha evam Utthaan Mahabhiyan (KUSUM)	1996
Capital Support to Oil Marketing Companies	30000
National Highways Authority of India	162207
Skill India Programme	2278
National Tribal Welfare Program	655
Khelo India	1000

VISION FOR AMRIT KAAL – an empowered and inclusive economy

The Finance Minister said that, our vision for the Amrit Kaal includes technology-driven and knowledge-based economy with strong public finances, and a robust financial sector and to achieve this, Jan Bhagidari through Sabka Saath Sabka Prayas is essential. She added that to service these focus areas in our journey to **India@100**, the following **four opportunities** can be transformative during Amrit Kaal, i.e **1) Economic Empowerment of Women, 2) PM VIshwakarma KAushal Samman (PM VIKAS) for centuries, traditional artisans and craftspeople, 3) Tourism and 4) Green Growth**: through green fuel, green energy, green farming, green mobility, green buildings, and green equipment, and policies for efficient use of energy across various economic sectors.

7 PRIORITIES OF THIS BUDGET (SAPTARISHI): Smt. Nirmala Sitharaman listed seven priorities of the Union Budget and said that they complement each other and act as the 'Saptarishi' guiding us through the Amrit Kaal. They are as: 1) Inclusive Development 2) Reaching the Last Mile 3) Infrastructure and Investment 4) Unleashing the Potential 5) Green Growth 6) Youth Power 7) Financial Sector.

MAJOR ACHIEVEMENT FIGURES

- Per capita income has more than doubled to **₹1.97 lakh** in around nine years.
- Indian economy has increased in size from being 10th to **5th largest** in the world in the past nine years.
- EPFO membership has more than doubled to 27 crore.
- 7,400 crore digital payments of ₹126 lakh crore has taken place through UPI in 2022.
- 11.7 crore household toilets constructed under Swachh Bharat Mission.
- 9.6 crore LPG connections provided under Ujjwala.
- 47.8 crore PM Jan Dhan bank accounts opened.
- Insurance cover for 44.6 crore persons under PM Suraksha Bima and PM Jeevan Jyoti Yojana.
- Cash transfer of ₹2.2 lakh crore to over 11.4 crore farmers under PM Kisan Samman Nidhi.

MAJOR PROPOSALS AND ALLOCATIONS

- **Atmanirbhar Clean Plant Program** with an outlay of **₹2200 crore** to be launched to boost availability of disease-free, quality planting material for high value horticultural crops.
- **157 new nursing colleges** to be established in co-location with the existing 157 medical colleges established since 2014.
- Centre to **recruit 38,800 teachers** and support staff for the 740 Eklavya Model Residential Schools, serving 3.5 lakh tribal students over the next three years.
- Outlay for **PM Awas Yojana** is being enhanced by 66% to over **Rs. 79,590 crore.**
- Capital outlay of **Rs. 2.40 lakh crore has been provided for the Railways**, which is the highest ever outlay and about nine times the outlay made in 2013-14.
- **Urban Infrastructure Development Fund (UIDF)** will be established through use of priority Sector Lending shortfall funds, which will be **managed by the National Housing Bank**, and will be used by public agencies to create urban infrastructure in **Tier 2 and Tier 3 cities**.
- **Entity Digi Locker** to be setup for use by MSMEs, large business and charitable trusts to store and share documents online securely.
- **100 labs to be setup for 5G services-based application development** to realize a new range of opportunities, business models, and employment potential.
- 500 new 'waste to wealth' plants under **GOBARdhan** (Galvanizing Organic Bio-Agro Resources Dhan) scheme to be established for promoting circular economy at total investment of Rs 10,000 crore. 5 per cent compressed biogas mandate to be introduced for all organizations marketing natural and bio gas.
- Centre to facilitate one crore farmers to adopt natural farming over the next three years. For this, 10,000 **Bio-Input Resource Centres** to be set-up, creating a national-level distributed micro-fertilizer and pesticide manufacturing network.
- **Pradhan Mantri Kaushal Vikas Yojana 4.0**, to be launched to skill lakhs of youth within the next three years covering new age courses for Industry 4.0 like coding, AI, robotics, mechatronics, IOT, 3D printing, drones, and soft skills.
- 30 **Skill India International Centres** to be set up to skill youth for international opportunities.
- **Revamped credit guarantee scheme for MSMEs** to take effect from 1st April 2023 **through infusion of Rs 9,000 crore in the corpus.** This scheme would enable additional collateral-free guaranteed credit of Rs 2 lakh crore and also **reduce the cost of the credit by about 1 per cent**.
- **Central Processing Centre** to be setup for faster response to companies through centralized handling of various forms filed with field offices under the Companies Act.
- The maximum deposit limit under **Senior Citizen Savings Scheme** to be enhanced from Rs 15 lakh to **Rs 30 lakh.**
- **Agriculture Accelerator Fund** to be set-up to encourage agri-startups by young entrepreneurs in rural areas.
- To make India a global hub for ***'Shree Anna',*** the Indian Institute of Millet Research, Hyderabad will be supported as the Centre of Excellence for sharing best practices, research and technologies at the international level.
- **₹20 lakh crore agricultural credit targeted** with emphasis on animal husbandry, dairy and fisheries
- A new **sub-scheme of PM Matsya Sampada Yojana** with targeted investment of ₹6,000 crore to be launched to further enable activities of fishermen, fish vendors, and micro & small enterprises, improve value chain efficiencies, and expand the market.

- **Digital public infrastructure for agriculture** to be built as an open source, open standard and inter operable public good to enable inclusive farmer centric solutions and support for growth of agri-tech industry and start-ups.
- **Computerization of 63,000 Primary Agricultural Credit Societies (PACS)** with an investment of ₹2,516 crore initiated.
- Massive decentralized storage capacity to be set up to help farmers to store their produce and realize remunerative prices through sale at appropriate times.
- **Sickle Cell Anaemia elimination mission** to be launched.
- **The budget proposed for Rs. 10 lakh crore capital investment**, a steep increase of 33% for third year in a row, to enhance growth potential and job creation, crowd-in private investments, and provide a cushion against global headwinds.
- **Aspirational Blocks Programme covering 500 blocks** launched for saturation of essential government services across multiple domains such as health, nutrition, education, agriculture, water resources, financial inclusion, skill development, and basic infrastructure.
- Rs. 15,000 crore allocated for implementation of **Pradhan Mantri PVTG Development Mission** over the next three years under the Development Action Plan for the Scheduled Tribes.
- Investment of Rs. 75,000 crore, including Rs. 15,000 crore from private sources is proposed, for one hundred critical transport infrastructure projects, for last and first mile connectivity for ports, coal, steel, fertilizer, and food grains sectors.
- **New Infrastructure Finance Secretariat** established to enhance opportunities for private investment in infrastructure.
- **District Institutes of Education and Training** to be developed as vibrant institutes of excellence for Teachers' Training.
- A National **Digital Library for Children and Adolescents** to be set-up for facilitating availability of quality books across geographies, languages, genres and levels, and device agnostic accessibility.
- **'Bharat Shared Repository of Inscriptions'** to be set up in a digital epigraphy museum, with digitization of one lakh ancient inscriptions in the first stage.
- **'Effective Capital Expenditure' of Centre to be Rs. 13.7 lakh crore.**
- **Continuation of 50-year interest free loan to state governments for one more year** to spur investment in infrastructure and to incentivize them for complementary policy actions.
- Encouragement to states and cities to undertake urban planning reforms and actions to transform our cities into 'sustainable cities of tomorrow'.
- Transition from manhole to machine-hole mode by enabling all cities and towns to undertake 100 percent mechanical desludging of septic tanks and sewers.
- ***iGOT Karmayogi***, an integrated online training platform, launched to provide continuous learning opportunities for lakhs of government employees to upgrade their skills and facilitate people-centric approach.
- **Jan Vishwas Bill to amend 42 Central Acts** have been introduced to further trust-based governance.
- Three centres of excellence for Artificial Intelligence to be set-up in top educational institutions to realise the vision of *"**Make AI in India and Make AI work for India**"*
- **National Data Governance Policy** to be brought out to unleash innovation and research by start-ups and academia.
- One stop solution for reconciliation and updation of identity and address of individuals to be established using DigiLocker service and Aadhaar as foundational identity.
- PAN will be used as the common identifier for all digital systems of specified government agencies to bring in Ease of Doing Business.
- 95 per cent of the forfeited amount relating to bid or performance security, will be returned to MSME's by government and government undertakings in cases the MSME's failed to execute contracts during Covid period.
- **Phase-3 of the E-Courts project** to be launched with an outlay of Rs. 7,000 crore for efficient administration of justice.
- **R & D grant for Lab Grown Diamonds (LGD) sector** to encourage indigenous production of LGD seeds and machines and to reduce import dependency.
- Annual production of 5 MMT under **Green Hydrogen Mission** to be targeted by 2030 to facilitate transition of the economy to low carbon intensity and to reduce dependence on fossil fuel imports.
- ₹35000 crore outlay for energy security, energy transition and net zero objectives proposed.
- Battery energy storage systems to be promoted to steer the economy on the sustainable development path.
- 20,700 crore outlay provided for renewable energy grid integration and evacuation from Ladakh.
- "**PM Programme for Restoration, Awareness, Nourishment and Amelioration of Mother Earth" (PM-PRANAM)** to be launched to incentivize States and Union Territories to promote alternative fertilizers and balanced use of chemical fertilizers.
- **'Mangrove Initiative for Shoreline Habitats & Tangible Incomes', MISHTI**, to be taken up for mangrove plantation along the coastline and on salt pan lands, through convergence between MGNREGS, CAMPA Fund and other sources.
- **Green Credit Programme** to be notified under the Environment (Protection) Act to incentivize and mobilize additional resources for environmentally sustainable and responsive actions.

- **Amrit Dharohar scheme** to be implemented over the next three years to encourage optimal use of wetlands, enhance bio-diversity, carbon stock, eco-tourism opportunities and income generation for local communities.
- A **unified Skill India Digital platform** to be launched for enabling demand-based formal skilling, linking with employers including MSMEs, and facilitating access to entrepreneurship schemes.
- **Direct Benefit Transfer under a pan-India National Apprenticeship Promotion Scheme** to be rolled out to provide stipend support to 47 lakh youth in three years.
- At least **50 tourist destinations** to be selected through challenge mode; to be developed as a complete package for domestic and foreign tourists.
- Sector specific skilling and entrepreneurship development to be dovetailed to achieve the objectives of the '**Dekho Apna Desh**' initiative.
- Tourism infrastructure and amenities to be facilitated in border villages through the **Vibrant Villages Programme**.
- States to be encouraged to set up a **Unity Mall** for promotion and sale of their own and also all others states' **ODOPs (One District, One Product)**, GI products and handicrafts.
- **National Financial Information Registry** to be set up to serve as the central repository of financial and ancillary information for facilitating efficient flow of credit, promoting financial inclusion, and fostering financial stability. A new legislative framework to be designed in consultation with RBI to govern this credit public infrastructure.
- To enhance business activities in GIFT IFSC, the following measures to be taken.
  - Delegating powers under the SEZ Act to IFSCA to avoid dual regulation.
  - Setting up a single window IT system for registration and approval from IFSCA, SEZ authorities, GSTN, RBI, SEBI and IRDAI.
  - Permitting acquisition financing by IFSC Banking Units of foreign bank.
  - Establishing a subsidiary of EXIM Bank for trade re-financing.
  - Recognizing offshore derivative instruments as valid contracts.
  - Amendments proposed to the Banking Regulation Act, the Banking Companies Act and the Reserve of India Act to improve bank governance and enhance investors' protection.
  - Countries looking for digital continuity solutions would be facilitated for setting up of their Data Embassies in GIFT IFSC.
  - Integrated IT portal to be established to enable investors to easily reclaim the unclaimed shares and unpaid dividends from the Investor Education and Protection Fund Authority.
- To commemorate Azadi Ka Amrit Mahotsav, an one-time new small savings scheme, **Mahila Samman Savings Certificate** to be launched. It will offer **deposit facility upto Rs 2 lakh** in the name of women or girls for **tenure of 2 years (up to March 2025)** at fixed interest rate of **7.5 per cent** with partial withdrawal option.
- The maximum deposit limit for **Monthly Income Account Scheme** to be enhanced **from Rs 4.5 lakh to Rs 9 lakh for single account and from Rs 9 lakh to Rs 15 lakh for joint account.**
- The entire fifty-year interest free loan to states to be spent on capital expenditure within 2023-24. Part of the loan is conditional on States increasing actual Capital expenditure and parts of outlay will be linked to States undertaking specific loans.

TAXATION (In Terms of Finance Bill 2023)

DIRECT TAXES

- To further improve tax payer services, proposal made to roll out a next-generation Common IT Return Form for tax payer convenience, along with plans to strengthen the grievance redressal mechanism.
- Rebate under Section 87A has been enhanced under the new tax regime; from the current income level of Rs.5 lakh to **Rs.7 lakh**. Thus, individuals opting for the new income tax regime and having an income up to Rs.7 lakh will not pay any tax.
- Tax structure in new personal income tax regime, introduced in 2020 with six income slabs which has been reduced to five and increased the **tax exemption limit to Rs. 3 lakh is proposed**.
- The benefit of standard deduction has been extended to the salaried class and the pensioners including family pensioner under the new tax regime. Salaried individual will get standard deduction of **₹ 50,000** and pensioner **₹ 15,000** as per the proposal. Each salaried person with an income of ₹ 15.5 lakh or more will thus gain ₹ 52,500, from the above proposals.
- The **highest surcharge** rate in personal income tax has been **reduced from 37% to 25% in the new tax regime for income above ₹2 crore.** This would result in maximum tax rate of personal income tax come down to 39% which was earlier 42.74%.
- The limit of tax exemption on leave encashment on retirement of non-government salaried employees has been increased from ₹3 lakh **to ₹25 lakh**.
- The new income tax regime has been made the default tax regime. However, the citizens will continue to have the option to avail the benefit of the old tax regime.

NEW TAX RATES FOR AY 2023-24 FOR INDIVIDUAL & HUF UNDER NEW TAX REGIME

Total Income (Rs.)	Rate
Upto 3,00,000	Exempt
From 3,00,001 to 6,00,000	5%
From 6,00,001 to 9,00,000	10%

From 9,00,001 to 12,00,000	15%
From 12,00,001 to 15,00,000	20%
Above 15,00,000	30%

There has been no change in the income tax slabs and rates under the old tax regime in Budget 2023.

- **Enhanced limits for micro enterprises and certain professionals** for availing the benefit **of presumptive taxation** proposed. Now **micro enterprises with a turnover up to Rs 3 crore** from earlier Rs 2 crore and **certain professionals with a turnover up to Rs 75 lakh** from earlier Rs 50 lakh will be eligible to be taxed presumptively **provided their cash receipts are not more than 5 per cent of total receipts**. Under presumptive taxation, small businesses and professionals are not required to maintain their books of account and get their accounts audited. A micro unit or a professional opting for presumptive taxation can declare income at a prescribed rate. At present, **Section 44AD** of the Income Tax Act provides for a presumptive taxation scheme for the income of small businesses, which applies to certain resident assessees (i.e., an individual, HUF, or partnership firm other than an LLP) under which, they **must declare profits of 8% for non-digital transactions or 6% for digital transactions**, whichever one is applicable.
- Deduction for expenditure incurred on payments made to MSMEs to be allowed only when payment is actually made in order to support MSMEs in timely receipt of payments.
- MSME suppliers unable to execute contracts during the Covid pandemic will get 95 per cent of their forfeited amount back by the government and government undertakings they were working with. The relief measure announced was under the government's Vivad se Vishwas scheme, a voluntary initiative for resolving pending direct tax disputes amicably with the taxpayers.
- **New co-operatives** that commence manufacturing activities till 31.3.2024 to get the **benefit of a lower tax rate** of **15 per cent**, as presently available to new manufacturing companies.
- Opportunity provided to sugar co-operatives to claim payments made to sugarcane farmers for the period prior to assessment year 2016-17 as expenditure. This expected to provide them a relief of almost Rs. 10,000 crore.
- Provision of a **higher limit of Rs. 2 lakh per member** for cash deposits to and loans in cash by Primary Agricultural Co-operative Societies (PACS) and Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) made.
- A **higher limit of Rs. 3 crore for TDS** on cash withdrawal to be provided to co-operative societies.
- **Date of incorporation** for income tax benefits to start-ups to be **extended** from 31.03.23 to 31.3.24.
- Proposal to provide the benefit of carry forward of losses on change of shareholding of start-ups from seven years of incorporation to ten years.
- Deduction from **capital gains on investment in residential house** under sections 54 and 54F to be capped at **Rs. 10 crore** for better targeting of tax concessions and exemptions.
- **Income from traditional insurance policies where the premium is over Rs 5 lakh will no more be exempt from taxes**. It has been proposed that in cases where the aggregate premium for life insurance policies (other than ULIPs) issued on or after April 1, 2023, is above Rs 5 lakh, the income from its proceeds will not be exempt income for taxation.
- Income of authorities, boards and commissions set up by statutes of the Union or State for the purpose of housing, development of cities, towns and villages, and regulating, or regulating and developing an activity or matter, proposed to be exempted from income tax.
- **Minimum threshold** of **Rs. 10,000/-** for **TDS to be removed** and taxability relating to online gaming to be clarified. Proposal to provide for TDS and taxability on net winnings at the time of withdrawal or at the end of the financial year.
- Conversion of gold into electronic gold receipt and vice versa not to be treated as capital gain.
- **TDS rate to be reduced from 30 per cent to 20 per cent** on taxable portion **of EPF withdrawal** in non-PAN cases.
- Income from Market Linked Debentures to be taxed.
- Deployment of about 100 Joint Commissioners for disposal of small appeals in order to reduce the pendency of appeals at Commissioner level.
- Period of **tax benefits** to funds relocating to **IFSC, GIFT City** extended till 31.03.2025.
- Certain acts of omission of liquidators under section 276A of the Income Tax Act to be **decriminalized** with effect from 1st April, 2023.
- Carry forward of losses on strategic disinvestment including that of IDBI Bank to be allowed.
- **Agniveer Fund** to be provided **EEE status**. The payment received from the Agniveer Corpus Fund by the Agniveers enrolled in Agnipath Scheme, 2022 proposed to be exempt from taxes. Deduction in the computation of total income is proposed to be allowed to the Agniveer on the contribution made by him or the Central Government to his Seva Nidhi account.

INDIRECT TAXES

(Includes Excise duty, GST, Customs duty, STT etc)

- Customs Administration of SEZs to be fully IT driven and function on the Customs National Portal – shall be implemented by 30th September 2022.

- Proposal for gradually phasing out of the concessional rates in capital goods and project imports; and applying a moderate tariff of 7.5 percent – conducive to the growth of domestic sector and 'Make in India'.
- To give a boost to the Gems and Jewellery sector, customs duty on cut and polished diamonds and gemstones being reduced to 5 per cent and Nil customs duty to simply sawn diamond proposed. A simplified regulatory framework to be implemented by June this year to facilitate export of jewellery through e-commerce.
- To disincentivise import of undervalued imitation jewellery, Customs duty of at least Rs 400 per Kg to be paid on imitation jewellery import.
- Customs duty being reduced on certain inputs required for shrimp aquaculture - to promote its exports.
- Unblended fuel to attract an additional differential excise duty of Rs 2/- per litre from the 1st of October 2022 - to encourage blending of fuel.
- **Legislative Changes in Customs Laws:** Customs Act, 1962 to be amended to specify a time limit of nine months from date of filing application for passing final order by Settlement Commission. Customs Tariff Act to be amended to clarify the intent and scope of provisions relating to Anti-Dumping Duty (ADD), Countervailing Duty (CVD), and Safeguard Measures.
- **CGST Act to be amended:**
  - to raise the **minimum threshold of tax amount** for launching prosecution under GST from one crore to **two crore;**
  - to reduce the **compounding amount** from the present range of 50 to 150 per cent of tax amount to the range of 25 to 100 per cent;
  - to **decriminalize certain offences**;
  - to **restrict filing of returns/statements** to a maximum period of three years from the due date of filing of the relevant return/statement; and
  - to enable unregistered suppliers and composition taxpayers to make intra-state supply of goods through E-Commerce Operators (ECOs).

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IMPORTANT CONCEPTS OF ECONOMY & FINANCE

Listed out the important concepts based on its highlight / news in recent past.

IMPLICATIONS OF RUPEE STAYING BEYOND 80

- The Indian rupee sank to a new record low on Monday against the US dollar at 81.63 per dollar. The rupee has depreciated 9.7% against the US dollar year-to-date. On September 21, the US Federal Reserve not only hiked rates by 75 basis points; taking the total tally of rate hikes since March to 300 bps; but also hinted at a longer monetary tightening cycle than earlier expected. Since then, the rupee has gone from one of the world's best performing currencies to one of the worst with only the South Korean won losing more versus the US dollar.
- If rupee's depreciation continues, Indian exporters stand to gain. However, the gain would have been much more if the Indian economy was less import-dependent. As a result, products across segments such as petroleum, gems and jewellery, and electronics may not gain much as they are import-dependent. Besides, there is always a risk of imported inflation, if the rupee falls too much. As India is 85% dependent on imports to meet its oil needs, a weakening rupee will make its purchases expensive, further fueling inflation.
- India's trade deficit more than doubled to $28 billion in August due to increased crude oil imports. Imports rose by 37% while exports rose marginally by 1.62%. This puts pressure on the current account deficit.
- But most currencies including rupee have depreciated due to dollar's strength. There may be an argument therefore to let the rupee depreciate further to preserve India's export competitiveness relative to its trade competitors. The central bank has a tough balancing act on its hand.

PRODUCTION LINKED INCENTIVE (PLI) SCHEME

- Production Linked Incentive or PLI scheme is a scheme that aims to give companies incentives on incremental sales from products manufactured in domestic units and aims to encourage local companies to set up or expand existing manufacturing units and also to generate more employment and cut down the country's reliance on imports from other countries. To enhance India's Manufacturing capabilities and Exports, Union Budget 2021-22 announced the Production Linked Incentive (PLI) scheme for 13 key sectors. At present, there are a total of 14 sectors under the PLI Scheme (including automobiles and auto components, white goods, pharma, textiles, food products, high efficiency solar PV modules, advance chemistry cell and specialty steel.) that involves a total outlay of Rs 3 trillion.
- It was launched in April 2020, for the Large-Scale Electronics Manufacturing sector, but later towards the end of 2020 was introduced for 10 other sectors. This scheme was introduced in line with India's Atmanirbhar Bharat campaign.
- The Scheme shall extend an incentive of 4% to 6% on incremental sales (over the base year) of goods manufactured in India and covered under target segments, to eligible companies, for a period of five years.

FIRST LOSS DEFAULT GUARANTEES (FLDG)

- First Loss Default Guarantee (FLDG) is a lending model serviced between digital-lending fintechs, their partner Banks and NBFCs.
- This is also known as **Rent-an-NBFC** model by digital lenders. This is a synthetic structure enabling unregulated entities to lend without complying with prudential norms through credit risk sharing arrangements by way of a "First Loss Default Guarantee (FLDG)" extended by the LSPs.
- Under this, the LSP provides certain credit enhancement features such as first loss guarantee up to a pre-decided percentage of loans generated by it. From the LSP's perspective, offering FLDG acts as a demonstration of its under-writing skills whereas from the lender's perspective, it ensures platform's skin in the business.
- For all practical purposes, credit risk is borne by the LSP without having to maintain any regulatory capital. The loan portfolio backed by FLDG is akin to off-balance sheet portfolio of the LSP wherein the nominal loans sit in the books of the lender without having to partake in any lending process. In some cases, the LSP, as a non-banking non-financial company (NBNC) may be undertaking balance sheet lending in partnership with a bank/ NBFC or on stand-alone basis, while not satisfying the principal business criteria to remain outside regulation.
- With increasing share of digital lending in retail/ personal space, there is a potential for risk build-up because of these platforms.

APPLICATION PROGRAMMING INTERFACE (API)

- This is an intermediary that enables two applications to communicate. Application programming interface (API) is a concept in software technology that refers to how multiple applications can interact with and obtain data from one another.
- API in banking involves a set of regulated protocols, tools, or routines that allows access to banking services by a financial or third-party institution via API. These banks pro-vide secured and restricted access of its central bank system to third-party systems to carry out functions.
- Some examples of API are Universal logins (A popular API that enables people to log into websites by using their Facebook,Twitter,or Google profile login details), Third Party Payment Processing, Travel Booking comparisons etc.

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CONTRACTIONARY POLICY

- ❖ A contractionary policy is a kind of policy which lays emphasis on reduction in the level of money supply for a lesser spending and investment thereafter so as to slow down an economy.
- ❖ A nation's central bank uses monetary policy tools such as CRR, SLR, repo, reverse repo, interest rates etc to control the money supply flows into the economy. Such measures are used at high growth periods of the business cycle or in times of higher than anticipated inflation. Discouraging spending by way of increased interest rates and reduced money supply helps control rising inflation. It may also lead to increased unemployment at the same time.
- ❖ The idea here is to make the opportunity cost of holding money high so that people want to hold and spend less of it. The effectiveness of this policy may vary depending upon the specific spending and investment patterns in any economy.

BLOCKCHAIN IN BANKING SECTOR

- ❖ Blockchain, the technology underpinning the cryptocurrency could revolutionise the world economy. Blockchain is basically a distributed ledger. It can store facts like, who owns a particular piece of land or say a bond. The technology can be used to keep an immutable record of ownership and enable transaction of the asset amongst distrusting parties.
- ❖ Blockchain provides transaction immutability and a distributed ledger architecture, which are key requirements for eliminating the need for an enforcer of trust in the ecosystem.
- ❖ Blockchain maintains an immutable record of transactions and therefore asset ownership since the time the asset first appears in a transaction on the blockchain. This significantly reduces risk and the need for associated mitigating operations for multiple asset types. This capability will enable the reduction of the occurrence of theft, fraud and misselling of high value assets and intellectual properties.
- ❖ Financial Industry has been trying to experiment with blockchain by replicating existing asset transactions on the blockchain. In infrastructure terms the blockchain is an open source software that is built to support the transfer of digital assets amongst market participants in real time.

DIFFERENCE BETWEEN ADR & GDR

- ❖ Depositary Receipt (DR) is an instrument used by domestic companies to raise money outside the country. Some of its examples are American Depositary Receipts (ADRs) and Global Depositary Receipts (GDR).
- ❖ American Depositary Receipts (ADRs) is a type of stock that allows US people to invest in non- US corporations and receive dividends in US dollars. Indian enterprises who want to raise capital in the United States can use ADRs to achieve so by issuing shares of any of the American bourses. The ADRs are governed by the Securities and Exchange Commission (SEC). They trade in US dollars and clear through US settlement systems, allowing ADR holders to avoid having to transact in a foreign currency.
- ❖ Global Depositary Receipt or GDR are like ADRs except for the fact that it is listed on an exchange outside the United States and helps the issuer raise funds simultaneously in different markets like Luxembourg or London. The GDR is mostly traded on the European bourses.

SPECIAL DRAWING RIGHT (SDR)

- ❖ The Special Drawing Right (SDR) is an interest-bearing international reserve asset created by the IMF in 1969 to supplement other reserve assets of member countries.
- ❖ SDR is based on a basket of international currencies comprising the U.S. dollar, Japanese yen, euro, pound sterling and Chinese Renminbi. It is not a currency, nor a claim on the IMF, but is potentially a claim on freely usable currencies of IMF members. The value of the SDR is set daily by the IMF on the basis of fixed currency amounts of the currencies included in the SDR basket and the daily market exchange rates between the currencies included in the SDR basket.
- ❖ SDR holdings are one of the components of the Foreign Exchange Reserves (FER) of a country. IMF makes the general SDR allocation to its members in proportion to their existing quotas in the Fund.
- ❖ A direct benefit of a general SDR allocation, and indeed the purpose of such an allocation under the Fund's Articles of Agreement, is to supplement existing reserve assets to help meet a long-term global need.

MERCHANT DISCOUNT RATE(MDR)-IN NEWS

- ❖ MDR is the rate or amount that a merchant pays for using a lender's credit card or debit card services for accepting their customers' bills.
- ❖ Presently, only Rupay-based debit cards and UPI do not attract any MDR charge.
- ❖ The current MDR design for mature products is set up like a percentage of transaction value, while something like UPI has zero MDR, the bone of contention today.
- ❖ The contention is that, while the RBI has also sought response on queries related to payment charges in the NEFT/RTGS systems, among others, industry members are largely divided on imposition of MDR charges in UPI.

RISK-ADJUSTED RETURN ON CAPITAL (RAROC)

- ❖ Risk-adjusted return on capital (RAROC) is a risk-adjusted measure of the return on investment. As it became clearer that banks needed to add an appropriate capital charge in the pricing process, the concept of risk adjusting the return or risk adjusting the capital arose. The value-producing capacity of an asset (or a business) is expressed as a ratio that allows comparisons to be made between assets (or businesses) of varying sizes and risk characteristics.

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- The ratio is based either on the size of the asset or the size of the capital allocated to it. When an institution can observe asset prices directly (and/ or infer risk from observable asset prices) then it can determine how much capital to hold based on the volatility of the asset. This is the essence of the mark-to-market concept. If the capital to be held is excessive relative to the total return that would be earned from the asset, then the bank will not acquire it. If the asset is already in the bank's portfolio, it will be sold.

AROC= (*r*−*e*−*el*+*ifc*)/*c*

Where, r=Revenue, *e*=Expenses

el=Expected loss which equals average loss expected over a specified period of time.

ifc=Income from capital which equals (capital charges)×(the risk-free rate)

c=Capital

TOBIN TAX

- Tobin tax is applicable to financial sector participants to control the stability of a country's currency. It is also called the Financial Transactions Tax (FTT),or less formally a Robin Hood tax. This tax is also imposed on spot currency trades to penalize short-term currency trading, stabilize markets and disincentive speculation risks.
- The short-term capital flows (movement of international investable money) are highly unstable due to being speculative. Frequent inflows and outflows of short-term capital create management problems for many emerging markets central banks like the RBI in India. Tobin tax prevents the movement of volatile short-term capital flows or hot money which is very speculative.
- Some examples across the world are; Sweeden imposed a Tobin tax of 0.5% on buying and selling of shares, however could not achieve the desired results. Italy imposed a different form of tax on high-frequency share trading in 2013 that included a 0.02% tax on trades occurring every 0.5 seconds or faster. India has a variant of the Tobin tax called the Securities Transaction Tax (STT). Itwas introduced in 2004 and is levied on every transaction of securities listed on the stock exchanges and mutual funds.

TOKENISATION

- Tokenization is the process of replacing a card's 16-digit number on the plastic card with a unique alternate card number, or 'Token' which shall be unique for a combination of card, token requestor and device. Tokens can be used for online transactions, mobile point-of-sale transactions or in-app transactions. This token contains no personal information that can be directly accessed and keeps changing making it the most secure method to complete payments. This token will be used instead of card details for all the online payments on the merchants.
- RBI has directed the payment aggregators, wallets and online merchants (entities in card transaction/payment chain other than card issuers/card networks) not to store any sensitive card related customer information including full card details. Hence, the card numbers can be replaced with 'token' as mentioned above. This RBI mandate would come into effect from 1st July 2022.However, RBI has extended the deadline for tokenization of debit and credit cards up to to September 30, 2022. The RBI had earlier set a deadline of June 30, whereby merchants and payment aggregators had to delete all card details and replace it with tokens.

ALTMAN'S Z-SCORE MODEL

- This is a Credit Risk Assessment model. NYU Stern Finance Professor Edward Altman developed the Altman Z-score formula in 1967, and it was published in 1968. The Altman Z-score is the output of a credit-strength test for determining whether a company, notably in the manufacturing space, is headed for bankruptcy. The formula takes into account profitability, leverage, liquidity, solvency, and activity ratios. An Altman Z-score close to '0' suggests a company might be headed for bankruptcy, while a score closer to '3' suggests a company is in solid financial positioning.
- *Altman Z-Score = 1.2A + 1.4B + 3.3C + 0.6D + 1.0E*
- Where;
- A = working capital / total assets
- B = retained earnings / total assets
- C = earnings before interest and tax / total assets
- D = market value of equity / total liabilities
- E = sales / total assets
- A score below 1.8 means it's likely the company is headed for bankruptcy, while companies with scores above 3 are not likely to go bankrupt.In more recent years, however, it was suggested that, a Z-Score closer to 0 indicates a company may be in financial trouble.

P2P LENDING (PEER-TO-PEER LENDING)

- P2P lending can be defined as the use of an online platform that matches lenders with borrowers in order to provide unsecured loans. The borrower can either be an individual or a legal person requiring a loan.
- The interest rate may be set by the platform or by mutual agreement between the borrower and the lender. Fees are paid to the platform by both the lender as well as the borrower. The borrowers pay an origination fee (either a flat rate fee or as a percentage of the loan amount raised) according to their risk category. The lenders, depending on the terms of the platform, have to pay an administration fee and an additional fee if they choose to use any additional service (e.g. legal advice etc.), which the platform may provide.
- The platform provides the service of collecting loan repayments and doing preliminary assessment on the borrower's creditworthiness. The fees go towards the cost of these services as well as the general business costs.

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The platforms do the credit scoring and make a profit from arrangement fees and not from the spread between lending and deposit rates as is the case with normal financial intermediation.

- P2P lending platforms are largely tech companies registered under the Companies Act and acting as an aggregator for lenders and borrowers thereby, helping create a match between them. Once the borrowers and lenders register themselves on the website, due diligence is carried out by the platform and those found acceptable are allowed to participate in lending/borrowing activity.

NEER & REER

- **NOMINAL EFFECTIVE EXCHANGE RATE (NEER):** NEER is a measure of the value of a currency against a weighted average of several foreign currencies. An increase in NEER indicates an appreciation of the local currency against the weighted basket of currencies of its trading partners. More simply, NEER shows in net terms whether the Rupee is more expensive or cheaper than a basket of other currencies in terms of their present value; the 'weights' being the relative importance of such currencies in our foreign trade These weights are determined as per the moving average of previous 3 years' exports plus imports to/from the concerned countries. In economics, the NEER is an indicator of a country's international competitiveness in terms of the foreign exchange (forex) market.
- **REAL EFFECTIVE EXCHANGE RATE (REER):** The real effective exchange rate (REER) is the weighted average of a country's currency in relation to an index or basket of other major currencies. The weights are determined by comparing the relative trade balance of a country's currency against each country within the index. This exchange rate is used to determine an individual country's currency value relative to the other major currencies in the index. The REER is the weighted average of NEER adjusted by the ratio of domestic price to foreign prices.

CURRENCY SWAP

- A currency swap is an agreement between two cross-border entities where one of them agrees to provide a loan to another in a foreign currency. The repayment takes place in a different currency at a fixed date and an exchange rate. The interest rate charged on such loans is usually lesser than that available in the foreign market.
- Let us understand it with an example. Suppose India signs a currency swap agreement worth $5 million with say, Nepal. India will then provide a loan to Nepal in a foreign currency which may be US Dollar. In return, Nepal will have to return the money in Indian Rupees at a fixed interest rate.
- This comes as a saviour for the countries going through a foreign reserve crisis as it allows them to get a loan in USD, at a lower rate of interest.
- Sri Lanka has been going through severe economic and political turmoil for the last several months now. High inflation and depletion of foreign reserves to an unsustainable level led the country to utter chaos. To help the neighbour, India signed a currency swap agreement of $400 million with Sri Lanka. And in April, extended its term for repayment after the country said that it cannot meet its debt obligations. Since 2018, India has agreed to sign currency swaps with 23 countries.

ROBOTIC PROCESS AUTOMATION (RPA)

- RPA in finance can be defined as the use of robotic applications to augment (or replace) human efforts in the financial sector. RPA helps banks and accounting departments automate repetitive manual processes, allowing the employees to focus on more critical tasks and the firm to gain a competitive advantage.
- To further enhance RPA, banks implement intelligent automation by adding artificial intelligence technologies, such as machine learning and natural language processing capabilities. This enables RPA software to handle complex processes, understand human language, recognize emotions, and adapt to real-time data.
- Robotic process automation is being used in different industries, such as healthcare, manufacturing, and insurance. The global RPA market was valued at $1.57 billion in 2020 and is expected to rise at a CAGR of 32.8% from 2021 to 2028.
- RPA can be used in handling accounts payable with optical character recognition (OCR), loan processing, KYC, fraud detection etc.

ENVIRONMENT DRIVEN TAXES

Recently, there has been growing awareness of the imposition of environmental taxes, and a very large basket has already been designed in different countries. An extract depicts the current status of their coverage globally. According to the OECD (2006), there are about 375 environmentally related taxes in the OECD countries.

Carbon taxes are the most contentious fiscal instruments widely discussed, which serve the dual purpose of acting as a deterrent and raising resources from activities that impact sustainable economic development. Some of the other taxes in this area which have also been explored globally are:

- Taxes on plastic bags in Ireland were introduced in 2002 which generated Euro 200 million in over 12 years.
- Deposit refund packaging scheme in Finland was first introduced in 1950.
- Landfill tax in the UK was introduced in 1996 to reduce the amount of waste sent for landfilling and boost waste recycling.
- Tax on nitrogen emissions in Sweden was introduced in 1992 to discourage activities with nitrogen emissions.

Ecotax: An ecotax is a tax whose tax base is defined so as to internalise the negative externality generated either from the production/consumption/extraction behavior in an economy". Some examples of "ecotax" in India at a regional level are; Clean energy tax by the Government of India introduced in 2010, imposed on coal, peat and lignite, Gujarat Green Cess , Goa Green Cess, tax on old vehicles on some states etc.

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CLEARING PRICE

- Clearing price is that price of a commodity or a security at which the market clears a commodity or a security. Quantity supplied is equal to quantity demanded and buyers and sellers conduct the trade.
- A price is a specific monetary value associated with a security or a commodity. Generally, it so happens that sellers expect to get the highest possible price for their product, while buyers want to get it at the lowest possible price.
- In such a scenario, a price that settles the transaction so that both the parties are in agreement is called the clearing price, where this price settles is influenced by various other factors. It can also be referred to as the equilibrium price.
- It can be said that the clearing price is equal to a value that is the same as the lowest price a seller is ready to take for his commodity and the highest price a buyer is ready to pay for it. Thus, it becomes the price at which the latest transaction was conducted.

COST PUSH INFLATION

- Cost push inflation is inflation caused by an increase in prices of inputs like labour, raw material, etc. The increased price of the factors of production leads to a decreased supply of these goods. While the demand remains constant, the prices of commodities increase causing a rise in the overall price level.
- In this case, the overall price level increases due to higher costs of production which reflects in terms of increased prices of goods and commodities which majorly use these inputs. This is inflation triggered from supply side i.e. because of less supply. The opposite effect of this is called demand pull inflation where higher demand triggers inflation.
- Apart from rise in prices of inputs, there could be other factors leading to supply side inflation such as natural disasters or depletion of natural resources, monopoly, government regulation or taxation, change in exchange rates, etc. Generally, cost push inflation may occur in case of an inelastic demand curve where the demand cannot be easily adjusted according to rising prices.

APPROPROATION BILL

- Under Article 114(3) of the Constitution, no amount can be withdrawn from the Consolidated Fund without the enactment of such a law by Parliament. After the Demands for Grants are voted by the Lok Sabha, Parliament's approval to the withdrawal from the Consolidated Fund of the amounts so voted and of the amount required to meet the expenditure charged on the Consolidated Fund is sought through the Appropriation Bill.
- The whole process beginning with the presentation of the Budget and ending with discussions and voting on the Demands for Grants requires a fairly long time. The Lok Sabha is, therefore, empowered by the Constitution to make any grant in advance in respect of the estimated expenditure for a part of the financial year pending completion of procedure for the voting on the demands. The purpose of the 'Vote on Account' is to keep the government functioning, pending voting of 'final supply'.
- The Vote on Account is obtained from Parliament through an Appropriation (Vote on Account) Bill.

FAIR TRADE PRICE

- In the commodities market, fair trade price is the minimum price that importers must pay to the producers of some agricultural products such as coffee and banana. It is the floor price that must be paid irrespective of the market price.
- When the market price of a commodity is higher than this minimum price, the buyer must pay the former. But if the market price falls below the fair trade price, the producer must be paid at least a price equal to the fair trade price.
- Fair trade price acts as a security net that reduces market risks of farmers and attempts to improve their living conditions. The fair trade price policy comes under the fair trade standards, which stipulate that it is unfair to pay market price to the producers in developing countries if the price is too low to survive and does not provide them at least the cost of production.
- The Fair Trade Labelling Organisation international (FLO) monitors the fair trade floor price and changes it from time to time considering the average cost of production, working conditions, and other economic factors.
- Products sold at fair trade prices must follow the standards outlined by FLO-CERT and are generally sold at higher prices.

PONZI SCHEME

- A ponzi scheme is an investment plan in which the operator or the operating company pays returns to investors from the new capital coming in from new investors instead off the profits of the business. The investors get attracted to these schemes because of the unusually high rate of return offered within shorter time spans compared to other conventional investment options.
- To gain confidence of investors, the promoters usually give decent payouts in the first few months, luring investors to put in more money. This sets off a ripple effect, bringing in new investors to participate. The initial ones then get paid out from the funds received from new investors.
- These schemes start off as legitimate businesses. However, they often fail to sustain them with operating income alone. So, in order to meet the promises made to their investors, the capital gathered from new members gets used up. For example, a hedge fund can turn into a ponzi scheme if it faces unexpected losses and cannot legitimately meet the desired returns. The promoters then start forging reports instead of admitting their failures.

BACKTESTING

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- This is a model in Financial Risk management. Backtesting is way of testing if a model's predictions are in line with realised data. Backtesting a risk model, for instance, is typically done by checking if actual historical losses on a portfolio are very different from the losses predicted by the model. If actual losses are consistently higher, the model is underestimating risk. If they are lower, the model is overestimating risk.
- Backtesting measures the accuracy of the value at risk calculations. Backtesting is the process of determining how well a strategy would perform using historical data.
- Risk managers use a technique known as backtesting to determine the accuracy of a VaR model. Backtesting involves the comparison of the calculated VaR measure to the actual losses (or gains) achieved on the portfolio.
- Value-at-risk (VaR) is a widely used measure of downside investment risk for a single investment or a portfolio of investments. VaR gives the maximum-dollar loss on a portfolio over a specific time period for a certain level of confidence. Often the confidence level is chosen so as to give an indication of tail risk; that is, the risk of rare, extreme market events.

CAPITAL FLIGHT

- Capital flight, occurs when assets or money rapidly flow out of a country, due to an event of economic consequence or as the result of a political event such as regime change or economic globalization. Such events could be an increase in taxes on capital or capital holders or the government of the country defaulting on its debt that disturbs investors and causes them to lower their valuation of the assets in that country, or otherwise to lose confidence in its economic strength.
- This leads to a disappearance of wealth, and is usually accompanied by a sharp drop in the exchange rate of the affected country—depreciation in a variable exchange rate regime, or a forced devaluation in a fixed exchange rate regime.
- This fall is particularly damaging when the capital belongs to the people of the affected country because not only are the citizens now burdened by the loss in the economy and devaluation of their currency but their assets have lost much of their nominal value. This leads to dramatic decreases in the purchasing power of the country's assets and makes it increasingly expensive to import goods and acquire any form of foreign facilities, e.g. medical facilities.
- Capital flight was seen in some Asian and Latin American markets in the 1990s. Perhaps the most consequential of these was the 1997 Asian financial crisis that started in Thailand and spread through much of East Asia beginning in July 1997, raising fears of a worldwide economic meltdown due to financial contagion.

GOLDILOCKS SCENARIO

- A Goldilocks scenario in an economy refers to an ideal situation where there is a steady growth. The economic growth is neither too high to trigger inflation and nor too low for a slowdown. In simple terms, in a goldilocks scenario, the economy is not expanding by a huge margin with inflation or shrinking into recession.
- In this state of the economy, there are certain features attached. For one, the unemployment rate in the economy is really low. There is steady growth in the Gross Domestic Product (GDP) numbers and companies report better earnings. The retail inflation and the interest rates are relatively low. The Goldilocks scenario is good for investors as companies perform well and stocks rally.
- If the economy is steady and not in for sudden shocks, there will be profitable business growth. Central bankers and fiscal policy makers often try to direct their policies towards maintaining a goldilocks economy. In the US, there have been several phases of goldilocks economies with the most recent in 2017, when the economy grew at near 4% and no signs of high inflation. Recently, HSBC securities said it sees a potential goldilocks scenario supporting the bull market in India.

DIFFERENCE BETWEEN UPI123 AND UPI Lite

- **What is UPI123Pay**:To decrease cash-based transactions in India, the RBI introduced UPI. For a sizable percentage of the population who lacked smart phones, UPI was unavailable. The RBI introduced UPI123Pay to solve this issue. Customers will be able to use their feature phones for almost all transactions using UPI123Pay, with the exception of scan and pay.
- **What is UPI Lite?**: UPI Lite is an "on-device wallet". To use UPI Lite, users must first contribute money to the app's wallet from their bank accounts. Users can make real-time payments without the Internet because it is a "on-device wallet." In phase one, UPI Lite will process transactions in near offline mode, i.e., debit (payments) can be made without Internet connection and credits into the account will be done online. However, there is a plan to make UPI Lite offline in the future where customers can process transactions — both debit and credit — in complete offline mode. The maximum amount that can be transferred via UPI LITE is Rs. 200, and the maximum amount that can be in your UPI LITE balance at any given moment is Rs. 2000, or any additional limits that may occasionally be set by NPCI.

FALLOUT RISK

- Fallout risk or borrower fallout is one of the two components of pipeline risk, the other being price risk. The risk can simply be defined as the probability of a prospective borrower failing to complete his/her mortgage loan transaction. Usually, a high fallout risk occurs when the finalisation of a mortgage deal is contingent upon another deal, such as the sale of a real estate asset.

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- It is because if the deal fails to go through, it is said to have fallen out of the lender's pipeline. Here, pipeline refers to the loan commitment made by the mortgage originator or lender and also the loan application processed. The risk arises when the mortgage originators give potential borrowers the right, but not the obligation, to cancel the agreement.
- A change in interest rate not only influences the value of the lender's pipeline risk, it also has a direct bearing on the percentage of loans that will close.
- The impact of such a fallout on mortgage originators can vary in case the interest rate rises or falls. If interest rates increase, borrowers are likely to accept the terms and there are more chances that a higher percentage of loans in the pipeline will close. However, if interest rates fall during the lock-in period, borrowers are more likely to tap cheaper sources of funding, resulting in a lower percentage of loans being closed.

BANK IDENTIFICATION NUMBER (BIN)

- The bank identification number is a numbering system developed by the American National Standards Institute (ANSI) and the International Organization for Standardization (ISO) to identify institutions that issue payment cards. The ANSI is a nonprofit organization (NPO) that creates business standards in the U.S. while the ISO is an international nongovernmental group that creates standards for various industries.
- The term bank identification number (BIN) refers to the first four to six numbers on a payment card. This set of numbers identifies the financial institution that issues the card. As such, it matches transactions to the issuer of the card being used. BINs can be found on various payment cards, including credit cards, charge cards, and debit cards.
- The number allows merchants to accept multiple forms of payment and allows transactions to be processed faster. The BIN system helps financial institutions identify fraudulent or stolen payment cards and can help prevent identity theft.
- BINs have a variety of useful applications. The primary purpose is to allow merchants to evaluate and assess payment card transactions. They also allow merchants to identify originating banks along with their address and phone number, and whether issuing banks are in the same country as the device used to make the transaction. It also verifies the address provided by the customer.

DEADWEIGHT LOSS

- It is the loss of economic efficiency in terms of utility for consumers/producers such that the optimal or allocative efficiency is not achieved.
- Deadweight loss can be stated as the loss of total welfare or the social surplus due to reasons like taxes or subsidies, price ceilings or floors, externalities and monopoly pricing. It is the excess burden created due to loss of benefit to the participants in trade which are individuals as consumers, producers or the government.
- For example, if a certain tax is imposed on the producer for each unit of the good he sells, it is likely that the new equilibrium price that is settled for the transaction will be higher and therefore some burden of this will be passed on to the consumer.
- This will lead to reduced trade from both sides. The loss of welfare attributed to the shift from earlier to this less efficient market mechanism is called the deadweight loss of taxation. This leads to wastage or underutilization of resources due to inefficient market outcomes.

PRIME RATE

- Basically, 'prime rate' is the rate of interest that is decided by nations (U.S.A) largest banks for their preferred customers, having a good credit score. Much 'variable' interest depends on the 'prime rates'. For example, the 'APR' (Annual Percentage Rate) on a credit card is 10% plus prime rate, and if the prime rate is 3%, the current 'APR' on that credit card would be 13%.
- The Federal Reserve (Fed) sets the federal funds overnight rate which serves as the basis for the prime rate, which is the starting point for other interest rates. The prime rate is based on the federal funds rate.
- The most used prime rate is the rate that the *Wall Street Journal* publishes daily.

UNDERWRITING

- Underwriting is one of the most important functions in the financial world wherein an individual or an institution undertakes the risk associated with a venture, an investment, or a loan in lieu of a premium. Underwriters are found in banking, insurance, and stock markets.
- In the insurance world, underwriters determine whether an insurance agency should undertake the risk of insuring a client. They determine the risk and exposure of clients and also how much insurance should be granted to a client, how much they should pay for it and whether or not to offer an insurance policy to the client in the first place.
- In the securities market, underwriting involves determining the risk and price of a particular security. It is a process seen most commonly during initial public offerings, wherein investment banks first buy or underwrite the securities of the issuing entity and then sell them in the market. This ensures that the issuers of the security can raise the full amount of capital while earning the underwriters a premium in return for the service.
- Underwriters in the banking sector perform the critical operation of appraising the credit worthiness of a potential customer and whether or not to offer it a loan. They appraise the credit history of the customer through their past financial record, statements, and value of collaterals provided, among other parameters.
- Investors benefit a lot from the underwriting process as the information provided by an underwriting agency can help them take a more informed buying decision. An underwriter who holds a large chunk of the securities of a

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particular company or is the market maker for such a security provides the core liquidity for the security and enhances price stability and distribution.

VENTURE CAPITAL

- Startup companies with a potential to grow need a certain amount of investment. Wealthy investors like to invest their capital in such businesses with a long-term growth perspective. This capital is known as venture capital and the investors are called venture capitalists.
- Such investments are risky as they are illiquid, but are capable of giving impressive returns if invested in the right venture. The returns to the venture capitalists depend upon the growth of the company. Venture capitalists have the power to influence major decisions of the companies they are investing in as it is their money at stake.

MARXISM

- German Philosopher Karl Marx helped the working class to question the injustice enforced upon them through their wages, life style and oppression.
- Marxism is a social, economic and political philosophy that analyses the impact of the ruling class on the laborers, leading to uneven distribution of wealth and privileges in the society. It stimulates the workers to protest the injustice. The theory was formulated by Karl Marx and Fredrich Engels in their work, 'The Communist Manifesto'. it was a pamphlet they created during the age of Imperialism, rooting from their own struggles as members of the proletariat lot. According to Marx, History demonstrates the existence of class struggle centuries earlier. He explains the struggle through five stages.
- Primitive Communism, the age of Hunter-gatherers where every human was treated equally hence, there was an absence of class. The Age of Slavery where there was class distinction between the aristocrats and the slaves. Feudalism where the struggle was between Landlords, owners and the people who rented or used their lands for agriculture. Capitalism, where the labor community (Proletariat) worked their lives off only for the ruling class (Bourgeoisie) to profit from them. Socialism is the phase that Marx believed the proletariats would revolt for their justice and eventually form a communist society, free of class distinctions and equal wealth.
- There are two obvious divisions in the Capitalist society. The Bourgeoisie enjoyed the power to control the toiling masses' wages and work, leaving them vulnerable to even replacements in the future. The former had access to modern equipment and tools to make work easier and quicker, leaving the laborer with low wages and adding more profits to themselves.

GOOGLE TAX' OR DIVERTED PROFITS TAX

- Diverted Profits Tax, commonly known as "Google tax", refers to tax provisions designed to counter the practice of profits being diverted to other jurisdictions that have lower or zero tax rates.
- While Google is one of the most frequent practitioners of such diversions, and hence the tax's informal nickname; the practice is quite prevalent across industry sectors. Profits are considered diverted when an entity pays only a negligible tax amount in, say, the United Kingdom by completing its transactions in the low-tax capital city of Dublin, Ireland, even though the revenue it generated in the UK is well within tax brackets.
- Such entities derive large profits from their local user bases through online ads and in-app purchases even in countries where the firms might not have an employee base.
- **The Google Singapore Case**: Recently, India's Income Tax Appellate Tribunal (ITAT), however, ruled against the I-T department's appeal to disallow Google's tax deduction, stating the transaction under scrutiny did not attract the levy since the advertisers and target audience were located abroad, and the revenue was paid to Google Singapore, which does not have a permanent establishment in India. Even before the matter was addressed by ITAT, the commissioner of I-T (Appeals) had also ruled that the tax levy did not apply to the assessee, since they were neither an Indian resident with business or profession in India nor a non-resident with a permanent establishment in India.

VIABILITY GAP FUNDING (VGF)

- The Viability Gap Funding Scheme of the Government of India for Financial Support to Public Private Partnerships in Infrastructure, provides financial support (Capital grant) of up to 40% of the Total Project Cost in the form of grant (one time or deferred) to infrastructure projects undertaken through public private partnerships with a view to making them commercially viable. Administered by the Ministry of Finance, budgetary provisions are made in the Annual Plans on a year-to-year basis for the Scheme.
- The scheme aims at supporting infrastructure projects that are economically justified but fall marginally short of financial viability. Support under this scheme is available only for infrastructure projects where private sector sponsors are selected through a process of competitive bidding. The total Viability Gap Funding under this scheme will not exceed twenty percent of the Total Project Cost; provided that the Government or statutory entity that owns the project may, if it so decides, provide additional grants out of its budget, upto a limit of a further twenty percent of the Total Project Cost.
- In order to be eligible for funding under VGF Scheme, a PPP project should meet the following criteria: The project should be implemented (i.e. developed, financed, constructed, maintained and operated) for the Project Term by a Private Sector Company to be selected by the Government or a statutory entity through a process of open competitive bidding; provided that in case of railway projects that are not amenable to operation by a Private Sector Company, the Empowered Committee may relax this eligibility criterion.

HOW ARE BANKS LEVERAGING THE CLOUD TO CREATE NEW BUSINESS FRONTIERS?

- Leaders in the banking sector increasingly recognize that the cloud is more than a technology. It is an ultimate destination for banks and financial institutions to store data and applications and provide better experiences for their customers.
- A new era has dawned in which traditional banks are being challenged by the advent of next-gen branchless banks such as Varo or SoFi. Competing purely on sophisticated technology, end-user convenience and hyper-personalized customer service, these new-age digital banks are already shaking the ground of their established counterparts – and more disruption is sure to come.
- Yet, the cost and effort to migrate workloads to the cloud may be a major concern for financial institutions, in addition to the expertise and skills required to implement such a strategy – key factors when companies seek to leverage cloud technologies while deploying elaborate workloads. External cloud providers such as AWS, Microsoft Azure and Google Cloud Platform (known collectively as the “hyperscalers”) offer capabilities that can shorten the development time needed to build such capabilities in-house.
- The next question is which hyperscaler to choose. In this context, the market trend is to pick more than one in what is known to us as a multi-cloud strategy, typically with one as the major and another as the minor. Such a strategy enables diversification of risks (business continuity and lock-in), encourages competitive tension and enables leverage of the different supplier benefits (AWS scale and commercials, Microsoft O365/other products, Google analytics/AI, etc).

WHAT IS LOW BASE EFFECT?

- If we take any data point or index, it is often contextualised by comparing it with a reference point, which is usually the same period of last year or the previous month. Now, this reference point or base can have an effect on the result of the comparison, and this phenomenon is commonly referred to as base effect. If the base for which the comparison is made is low, then the outcome is a result of a low-base effect and vice-versa.
- The base effect could also result in major differences in percentage comparisons. If we chose a reference point that is too low, there could be an overestimation and if the base is too high, it could result in gross underestimation of the situation.
- If we take the May industrial production numbers, for example, the growth rate is unusually high as last year's base was impacted due to the coronavirus pandemic. However, IIP growth was up just 1.7% compared to pre-Covid periods, and the manufacturing is in fact lagging. Choosing a different reference point, that is pre-Covid level, resulted in a better understanding on how the industrial activity in the country is actually performing.
- Industrial output is only one example and abnormally high or low economic estimates are often the result of a base effect. A year after the pandemic hit, GDP growth rates were unusually high as the lockdowns stalled the economic activity during reference time periods. India’s GDP grew by a massive 20% in the first quarter of FY22 on the back of a low-base when the economy contracted 24% in the same period previous year.

INVISIBLE HAND

- The unobservable market force that helps the demand and supply of goods in a free market to reach equilibrium automatically is the invisible hand.
- The phrase invisible hand was introduced by Adam Smith in his book 'The Wealth of Nations'. He assumed that an economy can work well in a free market scenario where everyone will work for his/her own interest.
- He explained that an economy will comparatively work and function well if the government will leave people alone to buy and sell freely among themselves. He suggested that if people were allowed to trade freely, self interested traders present in the market would compete with each other, leading markets towards the positive output with the help of an invisible hand.
- In a free market scenario where there are no regulations or restrictions imposed by the government, if someone charges less, the customer will buy from him. Therefore, you have to lower your price or offer something better than your competitor. Whenever enough people demand something, it will be supplied by the market and everyone will be happy. The seller end up getting the price and the buyer will get better goods at the desired price.

WET AND DRY LEASE OF AIRCRAFTS

- Airlines prefer to lease aircraft to reduce purchase costs and ramp up capacity at the same time. In aviation, there are two types of leasing arrangements -- wet leasing and dry leasing.
- Wet Leasing: Wet leasing is an arrangement where the lessor provides an aircraft and the crew too. So here, the lessor is responsible for the operational maintenance of the flight.
- Dry Leasing: In contrast, dry leasing is an arrangement where the lessor offers only an aircraft, without crew and ground staff. Here the lessee will be responsible for the operations of aircraft. In dry leasing, the aircraft is also operated under the lessee’s air operator certificate.
- Both wet leasing and dry leasing have their pros and cons, depending on the requirements of the airlines. Wet leasing is slightly costlier and can increase operational costs for the airline as the lessor provides for maintenance and crew. In dry leasing, the lessee is responsible for training the crew, costs of maintenance, staffing etc. In this case, the airline will also be in full control of the flying experience.
- According to regulator DGCA rules, wet lease is only permitted in emergency situations for up to three months and the contract is subject to an additional extension of three more months. Meanwhile, dry leasing is permitted for up to 12 months and the contract can be extended for 12 more months.

PERFECT COMPETITION

Perfect competition describes a market structure where competition is at its greatest possible level. To make it more clear, a market which exhibits the following characteristics in its structure is said to show perfect competition:

1. Large number of buyers and sellers, Homogenous product is produced by every firm.
2. Free entry and exit of firms, Zero advertising cost.
3. Consumers have perfect knowledge about the market and are well aware of any changes in the market. Consumers indulge in rational decision making.
4. All the factors of production, viz. labour, capital, etc, have perfect mobility in the market and are not hindered by any market factors or market forces.
5. No government intervention, No transportation costs.
6. Each firm earns normal profits and no firms can earn super-normal profits.
7. Every firm is a price taker. It takes the price as decided by the forces of demand and supply. No firm can influence the price of the product.

Ideally, perfect competition is a hypothetical situation which cannot possibly exist in a market. However, perfect competition is used as a base to compare with other forms of market structure. No industry exhibits perfect competition in India.

ROUTING TRANSIT NUMBER (RTN)

- ❖ A routing transit number is a nine-digit number used to identify a bank or financial institution when clearing funds for electronic transfers or processing checks in the United States. The American Bankers Association (ABA) established routing transit numbers in 1910.
- ❖ A routing number or routing transit number is a 9-digit number that identifies financial institution in a transaction and the location where your bank account was opened. Most common types of transaction are ACH and wire transfers.
- ❖ Some banks and financial institutions usually have multiple routing numbers serving different purposes, geographical regions and branches.
- ❖ A routing number is required in a variety of situations, including setting up direct deposit, automatic loan payments or recurring transfers like bill payments.
- ❖ If a customer is planning to send or receive money through his bank, he will likely come across the terms such as routing number (ABA), SWIFT / BIC code, IBAN, and sort code. All of them seemingly do much of the same thing which is to help banks identify where the money needs to go when being transferred, but each is required in specific situations because different countries and banks have different processes and requirements.
- ❖ The Routing numbers are used in the US to identify banks when processing domestic ACH payments or wire transfers. These are not required when making payments outside the United States.

CASH WITHDRAWAL FACILITY AT POINT OF SALE (POS)

- ❖ Under the facility of cash withdrawal at PoS terminals, cardholders can withdraw cash using their debit cards and open system prepaid cards issued by banks in India. However, credit cards cannot be used under this facility. Cash can also be withdrawn at PoS terminals through Unified Payments Interface (UPI) as well as through use of electronic cards that are linked with overdraft facility provided along with Pradhan Mantri Jan Dhan Yojana (PMJDY) accounts.
- ❖ Under this facility, a cardholder can withdraw cash up to ₹2,000 per transaction within an overall monthly limit of ₹10,000.
- ❖ Charges, if any, levied on cash withdrawals shall not exceed 1% of the transaction amount.
- ❖ The facility is made available at merchant establishments designated by the acquirer banks (i.e. the banks that deploy the PoS terminals) after a process of due diligence. The designated merchant establishments have to clearly indicate / display the availability of this facility along with the charges, if any, payable by the customer.
- ❖ The acquirer banks (other than local area banks) may, based on the approval of their Board, provide cash withdrawal facility at PoS terminals. The local area banks shall require the approval of RBI for providing this facility.

SHADOW BANKS

- ❖ Shadow banking is a name given to all the intermediaries that provide services similar to a traditional bank.
- ❖ They typically carry out banking function but do not come into the ambit of the banking regulation of a country.
- ❖ Shadow banking got popular in the financial crisis of 2008 and was deemed to be one of the main factors the said crisis. It was coined by Paul Mcculley in 2007 to mainly define the American non-banking intermediaries who used short term deposits to finance long term loans.
- ❖ These banks are defined as 'credit intermediation involving entities and activities remains outside the regular banking system'.
- ❖ NBFCs in the country come under the purview of the shadow banking sector. However, they are highly regulated by our central bank. Shadow banking has been the talk of the town after the recent crisis regarding the IL&FS default.

FREELANCE ECONOMY

- ❖ The term freelance economy refers to a labor market consisting of a growing number of short-term contracts. Companies hire self-employed workers to undertake specific jobs in return for an agreed-upon payment, rather than offering them permanent positions. The people who do these temporary jobs are called freelancers. They may find jobs through classified ads, temporary staffing agencies, or other means.

- Freelancers can work as many hours as they like. Some work full-time, balancing a number of different jobs for various clients or companies. Others do it on a part-time basis, which enables them to earn some extra income on the side in addition to a full-time job.
- Freelancing has been around for quite some time. Unlike the regular staff at a company, freelancers are considered independent contractors. This means they are generally responsible for paying their own taxes, health insurance, and pension contributions. They also are not eligible for vacation benefits or sick leave. That's why companies generally benefit from hiring independent contractors, paying them for work without offering them any additional, costly benefits.

BACKTESTING

- Backtesting measures the accuracy of the value at risk calculations. It is the process of determining how well a strategy would perform using historical data. The loss forecast calculated by the value at risk is compared with actual losses at the end of the specified time horizon.
- Backtesting a risk model, for instance, is typically done by checking if actual historical losses on a portfolio are very different from the losses predicted by the model. If actual losses are consistently higher, the model is underestimating risk. If they are lower, the model is overestimating risk.
- Backtesting in value at risk is used to compare the predicted losses from the calculated value at risk with the actual losses realized at the end of the specified time horizon. This comparison identifies the periods where the value at risk is underestimated or where the portfolio losses are greater than the original expected value at risk. Value at risk predictions can be recalculated if the backtesting values are not accurate, thereby reducing the risk of unexpected losses.
- Value at risk calculates the potential maximum losses over a specified time horizon with a certain degree of confidence. For example, the one-year value at risk of an investment portfolio is $10 million with a confidence level of 95%. The value at risk indicates that there is a 5% chance of having losses that exceed $10 million at the end of the year. With 95% confidence, the worst expected portfolio loss over one trading year will not exceed $10 million.

INVESTMENT & CAPITAL

- While financial economists use the word *investment* to refer to the acquisition and holding of potentially income-generating forms of wealth such as stocks and bonds, macroeconomists usually use the word for the sum of fixed investment; the purchasing of a certain amount of newly produced productive equipment, buildings or other productive physical assets per unit of time; and inventory investment, the accumulation of inventories over time.This is one of the major types of expenditure in an economy, the others being consumption expenditure, government expenditure, and expenditure on a country's export goods by people outside the country.
- The everyday usage of *investment* coincides with the one used by financial economists- the acquisition and holding of potentially income-generating forms of wealth such as stocks and bonds.
- Similarly, while financial economists use the word *capital* to refer to funds used by entrepreneurs and businesses to buy what they need to make their products or to provide their services, macroeconomists and microeconomists use the term capital to mean productive equipment, buildings or other productive physical assets.
- As with the term *investment*, the everyday usage of *capital* coincides with its use by financial economists.

COMMERCIAL PAPER

Introduced in India in the year 1990, Commercial Paper (CP) is an unsecured money market instrument issued in the form of a promissory note. CP, is a privately placed instrument, to enable highly rated corporate borrowers, primary dealers (PDs) and all-India financial institutions (FIs) for short-term borrowings from market.

Eligibility for Issue of CP: (I) Companies, including Non-Banking Finance Companies (NBFCs) and All India Financial Institutions (AIFIs), are eligible to issue CPs subject to the condition that any fund-based facility availed of from bank(s) and/or financial institutions is classified as a standard asset by all financing banks/institutions at the time of issue. (ii) Other entities like co-operative societies/unions, government entities, trusts, limited liability partnerships and any other body corporate having presence in India with a net worth of ₹ 100 crore or higher subject to the condition as specified above. (iii) The **minimum credit rating shall be 'A3'** as per rating symbol and definition prescribed by SEBI from any of the SEBI registered CRAs. Eligible issuers, whose total CP issuance during a calendar year is ₹ 1000 crore or more, shall obtain credit rating for issuance of CPs from at least two CRAs registered with SEBI and should adopt the lower of the two ratings. Where both ratings are the same, the issuance shall be for the lower of the two amounts for which ratings are obtained.

Eligible Investors: Individuals, banks, other corporate bodies (registered or incorporated in India) and unincorporated bodies, NRIs and Foreign Institutional Investors (FIIs).

Form of the instrument and issuance procedure: Issued in the form of Promissory Note. **Minimum investment value is Rs.5.00 Lakh** (face value) and then after in multiples of Rs.5.00 lakhs. CP shall be issued at a discount to face value. No issuer shall have the issue of CP underwritten or co-accepted. Options (call/put) are not permitted on CP. **Tenor of CPs shall be 7 days to 1 Year**.

DUE DATE RATE

- Due date, also known as maturity date, is the day when some accruals fall due. Due date rate is the amount of debt that has to be paid on a date decided in the past. It can also be known as maturity date rate. If the due date amount is higher than the actual amount, then it results in profit, otherwise it's a loss.

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- Due date rate, also called maturity amount, is the amount of debt that a debtor has to pay on a date decided earlier. For example, if a person named ABC borrowed Rs 100 from someone called XYZ and it has been decided that ABC would pay Rs 110 on a date decided at the time of making the transaction, then Rs 110 is called the due date rate, maturity amount or maturity rate and the date is a called the due date or maturity date.
- Due date amount is also calculated widely for bank deposits, FDs, NSCs, and other investment instruments and via financial institutions. The due date amount/rate for a fixed deposit of Rs 10,000 with 10 per cent annual rate of interest for one year will be Rs 11,000.
- The difference between the principle and due date rate can be determined as profit/loss. If the due date rate is higher than the actual rate, the difference amount is called profit, otherwise it will be treated as loss.

DEADWEIGHT LOSS

- It is the loss of economic efficiency in terms of utility for consumers/producers such that the optimal or allocative efficiency is not achieved.
- Deadweight loss can be stated as the loss of total welfare or the social surplus due to reasons like taxes or subsidies, price ceilings or floors, externalities and monopoly pricing. It is the excess burden created due to loss of benefit to the participants in trade which are individuals as consumers, producers or the government.
- For example, if a certain tax is imposed on the producer for each unit of the good he sells, it is likely that the new equilibrium price that is settled for the transaction will be higher and therefore some burden of this will be passed on to the consumer.
- This will lead to reduced trade from both sides. The loss of welfare attributed to the shift from earlier to this less efficient market mechanism is called the deadweight loss of taxation. This leads to wastage or underutilization of resources due to inefficient market outcomes.

UNICORNS

- The Unicorns are privately held, venture-capital backed startups that have reached a value of $1 billion.
- The valuation of unicorns is not expressly linked to their current financial performance, but largely based on their growth potential as perceived by investors and venture capitalists who have taken part in various funding rounds.
- American venture capitalist Aileen Lee is credited with coining the term in 2013. It was used to emphasise the rarity of the emergence of such startups.
- There are more than 1,000 unicorn companies around the world, as of March 2022.

ACCOUNT AGGREGATORS

- An Account Aggregator (AA) is a type of RBI regulated entity (with an NBFC-AA license) that helps an individual securely and digitally access and share information from one financial institution they have an account with to any other regulated financial institution in the AA network. **Data cannot be shared without the consent of the individual**.
- The account aggregator (AA) framework **facilitates sharing of financial and other information on a real-time basis and in a data blind manner between different regulated entities**.
- There will be many Account Aggregators an individual can choose between.
- India's financial system involves many hassles for consumers today -- sharing physical signed and scanned copies of bank statements, running around to notarise or stamp documents, or having to share your personal username and password to give your financial history to a third party. The Account Aggregator network would replace all these with a simple, mobile-based, simple, and safe digital data access & sharing process. This will create opportunities for new kinds of services -- eg new types of loans.
- The individual's bank just needs to join the Account Aggregator network.

MONEY MULES

- A money mule is someone who transfers or moves illegally acquired money on behalf of someone else.
- Criminals recruit money mules to help launder proceeds derived from online scams and frauds or crimes like human trafficking and drug trafficking. Money mules add layers of distance between crime victims and criminals, which makes it harder for law enforcement to accurately trace money trails.
- Money mules can move funds in various ways, including through bank accounts, cashier's checks, virtual currency, prepaid debit cards, or money service businesses.

TWIN BALANCE SHEET PROBLEM

- A twin balance sheet is a scenario where banks are under severe stress and the corporates are overleveraged to the extent that they cannot repay their loans.
- During a boom period and the economic growth is robust, corporates are encouraged to invest and expand aggressively. The economic survey of 2017-18 put it simply. A twin balance sheet problem follows a standard path. Their companies expand during a boom, leaving them with obligations that they cannot repay. So, they default on their debts, leaving bank balance sheets impaired, as well.
- According to the 2017-18 economic survey, investors dumped the stocks of PSU, bringing their prices to such low levels that at one point HDFC was valued as much as 24 public sector banks put together.
- In the mid-2000s, infra companies saw robust growth and their shares shot up. But as the loans piled up, banks found themselves in a tight spot. It was a twin balance sheet problem.

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NOMINAL EFFECTIVE EXCHANGE RATE(NEER)

- The NEER is the weighted average of bilateral nominal exchange rates of the home currency in terms of foreign currencies.
- More simply,NEER shows whether the Rupee is more expensive or cheaper than a basket of other currencies in terms of their present value.
- The 'weights' being the relative importance of such currencies in our foreign trade (e.g. for 2013-14, the weights in the 6-currency index were 31.09% for Euro, 21.56% for US dollars, 5.79% for pounds sterling, 26.56% Chinese Yuan,6.65% Japanese Yen and 8.35% Hong Kong Dollars).
- These weights are determined as per the moving average of previous 3 years' exports plus imports to/from the concerned countries.In economics,the NEER is an indicator of a country's international competitiveness interms of the foreign exchange (forex) market.

AUSTERITY

- Austerity is defined as the condition of a government or nation adopting serious policies to bring down the impacts of an economic crisis. Austerity measures are implemented to avoid debt crisis.
- These assist a country in tracking the expenses of the government, controlling them and regulating new policies in the annual budgeting. According to a statement by The World Bank, if the Debt-GDP Ratio reaches a value beyond 77%, a country is believed to undergo an economic crisis. In such an emergency, the economic growth drops down by 2% every year.
- Such financial dangers, often are linked to Higher Unemployment rates and low progress. To cope with the effects, administrations take actions as increasing taxes and cutting down unnecessary expenses other than needs. It is also important to remember, that an increase in tax during a stable economic condition is not an austerity measure.

CROWD FUNDING

- Crowd-funding is a concept popular in the West; is seeing traction in India too for raising funds for medical, professional, personal, educational, creative causes/projects.
- Under Crowd-funding, projects or a venture is financed by a group of individuals instead of professional parties like banks, venture capitalists or business angels.
- Crowdfunding makes use of the easy accessibility of vast networks of people through social media and crowdfunding websites to bring investors and entrepreneurs together, with the potential to increase entrepreneurship by expanding the pool of investors beyond the traditional circle of owners, relatives, and venture capitalists.
- Crowdfunding allows investors to select from hundreds of projects and invest as little as $10.
- Crowd-funding; which is an appealing choice of fundraising for start-ups, occurs without any intermediary and entrepreneurs tap the crowd by raising the money directly from individuals.

GREEN BANKING

- Green banking means promoting environmentally friendly practices and reducing the carbon footprints from ther banking activities.
- Green Banking entails banks to encourage environment friendly investments and give lending priority to those industries which have already turned green or are trying to go green and, thereby, help to restore the natural environment. Green banking aims at improving the operations and technology along with making the clients habits environment friendly in the banking business.
- It is like normal banking along with the consideration for social as well as environmental factors for protecting the environment.
- This comes in many forms such as using online banking instead of branch banking; paying bills online instead of mailing them; opening up CDs and money market accounts at online banks, instead of large multi-branch banks; or finding the local bank in the area that is taking the biggest steps to support local green initiatives. Foreign banks are practicing green banking on a much serious note. The Indian banks are still taking baby steps into this form of banking. Still, many of them are keen to actively pursue this strategy.

CARBON CREDITS

- Carbon credits primarily help to reduce green house gas emissions into the atmosphere.
- A carbon credit is a permit that allows the company that holds it to emit a certain amount of carbon dioxide or other greenhouse gases. One credit permits the emission of a mass equal to one ton of carbon dioxide.
- The carbon credit is one half of a so-called "cap-and-trade" program. Companies that pollute are awarded credits that allow them to continue to pollute up to a certain limit. That limit is reduced periodically. Meanwhile, the company may sell any unneeded credits to another company that needs them.
- Private companies are thus doubly incentivized to reduce greenhouse emissions. First, they will be fined if they exceed the cap. Second, they can make money by saving and reselling some of their emissions allowances.
- The ultimate goal of carbon credits is to reduce the emission of greenhouse gases into the atmosphere. As noted, a carbon credit is equal to one ton of carbon dioxide.
- Companies or nations are allotted a certain number of credits and may trade those to help balance total worldwide emissions."Since carbon dioxide is the principal greenhouse gas," the United Nations notes, "people speak simply of trading in carbon."The intention is to reduce the number of credits over time, thus incentivizing companies to find innovative ways to reduce greenhouse gas emissions.

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ALGORITHM TRADING

- Algorithm trading is a system of trading which facilitates transaction decision making in the financial markets using advanced mathematical tools.
- In this type of a system, the need for a human trader's intervention is minimized and thus the decision making is very quick. This enables the system to take advantage of any profit-making opportunities arising in the market much before a human trader can even spot them.
- As the large institutional investors deal in a large number of shares, they are the ones who make a large use of algorithmic trading. It is also popular by the terms of algo trading, black box trading, etc. and is highly technology-driven. It has become increasingly popular over the last few years.

RISK AND CONTROL SELF ASSESSMENT (RCSA)

- A risk and control assessment is the process by which organizations assess and examine operational risks and the effectiveness of controls used to circumnavigate them.
- It's one of the easiest and most effective tools in the risk management arsenal, and the objective is simple: to provide firms with reasonable assurance that all business objectives are going to be met, and existing risk management protocols are sustainable and robust. The RCSA process also helps institutions to assess how efficiently and economically they've been using resources and how closely teams are aligning with established objectives and goals.
- Bearing that in mind, the benefits of RCS assessments are relatively self-evident. Because the exercise generates crucial information on operational risks and internal controls, internal auditors and managers can use RCSA findings to judge the quality of control. In turn, not only do RCSAs encourage management and staff to assume and share responsibility for internal controls, but they also give organizations the opportunity to focus efforts on both informal and formal controls.
- Likewise, these assessments double as an effective bottom-up feedback mechanism to help organizations be more proactive, reduce audit exposures and improve the image and visibility of internal audits. Although risk and control self-assessment can be time consuming, they also identify, enhance and more evenly distribute responsibility across an organisation to heighten awareness and accountability.
- Banks and other financial institutions enjoy further benefits by utilising RCSA techniques as part of an integrated risk management strategy. This is because a facilitated RCSA can vastly improve the control environment of FIs by increasing awareness regarding organisational objectives and motivate personnel to more carefully design and implement operating control processes.

VOSTRO ACCOUNT

- Russia has become the 5th largest exporter to India. India's import from Russia skyrocketed to $21.34 billion in the April-September period. Amid rising exports, the Reserve Bank of India has allowed the opening of nine Vostro accounts with Indian lenders. In July, the RBI unveiled a mechanism for the settlement of international trade in Indian rupee. The move aims to promote Indian rupee in the international global community. Now let us know what is a Vostro Account?
- *Vostro* is a Latin word that translates to "your," as in "your account." Vostro accounts are held by a local bank on behalf of another (often foreign) bank. Such an arrangement forms a key part of correspondent banking, in which the bank holding the funds acts as custodian for or manages the account of a foreign counterpart. For example, if State Bank of India is maintaining the account of a US Bank in rupees for managing the transactions of the US Bank, it is termed as Vostro account of that Bank by SBI. In the above example, the US Bank will treat the account as their Nostro account with SBI.
- A vostro account is established to enable a foreign correspondent bank to act as an agent or provide services as an intermediary for a domestic bank. These services include executing wire transfers, withdrawals, and deposits for customers in countries where the domestic bank does not have a physical presence.

DISCOUNT BROKING

- A discount broker is a stockbroker who carries out buy and sells orders at reduced commission rates compared to a full-service broker. However, a discount broker does not provide investment advice or perform analysis on a client's behalf, unlike a full-service broker.
- The evolution of technology has revolutionized the way trading is conducted. Penetration of the internet has given a major impetus to discount brokers, most of whom operate through online platforms. More and more discount online brokers have come into the foray that enables individuals with smaller capital to trade at lower fees. One of the main reasons why discount brokers can afford to operate at lower fees is because they don't target working with high-net-worth individuals (HNWI). Their affordability lies in their online business activities, which translates to lower overhead costs. Furthermore, they don't offer services like customized research and planning, personal consultations, or tax planning to their customers. Online brokerage is almost synonymous with a discount brokerage. They are attracting young and tech-savvy individuals, who form the new generation of traders.

OPEN BOOK MANAGEMENT

- Open book management (OBM) is defined as empowering every employee of an organisation with required knowledge about the processes, adequate training and powers to make decisions which would help them in running a business. It is all about team work and moving forward collectively.
- Open book management is defined as one of the most dynamic approaches in running a business. It involves

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keeping complete transparency with employees, sharing data, training employees to embrace leadership roles as well as sharing financial statements. Research has shown that when companies share distinct details about the organisation with the employees, this process helps them grow faster. Most of the companies where this concept is followed generally figure among the top 10% of the companies.

- When a company shares sensitive information with employees, it leads to better employee-employer relationship, helps build trust and boosts the morale of employees. Open book management approach is about showing employees' the financial statement data and making them believe that every effort of theirs is getting reflected in the overall numbers of the company. This facilitates in building the trust as well as enables companies in retaining employees.

GREEN SHOE OPTION

- This clause allowed the underwriters to purchase or sell some percentage of the company's total shares. This is over and above the number of shares that are allotted in the IPO in the first place. This is done for regulating IPO prices and is now known as the greenshoe option.
- The greenshoe provides initial stability and liquidity to a public offering. As an example, a company intends to sell one million shares of its stock in a public offering through an investment banking firm, which the company has chosen to be the offering's underwriters. The underwriters function as the brokers of these shares and find buyers among their clients. A price for the shares is determined by careful examination of their value and expected worth. When shares begin trading in a public market, the lead underwriter is enabled to help the shares trade at or above the offering price.
- When a public offering trades below its offering price, the offering is said to have "broke issue" or "broke syndicate bid". This can create the perception of an unstable or undesirable offering, which can lead to further selling and hesitant buying of the shares. To manage this situation, the underwriters initially oversell ("short") the offering to clients by an additional 15% of the offering size (in this example, 1.15 million shares). When the offering is priced and those 1.15 million shares are "effective" (become eligible for public trading), the underwriters are able to support and stabilize the offering price bid (also known as the "syndicate bid") by buying back the extra 15% of shares (150,000 shares in this example) in the market at or below the offer price. The underwriters can do this without the market risk of being "long" this extra 15% of shares in their own account, as they are simply "covering" (closing out) their short position.
- When there is high demand for an offering, it causes the price of shares of the stock to rise and remain above the offering price. If the underwriters were to close their short position by purchasing shares in the open market, they would incur a loss by purchasing shares at a higher price than the price at which they sold them short.
- The greenshoe (over-allotment) would now come into play. The company had initially granted the underwriters the ability in the greenshoe clause to purchase from the company up to 15% more shares than the original offering size at the original offering price. By exercising the greenshoe, the underwriters are able to close their short position by purchasing shares at the same price for which they short-sold the shares, so the underwriters do not lose money.

INDEX OF INDUSTRIAL PRODUCTION (IIP)

- The Index of Industrial Production (IIP) is a composite indicator that measures the short-term changes in the volume of production of a basket of industrial products during a given period with respect to that in a chosen base period. In India, the first official attempt to compute the Index of Industrial Production (IIP) was made much earlier than the first recommendation on the subject came at the international level. With the inception of the Central Statistical Organization (now known as National Statistics Office (NSO)) in 1951, the responsibility for compilation and publication of IIP was vested with it.
- In India, the eight core industries account for 40.27 per cent of the weighting of items included in the Index of Industrial Production (IIP). The 8 core industries includes; Electricity, Steel, Refinery products, Crude oil, Coal, Cement, Natural gas and Fertilizers.
- The Index is used by government agencies and departments such as the Finance Ministry and the RBI for policymaking. It is also used for estimating the Gross Value Added of the manufacturing sector quarterly. It is the only measure of the physical volume of production. It is also extremely useful for the projection of advance GDP estimates.

RED FLAGGED ACCOUNTS (RFA)

- A Red Flagged Account (RFA) is one where a suspicion of fraudulent activity is thrown up by the presence of one or more Early Warning Signals (EWS). These signals in a loan account should immediately put the bank on alert regarding a weakness or wrong doing which may ultimately turn out to be fraudulent.
- The threshold for EWS and RFA is an exposure of **₹ 500 million or more** at the level of a bank irrespective of the lending arrangement (whether solo banking, multiple banking or consortium). All accounts beyond ₹ 500 million classified as RFA or 'Frauds' must also be reported on the CRILC data platform together with the dates on which the accounts were classified as such.
- In case the account is classified as RFA, the FMG will stipulate the nature and level of further investigations or remedial measures necessary to protect the bank's interest within a stipulated time which cannot exceed **six months**.
- The initial decision to classify any standard or NPA account as RFA or Fraud will be at the individual bank level. Further within **15 days** of RFA/Fraud classification, the bank which has red flagged the account or detected the fraud would ask the consortium leader or the largest lender under MBA **to convene a meeting of the JLF** to

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discuss the issue. The meeting of the JLF so requisitioned must be convened within 15 days of such a request being received. In case there is a broad agreement, the account should be classified as a fraud; else based on the majority rule of agreement amongst banks with at least 60% share in the total lending, the account should be red flagged by all the banks and subjected to a forensic audit commissioned or initiated by the consortium leader or the largest lender under MBA.

- The **forensic audit must be completed within a maximum period of three months** from the date of the JLF meeting authorizing the audit. Within 15 days of the completion of the forensic audit, the JLF shall reconvene and decide on the status of the account. In case the decision is to classify the account as a fraud, the RFA status shall be changed to Fraud in all banks and reported to RBI and on the CRILC platform within a week of the said decision. Besides, within 30 days of the RBI reporting, the bank commissioning/ initiating the forensic audit should lodge a complaint with the CBI.

NEO BANK

- A Neo bank is a digital only and mobile-first bank. In India, service providers partner up with traditional banks to create a digital banking platform to give customers seamless banking on the go. Neo banks work best for tech savvy and cashless individuals who are comfortable with a digital only bank. From online payments to saving and investing, neo banks are generally feature packed and super convenient.
- Neobanks are generally digital banks which work completely online. They don't have physical branches and all you'd need from the bank is on an app. Currently, RBI regulations recognise that neo banks aren't actual banks. While they can ease banking services by taking them online, the banking will be operated through a traditional recognised bank.
- Neo banks in India have not yet been permitted by the Reserve Bank of India (RBI) to hold a banking license. Therefore, they are, strictly speaking, platforms that offer financial services through their banking partners who hold a banking license.
- The stars of Neo banks in India look promising and brimming with potential. However, the biggest challenge for these platforms is gaining customers' trust. Understandably, most customers may find it difficult to trust an unfamiliar entity over banking names they have known for years.
- Some of the Neo Banks operating in India are Freo, Fi Money, RazorPay etc.

GIG ECONOMY

- A gig economy is a labor market that relies heavily on temporary and part-time positions filled by independent contractors and freelancers rather than full-time permanent employees.
- Gig workers gain flexibility and independence but little or no job security. Many employers save money by avoiding paying benefits such as health coverage and paid vacation time. Others pay for some benefits to gig workers but outsource the benefits programs and other management tasks to external agencies.
- Examples of gig workers include freelancers, independent contractors, project-based workers and temporary or part-time hires. Gig apps and digital technology are often used to connect customers and gig workers. The gig economy is a recent trend, with a number of factors contributing to its rise. The two most important factors are; The workforce has become more mobile and Work is increasingly done remotely via digital platforms.
- The gig economy provides consumers with an alternative to commercial products and industries. They turn to the gig economy for convenience, better service or both. This is the case with ride-hailing apps, like Uber, and food delivery services, like Grubhub. Gig apps have also met consumer demand where a service is in short supply or expensive. This is a role Airbnb has played in places where hotel rooms are in short supply, making more temporary accommodations available, sometimes at lower prices.

INTER-BANK PARTICIPATION CERTIFICATES (IBPCS)

- The Working Group on the Money Market (Chairman Shri N.Vaghul) had recommended the introduction of Inter-Bank Participations, with a view to providing an additional instrument for evening out short term liquidity within the banking system. There are two types of participations. (i) Inter-Bank Participations with Risk Sharing and (ii) Inter-Bank Participations without Risk Sharing. The Participations would be strictly interbank confined to scheduled commercial banks including RRBs (in excess of the PSL target).
- In case of IBPCs with risk sharing, the minimum period of such Participation will be 91 days, while the maximum period will be 180 days and in case of IBPC without risk sharing, the tenure of such Participations will not exceed 90 days. The rate of interest on Participations would be left free to be determined between the issuing bank and the participating bank.
- The aggregate amount of such Participations in any account should not exceed 40 per cent of the out standings in the account at the time of issue.
- For IBPCs with risk sharing, In the case of the issuing bank, the aggregate amount of Participations would be reduced from the aggregate advances outstanding. Such transactions will not be reflected in the individual borrower's accounts but will be only netted out in the General Ledger. The participating bank would show the aggregate amount of such Participations as part of its advances.
- For IBPCs without risk sharing, the issuing bank will show the amount of Participations as borrowing while the participating bank will show the same under Advances to bank i.e. due from banks. The Participations would be treated as part of the net Demand and Time Liabilities and net bank balances for purposes of statutory reserve requirements.

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- ❖ The issuing bank will normally repay the amount of Participations together with interest to the participant bank on the date of maturity, excepting when the risk has materialised. In cases where risk has materialised the issuing bank will take necessary action, in consultation with the participating bank and share the recoveries proportionately
- ❖ IBPCs bought by banks, on a risk sharing basis, are eligible for classification under respective categories of priority sector, provided the underlying assets are eligible to be categorized under the respective categories of priority sector.

PRIORITY SECTOR LENDING CERTIFICATES (PSLC)

- ❖ The Priority Sector Lending Certificate scheme was introduced to enable banks to achieve the priority sector lending target and sub-targets by purchase of these instruments in the event of shortfall and at the same time incentivize the surplus banks; thereby enhancing lending to the categories under priority sector.
- ❖ The seller will be selling fulfillment of priority sector obligation and the buyer would be buying the same. There will be no transfer of risks or loan assets. The PSLCs will be traded through the CBS portal (e-Kuber) of RBI.
- ❖ The sellers/buyers are Scheduled Commercial Banks (SCBs), Regional Rural Banks (RRBs), Local Area Banks (LABs), Small Finance Banks (when they become operational) and Urban Co-operative Banks who have originated PSL eligible category loans subject to such regulations as may be issued by the Bank.
- ❖ There are **4 kinds of PSLCs**; PSLC Agriculture: Counting for achievement towards the total agriculture lending target, PSLC SF/MF: Counting for achievement towards the sub-target for lending to Small and Marginal Farmers, PSLC Micro Enterprises: Counting for achievement towards the sub target for lending to Micro Enterprises and PSLC General: Counting for achievement towards the overall priority sector target.
- ❖ A bank having shortfall in achievement of any sub-target (e.g. SF/MF, Micro), will have to buy the specific PSLC to achieve the target. However, if a bank is having shortfall in achievement of the overall target only, as applicable to it, may buy any of the available PSLCs.
- ❖ Normally PSLCs will be issued against the underlying assets. However, with the objective of developing a strong and vibrant market for PSLCs, a bank is permitted to issue PSLCs upto 50 percent of previous year's PSL achievement without having the underlying in its books.
- ❖ All PSLCs will expire by March 31st and will not be valid beyond the reporting date (March 31st), irrespective of the date it was first sold.
- ❖ The PSLCs would have a **standard lot size of ₹ 25 lakh** and multiples thereof.

IMPACT INVESTING

- ❖ Impact investing refers to investments made into companies, organizations, and funds with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return. t its core, impact investing is about an alignment of an investor's beliefs and values with the allocation of capital to address social and/or environmental issues.
- ❖ Impact investors actively seek to place capital in businesses, nonprofits, and funds in industries such as renewable energy, housing, healthcare, education, microfinance, and sustainable agriculture. Institutional investors, notably North American and European development finance institutions, pension funds and endowments have played a leading role in the development of impact investing.
- ❖ Some of the impact investment funds in India are; Ankur Capital fund, IFMR FImpact Investment Fund, India Financial Inclusion Fund etc.

VENTURE LENDING OR VENTURE DEBT

- ❖ Venture debt or Venture lending is a loan to an early stage company (to startups and growth companies that do not have positive cash flows or significant assets to give as collateral) that provides liquidity to a business for the period till raising of equity funds. It is a short term financing solution and typically these loans are repaid within a period of 18 months or sometimes up to two-three years. Most often, private venture debt providers (funds or banks) expect to be repaid from the proceeds of the next funding round i.e from equity/venture capital infusion. However, venture debt providers stay very closely linked to venture capital investors and it is not unusual to see a being provided with such loans multiple times during its development.
- ❖ Venture lenders frequently piggyback on the due diligence done by the venture capital firm.
- ❖ Venture debt can be a source of capital for entrepreneurial companies. As a complement to equity financing, venture debt provides growth capital to extend the cash runway of a startup company to achieve the next milestone while minimizing equity dilution for both employees and investors.
- ❖ Difference between Venture capital and venture debt: Venture capital involves active investors who not only buy stakes in companies, but also advise them, and help them build businesses that are fit for purpose using their experience from working with other similar companies. Whereas, Venture debt doesn't do all that. The venture lender provides a loan to help grow the start-up business and reach its next milestone faster. The next time they go to the market to raise more money; they will have something more to show. This does not dilute the original investors and the founders. When the venture lender lends venture debt, they don't become shareholders or get involved in the management of the businesses.

LEVERAGED BUYOUT

- ❖ A leveraged buyout (LBO) is the acquisition of another company using a significant amount of borrowed money (bonds or loans) to meet the cost of acquisition. The assets of the company being acquired are often used as collateral for the loans, along with the assets of the acquiring company.

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- The buyer typically wishes to invest the smallest possible amount of equity and fund the balance of the purchase price with debt or other non-equity sources. The aim of the LBO model is to enable investors to properly assess the transaction and earn the highest possible risk-adjusted internal rate of return (IRR).
- In an LBO, the goal of the investing company or buyer is to make high returns on their equity investment, using debt to increase the potential returns.

PRODUCTION POSSIBILITY FRONTIER

- Production possibility frontier is the graph which indicates the various production possibilities of two commodities when resources are fixed. The production of one commodity can only be increased by sacrificing the production of the other commodity. It is also called the production possibility curve or product transformation curve.
- The state of technology is taken to be constant. Since the production of one commodity can be increased only by decreasing the production of the other commodity, production possibility curve also measures the production efficiency of the commodities. The production possibility frontier helps in deciding the commodities most beneficial to society, but this response is limited in itself as there is a choice between two commodities only.

CATCH-UP EFFECT

- Catch up effect, alternatively called the theory of convergence, states that poor or developing economies grow faster compared to economies with a higher per capita income and gradually reach similar high levels of per capita income. Thus, all economies, over time, may converge in terms of income per head.
- The catch up effect briefly stated implies that the poorer nations grow much faster because of higher possibilities of growth and over time catch up with the richer countries in terms of per capita income such that the divide between the two gets minimized.
- This theory of convergence of incomes is based on the logic of better opportunities of growth available for developing economies like access to technological knowhow from the developed world and increasing returns to capital, etc.
- Empirical evidence suggests that while some developing economies have been able to effectively tap the available advantages to grow faster and catch up with robust economies, this has not been true for a large part of the developing world. The limitations of the theory are based on grounds of social, institutional or political differences, which simultaneously influence growth.

ZED SCHEME FOR MSMES

- As the MSMEs are amongst the strongest drivers of economic development, innovation and employment, it becomes imperative to strengthen their ecosystem. The Government of India envisioned the Zero Defect Zero Effect (ZED) initiative to enhance MSME competitiveness, make them sustainable and transform them as National and International Champions.
- Addressing the nation on India's 68th Independence Day, Hon'ble Prime Minister Shri Narendra Modi urged the industry, especially the Micro, Small and Medium Enterprises (MSMEs) of India, to manufacture goods in the country with "zero defects" and to ensure that the goods have "zero effect" on the environment.
- MSME Sustainable (ZED) Certification is an extensive drive to create awareness amongst MSMEs about Zero Defect Zero Effect (ZED) practices and motivate & incentivise them for ZED Certification and to become MSME Champions.
- This Scheme is proposed to be implemented in 2 Phases. **Phase 1:** For Manufacturing MSMEs with UDYAM Registration and **Phase 2:** Inclusion of Service Sector MSMEs. In phase 2, it is also envisaged to provide funding to the ZED Certified MSMEs to obtain international certifications, as necessary for international market and further, making provisions to align ZED Certification with the international certifications for its global acceptance.
- ZED Certification can be attained in 3 Levels after registering and taking the ZED Pledge: Level 1: BRONZE, Certification Level 2: SILVER and Certification Level 3: GOLD. Every MSME that embarks on the journey of ZED will have to take a “ZED Pledge” before applying for a ZED Certification Level (Bronze, Silver, Gold). Certification on WASH Standard & other capacity building measures through MSME KAWACH will be available to MSMEs immediately after taking ZED Pledge.
- MSMEs will be given financial assistance/subsidy for obtaining for a ZED Certification Level. The subsidy will be 80% for Micro Enterprises, 60% for Small Enterprises and 50% for medium enterprises. There will be an additional subsidy of 10% for the MSMEs owned by Women/SC/ST Entrepreneurs OR MSMEs in NER/Himalayan/LWE/Island territories/aspirational districts. In addition to above, there will be an additional subsidy of 5% for MSMEs which are also a part of the SFURTI OR Micro & Small Enterprises - Cluster Development Programme (MSE-CDP) of the Ministry.

'GIFFEN GOODS'

- The goods that increase consumption as the price increases are known as the Giffen good. Thus, it violates the law of demand by showing an upwards-sloping curve of the demand. Moreover, all the Giffen goods are always inferior. However, not all the inferior goods shall be considered as the Giffen.
- The focus of such goods is on non-luxury products with few substitutes. There is a striking difference between Giffen goods and the Veblen goods. Giffen goods, as said earlier, focus on non-luxury items, whereas the Veblen goods only focus on luxury items. The demand for these (Giffen) goods rises on increasing the price. It is contrary to the fundamentals of the law of demand as it creates an upward slope, unlike the downward-sloping demand curves of other goods that obey the law of demand.

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- The goods must hold a large percentage of the household budget. When the goods have a more significant portion of the budget, only an increase in the product's price will affect the consumer. The goods should have very little or no substitute option. If it does have any substitute, then the substitute must cost more than the actual good, even if the price of the good increases. For example, Rice and wheat are the staple food options for most parts of the world. Therefore, even an increase in their price could not allow other products as its substitute.

SOFT CURRENCY

- Soft currency is a currency which is hyper sensitive and fluctuates frequently. Such currencies react very sharply to the political or the economic situation of a country.
- It is also known as weak currency due to its unstable nature. Such currencies mostly exist in developing countries with relatively unstable governments. Soft currencies cause high volatility in exchange rates as well, making them undesirable by foreign exchange dealers. These currencies are the least preferred for international trade or holding reserves.
- A soft currency is one that struggles to maintain its value in relation to other currencies. This happens because traders and investors seek to hold other currencies more than the soft currency. This weak demand is most often a result of the country's political or economic instability, which in turn makes the price of the currency more volatile.
- The Zimbabwe dollar and the Venezuelan bolivar are two examples of soft currencies. Both of these countries have experienced political instability. Their governments have instituted monetary policies which have led to hyperinflation. This in turn has led to a sharp devaluation in the currency and the printing of high denominating notes.

COUNTER PARTY CREDIT RISK

- Counterparty Credit Risk (CCR) is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. An economic loss would occur if the transactions or portfolio of transactions with the counterparty has a positive economic value at the time of default. Unlike a firm’s exposure to credit risk through a loan, where the exposure to credit risk is unilateral and only the lending bank faces the risk of loss, CCR creates a bilateral risk of loss: the market value of the transaction can be positive or negative to either counterparty to the transaction.
- A central counterparty (CCP) is a clearing house that interposes itself between counterparties to contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer and thereby ensuring the future performance of open contracts. A CCP becomes counterparty to trades with market participants through novation, an open offer system, or another legally binding arrangement. For the purposes of the capital framework, a CCP is a financial institution.
- A qualifying central counterparty (QCCP) is an entity that is licensed to operate as a CCP (including a license granted by way of confirming an exemption), and is permitted by the appropriate regulator / overseer to operate as such with respect to the products offered.
- The exposure amount for the purpose of computing for default risk capital charge for counterparty credit risk will be calculated using the Current Exposure Method (CEM). The credit equivalent amount of a market related off-balance sheet transaction calculated using the current exposure method is the sum of current credit exposure and potential future credit exposure of these contracts.

ARBITRAGE

- Buying an asset in one market and simultaneously selling an identical asset in another market at a higher price. Sometimes these will be identical assets in different markets, for instance, shares in a company listed on both the London Stock Exchange and New York Stock Exchange. Often the assets being arbitraged will be identical in a more complicated way, for example, they will be different sorts of financial securities that are each exposed to identical risks.
- Some kinds of arbitrage are completely risk-free-this is pure arbitrage. For instance, if EUROS are available more cheaply in dollars in London than in New York, arbitrageurs (also known as arbs) can make a risk-free PROFIT by buying euros in London and selling an identical amount of them in New York. Opportunities for pure arbitrage have become rare in recent years, partly because of the GLOBALISATION of FINANCIAL MARKETS. Today, a lot of so called arbitrage, much of it done by hedge funds, involves assets that have some similarities but are not identical. This is not pure arbitrage and can be far from risk free.
- The arbitrage pricing theory says that the price of a financial asset reflects a few key risk factors, such as the expected rate of interest, and how the price of the asset changes relative to the price of a portfolio of assets. If the price of an asset happens to diverge from what the theory says it should be, arbitrage by investors should bring it back into line.

CONTRACTIONARY POLICY

- A contractionary policy is a kind of policy which lays emphasis on reduction in the level of money supply for a lesser spending and investment thereafter so as to slow down an economy.
- A nation's central bank uses monetary policy tools such as CRR, SLR, repo, reverse repo, interest rates etc to control the money supply flows into the economy. Such measures are used at high growth periods of the business cycle or in times of higher than anticipated inflation. Discouraging spending by way of increased interest rates and reduced money supply helps control rising inflation. It may also lead to increased unemployment at the same time.

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- The idea here is to make the opportunity cost of holding money high so that people want to hold and spend less of it. The effectiveness of this policy may vary depending upon the specific spending and investment patterns in any economy.

CURRENCY DEPOSIT RATIO

- The currency deposit ratio shows the amount of currency that people hold as a proportion of aggregate deposits.
- An increase in cash deposit ratio leads to a decrease in money multiplier. An increase in deposit rates will induce depositors to deposit more, thereby leading to a decrease in Cash to Aggregate Deposit ratio. This will in turn lead to a rise in Money Multiplier.
- Currency-deposit ratio holds an inverse relationship with the money supply. This implies that an increase in currency deposit ratio results in a decrease in the money supply in the economy and vice-versa. This is because an increase in currency deposit ratio implies that people increase their cash holdings as compared to the proportion of deposits held in the bank. This implies that banks would have comparatively lesser money to create credit in the economy. A reduction in credit creation will lead to a fall in money supply prevailing in the economy. The vice-versa of this process will be applicable in case of a fall in currency deposit ratio.

DECENTRALIZED FINANCE (DEFI)

- Decentralized finance (DeFi) is an emerging financial technology based on secure distributed ledgers similar to those used by cryptocurrencies. Decentralized finance, or DeFi, uses emerging technology to remove third parties and centralized institutions from financial transactions. DeFi eliminates the fees that banks and other financial companies charge for using their services.
- Decentralized finance differs from traditional, centralized financial institutions and banking. In centralized finance, money is held by banks and third parties who facilitate money movement between parties, with each charging fees for using their services. A credit card charge starts from the merchant and moves to an acquiring bank, which forwards the card details to the credit card network.
- The network clears the charge and requests a payment from the bank. Each entity in the chain receives payment for its services, generally because merchants must pay for the use of credit and debit cards.
- Decentralized finance eliminates the need for a centralized finance model by enabling anyone to use financial services anywhere regardless of who or where they are. DeFi applications give users more control over their money through personal wallets and trading services that cater to individuals.
- Decentralized finance uses the blockchain technology that cryptocurrencies use. A blockchain is a distributed and secured database or ledger. Applications called dApps are used to handle transactions and run the blockchain.

GOLDILOCKS ECONOMY

- A Goldilocks economy is not too hot or too cold but just right to steal a line from the popular children's story *Goldilocks and the Three Bears*. The term describes an ideal state for an economic system. In this perfect state, there is full employment, economic stability, and stable growth. The economy is not expanding or contracting by a large margin.
- A Goldilocks economy is thus warm enough with steady economic growth to prevent a recession; however, growth is not so hot as to push it into an inflationary status.
- A Goldilocks state is also ideal for investing because as companies grow and generate positive earnings growth, stocks perform well. Goldilocks economies are temporary in nature, as seen by the boom and bust cycles.
- In current scenario; Investors had a vexing time last year. Rampant inflation was met by central banks racing to hike official interest rates, trashing returns on almost every asset class with the exceptions of gold and other commodities. The key for financial markets in the coming year will be whether policy makers can engineer a soft landing for the global economy, or whether recession becomes endemic. Given how badly the guardians of monetary stability misjudged the post-pandemic environment, we're sceptical of their ability to concoct a Goldilocks economy. Too much tightening risks serving up cold economic porridge as growth becomes moribund.

SUNK COST DILEMMA

- Sunk costs are irrecoverable costs that have already been incurred and are independent of any happenings in the future. Dilemma of whether to continue a project with obscure prospects, which has already absorbed a considerable amount of sunk cost, is known as sunk cost dilemma.
- In a sunk cost dilemma, one can neither walk away from the project as a considerable amount has already been spent on it and nor can s/he continue with the project and risk spending more money that might never be recovered. Investors usually face such a predicament when market conditions change dramatically in the middle of a project.

HELICOPTER MONEY VS QUANTITATIVE EASING

- American economist Milton Friedman coined the term 'Helicopter Money'. It basically means non-repayable money transfer from the central bank to the government.
- This is an unconventional monetary policy tool aimed at bringing a flagging economy back on track. It involves printing large sums of money and distributing it to the public. Friedman used the term to signify "unexpectedly dumping money onto a struggling economy with the intention to shock it out of a deep slump. "Under such a policy, a central bank "directly increase the money supply and, via the government, distribute the new cash to the population with the aim of boosting demand and inflation."

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- Quantitative easing also involves the use of printed money by central banks to buy government bonds. But not everyone views the money used in QE as helicopter money. It sure means printing money to monetise government deficits, but the govt has to pay back for the assets that the central bank buys.It's not the same as bond-buying by central banks "in which bank-owned assets are swapped for new central bank reserves."Helicopter money is also different from a central bank directly financing the debt of a government.

K-SHAPED ECONOMIC RECOVERY

- A K-shaped recovery occurs when, following a recession, different parts of the economy recover at different rates, times, or magnitudes. This is in contrast to an even, uniform recovery across sectors, industries, or groups of people. This type of recovery is called K-shaped because the path of different parts of the economy when charted together may diverge, resembling the two arms of the Roman letter "K." The term refers to the shape that when this type of recovery takes when plotted on a line graph. The portion of the population that recovers quickly is represented by the upper part of the K, while the lower part represents those groups that recover more slowly. In some cases, it could be that different industries recover at different speeds.
- The K-shaped recovery is unique when compared to other shapes. It foreshadows a dangerous, diverging economic future in which the economy recovers unevenly on one side and the wealthiest prosper while everyone else falls behind. In simple terms, a K-shaped recovery is a post-recession scenario in which one section of the economy begins to recover while another segment continues to struggle.
- A K-shaped recovery leads to changes in the structure of the economy or the broader society as economic outcomes and relations are fundamentally changed before and after the recession. This can happen for a number of reasons related to technological and structural change within an economy as well as responses to a recession by policymakers. The government needs to do more to prevent a K-shaped recovery of the economy hit by the coronavirus pandemic.

OFFER FOR SALE (OFS)

- Offer for sale (OFS) is a simpler method of share sale through the exchange platform for listed companies. The mechanism was first introduced by India's securities market regulator SEBI, in 2012, to make it easier for promoters of publicly-traded companies to cut their holdings and comply with the minimum public shareholding norms by June 2013.
- Unlike a follow-on public offering (FPO), where companies can raise funds by issuing fresh shares or promoters can sell their existing stakes, or both, the OFS mechanism is used only when existing shares are put on the block.
- In an OFS, a minimum of 25 per cent of the shares offered, are reserved for mutual funds (MFs) and insurance companies. At any point, no single bidder other than these two institutional categories is allocated more than 25 per cent of the size of the offering. A minimum of 10 per cent of the offer size is reserved for retail investors. A seller can offer a discount to retail investors either on the bid price or on the final allotment price. The OFS window is open only for a single day. It is mandatory for the company to inform the stock exchanges two banking days prior to the OFS about its intention. This has a key advantage over follow-on public offer (FPO), which stays open for three to 10 days.
- In OFS, the entire retail bid amount is backed by 100 per cent margins in the form of cash and cash-equivalent.

BARBELL STRATEGY: Faced with all uncertainty of economic activities on account of the pandemic, the Government of India opted for a "Barbell Strategy" that combined a bouquet of safety-nets to cushion the impact on vulnerable sections of society/business, with a flexible policy response based on a Bayesian updating of information. This is a common strategy used in financial markets to deal with extreme uncertainty by combining two seemingly disparate legs. The iterative leg of this strategy is the same as the "Agile" approach that uses feedback-loops, and real-time adjustment and the other leg of the Barbell strategy cushions for unpredictable negative outcomes by providing safety nets.

AGILE APPROACH: The Agile approach is a well-established intellectual framework that is increasingly used in fields like project management and technology development. In an uncertain environment, the Agile framework responds by assessing outcomes in short iterations and constantly adjusting incrementally.

WATERFALL FRAMEWORK: "Waterfall" framework has been the conventional method for framing policy in India and most of the world. The Waterfall approach entails a detailed, initial assessment of the problem followed by a rigid upfront plan for implementation. This methodology works on the premise that all requirements can be understood at the beginning and therefore pre-commits to a certain path of action. This is the thinking reflected in five-year economic plans, and rigid urban master-plans.

WHAT IS D-SIB? Domestic systemically important banks (D-SIBs) in India are identified by RBI as the institutions which are too big to fail. RBI categorises DSIBs under 3 buckets which require additional capital as a risk mitigant. Under bucket 1, banks require 0.2 per cent of additional common equity Tier 1 capital as a percentage of risk weighted assets (RWAs), and under bucket 3, banks require 0.6 per cent of additional common equity Tier 1 capital as a percentage of RWAs. Currently ICICI Bank and HDFC Bank fall under bucket 1, and SBI falls under bucket 3.
What is impossible Trinity? The "Impossible Trinity" is referred to the balancing act of (1) inflation (price stability), (2) floating exchange rates (currency appreciation) and (3) capital inflows (capital mobility). Economic theory says, a country can only attain two of the three objectives and it is impossible to balance or control all the three parameters simultaneously, hence it is called as impossible trinity.

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GREEN SHOOT: It is sign of growth or renewal, especially of economic recovery. It is the term used to indicate the signs of economic recovery during an economic downturn. The first sign of an improvement in an economy that is performing badly. The first sign of an economy is growing again after a recession.

WHAT ARE MASALA BONDS AND THEIR BENEFITS?: Masala Bonds were introduced in India in 2014 by International Finance Corporation (IFC). The IFC issued the first masala bonds in India to fund infrastructure projects. Indian entities or companies issue masala bonds outside India to raise money. The issue of these bonds is in Indian currency rather than local currency. Thus, if the rupee rate falls, the investor will bear the loss. Both the government and private entities can issue these bonds.

CREDIT-NETTING A system to reduce the number of credit checks on financial transaction is known as credit-netting. Such agreement occurs normally between large banks and other financial institutions. It places all the future and current transaction into one agreement, removing the need for credit cheques on each transaction.

CHARGE-OFF: This is a declaration by a lender to a borrower for non-payment of the remaining Amount, when borrower badly falls into debt. The unpaid amount is settled as a bad debt.

LIQUIDITY ADJUSTMENT FACILITY (LAF): This is a tool used in monetary policy that allows banks to borrow money through repurchase agreements. This arrangement allows banks to respond to liquidity pressures and is used by governments to assure basic stability in the financial markets. LAF includes both repos and reverse repo agreements.

CARTEL: An organization of producers seeking to limit or eliminate competition among its members, most often by agreeing to restrict output to keep prices higher than would occur under competitive conditions. Cartels are inherently unstable because of the potential for producers to defect from the agreement and capture larger markets by selling at lower prices.

WHAT IS NET ZERO?: India set a 2070 net-zero emissions target at COP26. This will require massive investments in climate change adaptation and mitigation programs in years to come to transform the economy into a low carbon one while maintaining its impressive growth. In order to meet its net zero emissions objectives, the 2022 budget emphasises the need for green energy alternatives.

WHAT IS VARIABLE RATE REVERSE REPO (VRRR)? To restore the revised liquidity management framework instituted in February 2020, the Reserve Bank has been rebalancing the liquidity surplus by shifting it out of the fixed rate overnight reverse repo window into the variable rate reverse repo (VRRR) auctions of longer maturity. VRR has been introduced by RBI to absorb excess liquidity from the banking system. So far RBI was using 14 days VRR. Now RBI has proposed 28 days VRR. Reverse repo rate absorption of funds pays 3.35% in the fixed rate repo window but it takes only a maximum of Rs. 2 lakh crore. The balance of excess liquidity can be lent to RBI by way of VRR auctions.

What is 'OPERATION TWIST'?: It is monetary policy strategy of RBI aimed at stimulating economic growth by lowering long term interest rates. Simultaneous purchase and sale of govt. securities under Open Market Operations (OMO's) is known as Operation Twist. It involves buying long tenor securities while selling short tenor securities to keep the yield curve under check and thereby lowering the borrowing cost.

What is IFRS?: International Financial Reporting Standards (IFRS) is a set of common accounting standards. IFRS are issued by the International Accounting Standards Board (IASB). IFRS originated in the European Union, with the intention of making business affairs and accounts accessible across the continent.

The need for IFRS: Modern economies rely on cross-border transactions and the free flow of international capital. In the past, such cross-border activities were complicated by different countries maintaining their own sets of national accounting standards. IFRS address this challenge by providing a high quality, internationally recognized set of accountingstandards that bring transparency, accountability and efficiency to financial markets around the world.

DIFFERENCES BETWEEN CO-LENDING AND CO-ORIGINATION:

Parameters	Co-origination	Co-leanding
Scope	Applicable only to NBFC-Non Deposit-SystemicallyImportant (NBFCs-ND-Sis)	Applicable inincluding HFCs All NBFCs
Risk Sharing	Highly Credit Risk for Banksdue to exposure/proportionateexposure	low credit risk as exposurecontractual in nature and exposure may not beproportionate
Recourse clause	Recourse with NBFC was notavailable	Explicit recourse againstoriginating co-lenders based on mutually agreed terms andconditions
Interest Rates	Blended calculations Interest Rate	An all inclusive rate that ismutually agreed by the parties
Foreign Banks	No such exclusion for ForeignBanks	Foreign Banks with less than20 branches are excluded

APPLICATION-SPECIFIC INTEGRATED CIRCUIT (ASIC) MINER

- An application-specific integrated circuit (ASIC) is an integrated circuit chip designed for a specific purpose. An ASIC miner is a computerized device that uses ASICs for the sole purpose of "mining" digital currency. Generally, each ASIC miner is constructed to mine a specific digital currency. So, a Bitcoin ASIC miner can mine only bitcoin. One way to think about bitcoin ASICs is as specialized bitcoin mining computers optimized to solve the mining algorithm.
- Developing and manufacturing ASICs as mining devices is costly and complex. However, because ASICs are built especially for mining cryptocurrency, they do the job faster than less powerful computers. As a result, ASIC chips for cryptocurrency mining have become increasingly efficient.

BLUE OCEAN

- Blue ocean is an entrepreneurship industry term to describe a new market with little competition or barriers standing in the way of innovators. The term refers to the vast "empty ocean" of market options and opportunities that occur when a new or unknown industry or innovation appears.
- A blue ocean is considered (from a marketing standpoint) a yet unexploited or uncontested market space.
- Blue oceans are contrasted with "red oceans," characterized by cutthroat competition and crowded markets.
- Many firms choose to innovate or expand in the hopes of finding a blue ocean market with uncontested competition. Blue ocean markets are also of high interest to entrepreneurs.
- Overall, blue ocean markets have several characteristics that innovators and entrepreneurs love. A pure blue ocean market has no competitors. A blue ocean market business leader has first-mover advantages, cost advantages in marketing with no competition, the ability to set prices without competitive constraints, and the flexibility to take its offering in various directions.

COMMAND ECONOMY

- A command economy is a key aspect of a political system in which a central governmental authority dictates the levels of production that are permissible and the prices that may be charged for goods and services. Most industries are publicly owned.
- The main alternative to a command economy is a free market system in which demand dictates production and prices.
- The command economy is a component of a communist political system, while a free market system exists in capitalist societies.
- Cuba, North Korea, and the former Soviet Union all have command economies. China maintained a command economy until 1978 when it began its transition to a mixed economy that blends communist and capitalist elements. Its current system has been described as a socialist market economy.
- The command economy, also known as a planned economy, requires that a nation's central government own and control the means of production.

COVERED INTEREST RATE PARITY

- Covered interest rate parity refers to a theoretical condition in which the relationship between interest rates and the spot and forward currency values of two countries are in equilibrium.
- The covered interest rate parity situation means there is no opportunity for arbitrage using forward contracts, which often exists between countries with different interest rates.
- Under normal circumstances, a currency that offers lower interest rates tends to trade at a forward foreign exchange rate premium in relation to another currency offering higher interest rates.
- Covered interest rate parity is a no-arbitrage condition that could be used in the foreign exchange markets to determine the forward foreign exchange rate. The condition also states that investors could hedge foreign exchange risk or unforeseen fluctuations in exchange rates (with forward contracts).

KISAN E-MITRA

- Under the PM-KISAN scheme, a robust grievance redressal system is in place. The farmers can lodge their grievances on the PM-KISAN portal and 24x7 IVRS facility for effective and timely resolution. Further, the farmers also have the facility to register their grievances, if any through Public Grievances portal. In addition to the above, the Government of India has developed Kisan e-Mitra (AI Chatbot) – Farmers' digital assistance to address their queries in their own languages, thereby empowering the farmers through technological interventions. The Kisan e-Mitra is removing the existing technological and language barriers of the farmers.
- The Government of India has developed the PM-KISAN mobile app with the feature of face authentication-based e-KYC. This app is first mobile app which uses face authentication-based e-KYC feature in any benefit scheme of the Government. It empowers the farmers to complete their eKYC sitting at home even in remote areas of the country without any OTP or fingerprint, just by scanning their face. This removes the need for farmers to visit CSC for biometric based eKYC or mandatory requirement of having mobile linked in their Aadhaar. Once the farmer downloads the mobile app, he/she can do his/her eKYC. They can also assist 100 other farmers in their neighborhood to complete e-KYC at their doorstep. In addition to this, the Government of India, has also made provisions in the application which allows any State/UT Government officials registered to do e-KYC of up to 500 farmers.

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DATA SMOOTHING

- Data smoothing is done by using an algorithm to remove noise from a data set. This allows important patterns to more clearly stand out.
- Data smoothing can be used to help predict trends, such as those found in securities prices, as well as in economic analysis. Data smoothing is intended to ignore one-time outliers and take into account the effects of seasonality.
- The idea behind data smoothing is that it can identify simplified changes in order to help predict different trends and patterns. It acts as an aid for statisticians or traders who need to look at a lot of data—that can often be complicated to digest—to find patterns they would not otherwise see.

ACTUAL CASH VALUE

- A valuation of the damaged property, i.e. its monetary worth at market value immediately preceding the occurrence of the loss, is called actual cash value of the property. It gives the estimate of the cost of replacement or repair of the damaged asset.
- To ascertain the exact extent of loss, the insurance company undertakes an evaluation of the property before and after the loss occurs. This helps in estimating the extent to which the insurer is liable to pay for the damage. In case of motor insurance, actual cash value can be based on the quotations for similar vehicles available in the market. Generally, the replacement cost minus the depreciation in the value of the asset gives the actual cash value in insurance.

GINI INDEX

- The Gini index, or Gini co-efficient, measures income distribution across a population. Developed by Italian statistician Corrado Gini in 1912, it often serves as a gauge of economic inequality, measuring income distribution or, less commonly, wealth distribution among a population.
- The co-efficient ranges from 0 (or 0%) to 1 (or 100%), with 0 representing perfect equality and 1 representing perfect inequality. Values greater than 1 are theoretically possible due to negative income or wealth.
- A higher Gini index indicates greater inequality, with high-income individuals receiving much larger percentages of the population's total income.
- A country in which every resident has the same income would have an income Gini co-efficient of 0. Conversely, a country in which one resident earned all the income, while everyone else earned nothing, would have an income Gini co-efficient of 1.

LEVERAGED BUYOUT

- A leveraged buyout (LBO) is the acquisition of another company using a significant amount of borrowed money (bonds or loans) to meet the cost of acquisition. The assets of the company being acquired are often used as collateral for the loans, along with the assets of the acquiring company.
- In an LBO, there is usually a ratio of 90% debt to 10% equity.
- LBOs have acquired a reputation as a ruthless and predatory business tactic, especially since the target company's assets can be used as leverage against it.
- Because of this high debt/equity ratio, the bonds issued in the buyout are usually not investment grade and are referred to as junk bonds.

JUNK BOND

- Junk bonds are bonds that carry a higher risk of default than most bonds issued by corporations and governments. A bond is a debt or promise to pay investors interest payments along with the return of invested principal in exchange for buying the bond. Junk bonds represent bonds issued by companies that are financially struggling and have a high risk of defaulting or not paying their interest payments or repaying the principal to investors.
- Because of the higher risk, investors are compensated with higher interest rates, which is why junk bonds are also called high-yield bonds.

QUALIFIED INSTITUTIONAL BUYER (QIB)

- A qualified institutional buyer (QIB) is a class of investor that can safely be assumed to be a sophisticated investor and hence does not require the regulatory protection that the Securities Act's registration provisions give to investors. In broad terms, QIBs are institutional investors that own or manage on a discretionary basis at least $100 million worth of securities.
- The SEC allows only QIBs to trade Rule 144A securities, which are certain securities deemed to be restricted or control securities, such as private placement securities for example.
- Under Rule 144A, QIB's are allowed to trade restricted and control securities on the market, which increases the liquidity for these securities.
- As per SEBI, QIBs are institutional investors who possess the necessary expertise and financial strength to carefully evaluate and invest in capital markets.
- SEBI defines the following as Qualified Institutional Investors (QIBs): Mutual Funds, Foreign institutional investor registered with SEBI, Scheduled commercial bank, Public financial institution, Insurance Company etc.

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NASH EQUILIBRIUM

- Nash equilibrium is a concept in game theory where the optimal outcome is when there is no incentive for players to deviate from their initial strategy. The players have knowledge of their opponent's strategy and still will not deviate from their initial chosen strategies because it remains the optimal strategy for each player.
- Overall, an individual can receive no incremental benefit from changing actions, assuming that other players remain constant in their strategies. A game may have multiple Nash equilibria or none at all.
- The Nash equilibrium is a decision-making theorem within game theory that states a player can achieve the desired outcome by not deviating from their initial strategy.
- In the Nash equilibrium, each player's strategy is optimal when considering the decisions of other players. Every player wins because everyone gets the outcome that they desire.
- To quickly find the Nash equilibrium or see if it even exists, reveal each player's strategy to the other players. If no one changes their strategy, then the Nash equilibrium is proven.
- The Nash equilibrium can be incorporated into a wide range of disciplines, from economics to social sciences.

BUY-IN

- A buy-in in the financial markets is an occurrence in which an investor is forced to repurchase shares of security because the seller of the original shares did not deliver the securities in a timely fashion or did not deliver them at all.
- A buy-in can also be a reference to a person or entity buying shares or a stake in a company or other holding. In psychological terms, the buy-in is the process of someone getting on board with an idea or concept that is not their own but nonetheless appeals to them.
- In a forced buy-in, shares are repurchased to cover an open short position, as opposed to a traditional buy-in.
- Beyond the financial markets, a buy-in is an act of agreeing with or accepting the terms that someone is offering, such as in a job or organization.

YANKEE BOND

- A Yankee bond is a debt obligation denominated in U.S. dollars that is publicly issued in the U.S. by foreign banks and corporation, and sometimes even governments.
- Yankee bonds are subject to U.S. securities laws, as they trade on U.S. exchanges.
- Yankee bonds offer the issuer to chance to get cheaper financing and reach a broader investment audience; they offer investors the chance for better yields.
- On the downside, Yankee bonds can take a long time to come to market, subjecting them to interest rate risk; they are also vulnerable to currency risk and other problems in their home country's economy.

ADVANCE AUTHORIZATION SCHEME (AAS) OR ADVANCE LICENSE SCHEME

- Recently, the Directorate General of Foreign Trade (DGFT) said it has simplified the process of Levying Composition fees in case of extension of the Export Obligation Period under the Advance Authorisation Scheme (AAS).
- It allows duty free import of inputs, which are physically incorporated in an export product. In addition to any inputs, packaging material, fuel, oil, catalyst which is consumed / utilized in the process of production of export product, is also be allowed.
- DGFT provides a sector-wise list of Standard Input-Output Norms (SION) under which the exporters may choose to apply. Alternatively, exporters may apply for their own ad-hoc norms in cases where the SION does not suit the exporter. Advance Authorisation covers manufacturer exporters or merchant exporters tied to supporting manufacturer(s).

EXCHANGE RATE MECHANISM

- An exchange rate mechanism (ERM) is a set of procedures used to manage a country's currency exchange rate relative to other currencies. It is part of an economy's monetary policy and is put to use by central banks.
- Such a mechanism can be employed if a country utilizes either a fixed exchange rate or one with a constrained floating exchange rate that is bounded around its peg (known as an adjustable peg or crawling peg).
- More broadly, ERM is used to keep exchange rates stable and minimize currency rate volatility in the market.
- An exchange rate mechanism is not a new concept. Historically, most new currencies started as a fixed exchange mechanism that tracked gold or a widely traded commodity. It is loosely based on fixed exchange rate margins, whereby exchange rates fluctuate within certain margins.

MARKET STABILIZATION SCHEME

- The Market Stabilization Scheme is a policy introduced by the RBI in 2004. The main aim of this scheme is to withdraw excess money supply from the system by selling securities in the economy. The sale of government bonds achieves this. These securities are issued not to meet the government's expenditure.
- The bills/bonds issued under MSS have all the attributes of the existing treasury bills and dated securities. These securities will be issued by way of auctions to be conducted by the RBI. The timing of issuance, amount and tenure of such securities will be decided by the RBI.
- The securities issued under the MSS scheme are matched by an equivalent cash balance held by the government with the RBI. As a result, their issuance will have a negligible impact on the fiscal deficit of the government.

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- The amounts raised under the MSS would be held in a separate identifiable cash account titled the Market Stabilisation Scheme Account (MSS Account) to be maintained and operated by the Reserve Bank.

LEVERAGED BUYOUT

- A leveraged buyout (LBO) is the acquisition of another company using a significant amount of borrowed money (bonds or loans) to meet the cost of acquisition. The assets of the company being acquired are often used as collateral for the loans, along with the assets of the acquiring company.
- The buyer typically wishes to invest the smallest possible amount of equity and fund the balance of the purchase price with debt or other non-equity sources. The aim of the LBO model is to enable investors to properly assess the transaction and earn the highest possible risk-adjusted internal rate of return (IRR).
- In an LBO, the goal of the investing company or buyer is to make high returns on their equity investment, using debt to increase the potential returns.

EXPLICIT COST

- Explicit costs are the out-of-pocket expenses incurred by a business in the production of goods or services. These costs are easily identifiable and can be directly attributed to a specific activity or business function.
- By accurately tracking explicit costs, businesses can make informed decisions about pricing, production, and resource allocation. Overall, businesses should carefully monitor their explicit costs to ensure that they are managing their resources effectively and making sound financial decisions.

REVENUE PER AVAILABLE SEAT MILE (RASM)

- Revenue per available seat mile (RASM) is a unit of measurement commonly used to compare the efficiency of various airlines. It is obtained by dividing operating income by available seat miles (ASM).
- Generally, the higher the RASM, the more profitable the airline under question. Revenue is represented in cents and is not solely limited to ticket sales, as other factors of efficiency and profitability are taken into account.
- Airlines use revenue per available seat mile (RASM) to measure the total operating revenue they generate per seat (empty or full) per mile flown.
- Airlines favor using RASM as a metric to show their financial performance because it includes additional sources of revenue, such as baggage fees, reservation change fees, and inflight meals.

LIQUIDITY TRAP

- Liquidity trap is a situation when expansionary monetary policy (increase in money supply) does not increase the interest rate, income and hence does not stimulate economic growth.
- Liquidity trap is the extreme effect of monetary policy. It is a situation in which the general public is prepared to hold on to whatever amount of money is supplied, at a given rate of interest. They do so because of the fear of adverse events like deflation, war. In that case, a monetary policy carried out through open market operations has no effect on either the interest rate, or the level of income. In a liquidity trap, the monetary policy is powerless to affect the interest rate.
- There is a liquidity trap at short term zero percent interest rate. When interest rate is zero, public would not want to hold any bond, since money, which also pays zero percent interest, has the advantage of being usable in transactions. Hence, if the interest is zero, an increase in quantity of money cannot not induce anyone to buy bonds and thereby reduce the interest on bonds below zero.

HUMAN DEVELOPMENT INDEX (HDI)

- The Human Development Index (HDI) is a statistical tool used to measure a country's overall achievement in its social and economic dimensions. The social and economic dimensions of a country are based on the health of people, their level of education attainment and their standard of living.
- Calculation of the index combines four major indicators: life expectancy for health, expected years of schooling, mean of years of schooling for education and Gross National Income per capita for standard of living.
- Every year UNDP ranks countries based on the HDI report released in their annual report. HDI is one of the best tools to keep track of the level of development of a country, as it combines all major social and economic indicators that are responsible for economic development.

VENTURE CAPITAL

- Startup companies with a potential to grow need a certain amount of investment. Wealthy investors like to invest their capital in such businesses with a long-term growth perspective. This capital is known as venture capital and the investors are called venture capitalists.
- Such investments are risky as they are illiquid, but are capable of giving impressive returns if invested in the right venture. The returns to the venture capitalists depend upon the growth of the company. Venture capitalists have the power to influence major decisions of the companies they are investing in as it is their money at stake.

DISCOUNT BROKING

- A discount broker is a stockbroker who carries out buy and sells orders at reduced commission rates compared to a full-service broker. However, a discount broker does not provide investment advice or perform analysis on a client's behalf, unlike a full-service broker.
- The evolution of technology has revolutionized the way trading is conducted. Penetration of the internet has given a

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major impetus to discount brokers, most of whom operate through online platforms. More and more discount online brokers have come into the foray that enables individuals with smaller capital to trade at lower fees. One of the main reasons why discount brokers can afford to operate at lower fees is because they don't target working with high-net-worth individuals (HNWI). Their affordability lies in their online business activities, which translates to lower overhead costs. Furthermore, they don't offer services like customized research and planning, personal consultations, or tax planning to their customers. Online brokerage is almost synonymous with a discount brokerage. They are attracting young and tech-savvy individuals, who form the new generation of traders.

ANALYSIS OF VARIANCE (ANOVA)

- Analysis of variance (ANOVA) is an analysis tool used in statistics that splits an observed aggregate variability found inside a data set into two parts: systematic factors and random factors. The systematic factors have a statistical influence on the given data set, while the random factors do not. Analysts use the ANOVA test to determine the influence that independent variables have on the dependent variable in a regression study.
- If no true variance exists between the groups, the ANOVA's F-ratio should equal close to 1.
- The Formula for ANOVA is $F = \frac{MST}{MSE}$

  Where, F = ANOVA Coefficient, MST = Mean sum of squares due to treatment and MSE = Mean sum of squares due to error.
- The ANOVA test is the initial step in analyzing factors that affect a given data set. Once the test is finished, an analyst performs additional testing on the methodical factors that measurably contribute to the data set's inconsistency. The analyst utilizes the ANOVA test results in an f-test to generate additional data that aligns with the proposed regression models.

AD-VALOREM TAX

- An ad valorem tax is a tax based on the assessed value of an item, such as real estate or personal property. The most common ad valorem taxes are property taxes levied on real estate. However, ad valorem taxes may also extend to a number of tax applications, such as import duty taxes on goods from abroad.
- All ad valorem taxes are levied based on the determined value of the item being taxed. In the most common application of ad valorem taxes, which are municipal property taxes, the real estate of property owners is periodically assessed by a public tax assessor to determine its current value. The assessed value of the property is used to compute a tax annually levied on the property owner by a municipality or other government entity.
- Ad valorem property taxes are typically a major, if not the primary, revenue source for both state and municipal governments, and municipal property ad valorem taxes are commonly referred to as simply "property taxes."

COST PER CLICK (CPC)

- Cost per click (CPC) is an online advertising revenue model that websites use to bill advertisers based on the number of times visitors click on a display ad attached to their sites.
- The cost-per-click model is also known as pay-per-click (PPC),
- Advertisers commonly use cost per click with a set daily budget for a campaign. When the advertiser's budget is reached, the ad is automatically removed from the website's rotation for the remainder of the billing period. For example, a website with a cost-per-click rate of $.10 would bill an advertiser $100 for 1,000 click-throughs.
- Most publishers use a third party to match them with advertisers. The largest such entity is Google Ads, which uses a platform called Google AdSense.

THE 80-20 RULE

- The 80-20 rule, also known as the Pareto Principle, is a familiar saying that asserts that 80% of outcomes (or outputs) result from 20% of all causes (or inputs) for any given event.
- In business, a goal of the 80-20 rule is to identify inputs that are potentially the most productive and make them the priority. For instance, once managers identify factors that are critical to their company's success, they should give those factors the most focus.
- Although the 80-20 rule is frequently used in business and economics, one can apply the concept to any field. Wealth distribution, personal finance, spending habits, and even infidelity in personal relationships can all be the subject of the 80-20 rule.
- This rule is a precept, not a hard-and-fast mathematical law.

LOCKBOX BANKING

- Lockbox banking is a service provided by banks to companies for the receipt of payment from customers. Under the service, the payments made by customers are directed to a special post office box instead of going to the company. The bank goes to the box, retrieves the payments, processes them and deposits the funds directly into the company's bank account.
- There are pros can cons when it comes to lockbox banking; while it is convenient, it can also be risky and lead to potential fraud, like counterfeiting.
- Utilizing advanced lockbox technology, banks have established multiple communication hubs for businesses to use to receive payments and deposits.
- Businesses can use lockbox banking to lower their internal processing costs, convert receivables into cash quickly, and speed up collections.

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TRIPLE BOTTOM LINE

- In economics, the triple bottom line (TBL) maintains that companies should commit to focusing as much on social and environmental concerns as they do on profits. TBL theory posits that instead of one bottom line, there should be three: profit, people, and the planet. A TBL seeks to gauge a corporation's level of commitment to corporate social responsibility and its impact on the environment over time.
- The triple bottom line aims to measure the financial, social, and environmental performance of a company over time.
- TBL may result in retaining employees, increasing external investments, boosting sales from ESG-interested customers, and gaining long-term operational efficiencies.
- TBL may also be difficult to measure, costly to implement, and cause competing strategies across triple bottom line components.

TERMS OF REFERENCE

- Terms of reference (TOR) define the purpose and structures of a project, committee, meeting, negotiation, or any similar collection of people who have agreed to work together to accomplish a shared goal.
- Terms of reference show how the object in question will be defined, developed, and verified. They should also provide a documented basis for making future decisions and for confirming or developing a common understanding of the scope among stakeholders. In order to meet these criteria, success factors/risks and constraints are fundamental.

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IMPORTANT TERMS OF IT & FINTECH

CENTRAL BANK DIGITAL CURRENCY – RETAIL (E₹-R)

- RBI on 1st December 2022 launched the first pilot project for retail digital rupee in Mumbai, New Delhi, Bengaluru and Bhubaneswar in a closed user group with the participation of four lenders State Bank of India, ICICI Bank, Yes Bank and IDFC First Bank. The launch comes a month after the Reserve Bank of India (RBI) started a pilot in the digital rupee – wholesale on November 1 2022.
- The e?-R is in the form of a digital token that represents legal tender and would offer "features of physical cash like trust, safety and settlement finality", according to the RBI."As in the case of cash, it will not earn any interest and can be converted to other forms of money, like deposits with banks.
- CBDC is a digital form of currency notes issued by a central bank. While most central banks across the globe are exploring the issuance of CBDC, the key motivations for its issuance are specific to each country's unique requirements. Based on the requirements placed by banks, digital rupee will be created by the RBI using latest technology and digitally issued to the banks in a secure manner. Customers will be able to place the request for digital rupee through the digital wallet in their mobile app provided by the banks and the requested amount would get credited to their digital rupee wallets.
- The users will be able to transact with e?-R through a digital wallet offered by the participating banks and stored on mobile phones/devices.Transactions can be both Person to Person (P2P) and Person to Merchant (P2M). Payments to merchants can be made using QR codes displayed at merchant locations. Eight banks have been identified for phase-wise participation in the pilot project.

CRYPTOCURRENCY VS CBDC VS DIGITAL MONEY: WHAT'S THE DIFFERENCE?

- After months of anticipation, the Reserve Bank of India on Friday released a concept note on the digital currency. It said that it intends to plan pilot launches of a central bank-backed digital currency (CBDC) or e-Rupee for specific use cases.
- There has been a lot of buzz around the concept of cryptocurrencies, CBDC, and digital currencies. A central bank digital currency can be described as the digital form of a country's fiat currency, whereas a cryptocurrency is also a digital currency, which is an alternative form of payment with unique encryption algorithms. In layman's terms, a CBDC is simply digital fiat, whereas cryptocurrencies are digital assets on a decentralised network.
- The RBI also said that it will soon start the pilot launch of the digital rupee for specific use cases. The Reserve Bank of India has defined CBDC as a legal tender issued by a central bank in a digital form. It is the same as a fiat currency and is exchangeable one-to-one with the fiat currency. Named the Digital Rupee, or e-Rupee, the digital currency will be the same as a sovereign currency and will be in alignment with their monetary policy.
- Cryptocurrencies, like Bitcoin and Dogecoin, are stored on a decentralised blockchain network, where transactions can happen, authenticated, and recorded in the public ledger without any third-party interference or central authority monitoring the deal.

The basic core difference between a cryptocurrency and digital money is that cryptocurrencies use decentralised network. Whereas CBDCs, though use the blockchain technology, is entirely centralised. A central bank oversees and facilitates the transactions with the help of other third-party organisations. In the core, cryptocurrencies are private money, whereas CBDCs are government-backed forms of money. Therefore, CBDC is touted as safe form of money.

HOW IS CBDC DIFFERENT FROM UPI, NEFT, RTGS, IMPS?

- The Central Bank Digital Currency (CBDC) or the Digital Rupee will be used for making digital payments similar to making payments made through UPI, NEFT, RTGS, IMPS, Bharat Bill Payment System (BBPS), National Electronic Toll Collection (NETC), debit/credit cards etc, but so far for specific purposes.
- The digital currencies introduced by the government are expected to have significant usage in large payments and settlements. Primarily, it will be used to settle purchases and sale of government securities like government bonds. Soon, it will be used to make retail transactions too.
- CBDC can be classified into general purpose or retail CBDC and wholesale CBDC. The RBI has designed the wholesale CBDC for the settlement of interbank transfers and related transactions. The wholesale CBDC can significantly transform the settlement systems for transactions and make them more efficient and secure.
- Digital currency works similarly as the regular currency issued by the Reserve Bank of India (RBI). They are basically currencies in the digital form and would appear as liability or currency in circulation in the balance sheet of RBI. Alike the regular currency notes, digital currency can also be exchangeable.
- Although both digital currency and crypto currency involve online modes of transaction, there are slight differences between the both. CBDC refers to the digital form of a country's fiat economy, while crypto currencies are an alternative form of payment with a unique algorithm. The digital currencies can be called the country's digital fiat and the crypto currencies are digital assets in a decentralised network. On the other hand, while the digital currencies are entirely regulated by the central bank and the government who set the value of the currency, crypto currency's value is independent of central banking authorities and follows a transparent procedure from mining to ownership to transfer of assets.
- Digital rupee or the Central Bank Digital Currency (CBDC), like the other forms of digital payments like UPI, IMPS, transactions through debit or credit cards, etc, will be an underlying payment mode used for digital payments in lieu of currency or cash. However, while the UPI transactions are completely backed by physical currency, the digital

rupee or CBDC is a legal tender in itself and need not necessarily be backed by physical currency. Also, in the conventional online transactions, every bank has their own individual handler, but the digital currency will be operated by RBI; hence, the transactions will be direct and settled instantly.

WHAT IS CRYPTOCURRENCY? Cryptocurrencies are classified as a subset of digital currencies, alternative currencies and virtual currencies. The word "Crypto" refers to the various encryption algorithms and cryptographic techniques that safeguard these currencies. Cryptography, to put it in simple words is a method of converting comprehensible data into complicated codes which are tough to crack. Cryptocurrencies hold the promise of making it easier to transfer funds directly between two parties, without the need for a trusted third party like a bank or credit card company etc. It can be described as a private currency, as opposed to regular currencies in circulation worldwide, which are all backed by sovereign guarantees.

Cryptocurrency markets are decentralized, which means they are not issued or backed by a central authority such as a government. Instead, they run across a network of computers. However, cryptocurrencies can be bought and sold via exchanges and stored in wallets. When a user wants to send cryptocurrency units to another user, they send it to that user's digital wallet. The transaction isn't considered final until it has been verified and added to the blockchain through a process called mining. This is also how new cryptocurrency tokens are usually created.

BLOCK CHAIN: A blockchain is a distributed database that is shared among the nodes of a computer network. As a database, a blockchain stores information electronically in digital format. One key difference between a typical database and a blockchain is how the data is structured. A blockchain collects information together in groups, known as blocks, that hold sets of information. Blocks have certain storage capacities and, when filled, are closed and linked to the previously filled block, forming a chain of data known as the blockchain. All new information that follows that freshly added block is compiled into a newly formed block that will then also be added to the chain once filled. Blockchains are best known for their crucial role in cryptocurrency systems, such as Bitcoin, for maintaining a secure and decentralized record of transactions. The goal of blockchain is to allow digital information to be recorded and distributed, but not edited. In this way, a blockchain is the foundation for immutable ledgers, or records of transactions that cannot be altered, deleted, or destroyed. This is why blockchains are also known as a distributed ledger technology (DLT).

Advantages of Blockchains in Banking: Blockchain has the potential to allow banks to settle transactions directly and keep better track of them than traditional methods such as SWIFT. Another area where blockchain is expected to have a significant impact is in trade financing. Blockchain can streamline the trading process by digitizing and eliminating the tedious manual invoices, letters of credit, and bills. Many Banks have started using this in trade finance. Blockchains will be useful for faster credit processing in digital platform.

METAVERSE

- The Metaverse is a concept that aims to create an interconnected, digital environment where individuals may interact, exchange money, spend money, and most importantly, combine real and virtual assets. It is now understood that there won't be a single Metaverse and that no one entity will possess the technology necessary to create every component. The combination of independently developing technologies like AR/VR, Blockchain, geospatial mapping, etc. is known as the "Tech Stack for the Metaverse."
- The Metaverse unveils a brand-new dimension, a new cosmos where the real world, augmented reality and virtual reality all collide to create a shared, immersive, three-dimensional virtual experience. Cryptocurrency and digital art, namely non-fungible tokens are widely used in Metaverse.
- Metaverse has not only emerged as a favourite among major technology firms but also among the financial sector. Financial institutions have been experimenting the Web3.0 -enabled Metaverse spaces as well as the more conventional Web 2.0 Metaverse and using Web 2.0 technologies to train employees, build virtual "financial cities", telecommuting hubs, interaction spaces, and provide virtual investment advising services.
- The fact that the Metaverse will not be a single platform and that no one entity (not even Meta) would have total control over a Metaverse participant's data. The brilliance of blockchain technology is that customers can do a transaction that is immediately confirmed, and the entire network is updated in a short span.

REGULATORY SANDBOX

- Regulatory sandbox refers to live testing of new products or services in a controlled regulatory environment. It acts as a "safe space" for business as the regulators may or may not permit certain relaxations for the limited purpose of testing.
- The sandbox allows the regulator, the innovators, the financial service providers and the customers to conduct field tests to collect evidence on the benefits and risks of new financial innovations, while carefully monitoring and containing their risks.
- Entities are allowed to experiment with fintech solutions in a live environment and on a limited set of real users for a limited time frame.
- Firstly, regulators obtain first-hand empirical evidence on the benefits and risks of emerging technologies and their implications, enabling them to take a considered view on the regulatory changes or new regulations that may be needed to support useful innovation, while containing the attendant risks. Second, users of a sandbox can test the product's viability without the need for a larger and more expensive roll-out.
- Third, fintechs provide solutions that can further financial inclusion in a significant way.
- In India, financial regulators such as the Reserve Bank of India, Securities and Exchange Board of India, Insurance

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Regulatory and Development Authority and the International Financial Services Centres Authority run their own sandboxes.

- ❖ The RBI sandbox scheme, introduced in 2019, is based on thematic cohorts. The first four cohorts were on retail payments, cross-border payments, MSME lending, and prevention of financial frauds, respectively.
- ❖ In September, the RBI announced the fifth cohort and based on feedback received from various stakeholders, it has kept the theme neutral. Innovative products, services or technologies cutting across various functions in RBI's regulatory domain would be eligible to apply.

REGTECH

- ❖ Regtech is the management of regulatory processes within the financial industry through technology. The main functions of regtech include regulatory monitoring, reporting, and compliance.
- ❖ Regtech, or RegTech, consists of a group of companies that use cloud computing technology through software-as-a-service (SaaS) to help businesses comply with regulations efficiently and less expensively. Regtech is also known as regulatory technology.
- ❖ With the use of big data and machine-learning technology, regtech reduces the risk to a company's compliance department by offering data on money laundering activities conducted online—activities that a traditional compliance team may not be privy to due to the increase of underground marketplaces online.
- ❖ Regtech tools seek to monitor transactions that take place online in real-time to identify issues or irregularities in the digital payment sphere. Any outlier is relayed to the financial institution to analyze and determine if fraudulent activity is taking place. Institutions that identify potential threats to financial security early on are able to minimize the risks and costs associated with lost funds and data breaches.
- ❖ A bank that receives huge amounts of data may find it too complex, expensive, and time-consuming to comb through. A regtech firm can combine complex information from a bank with data from previous regulatory failures to predict potential risk areas that the bank should focus on.
- ❖ Some of the Regtech companies in India are Enforcd, Finchat, Kyo lab etc.

WHALING: Phishing attacks directed specifically at senior executives and other high-profile targets. The content will be crafted to target an upper manager and the person's role in the Company. The content of a whaling attack email may be an executive issue such as a subpoena or customer complaint.

VISHING : The term Vishing is a combination of 'voice' and 'phishing'. Vishing is the illegal access of data via voice over Internet Protocol (VoIP). It is IP telephony's version of phishing and uses voice messages to steal identities and financial resources.

CLOUD COMPUTING: Cloud computing is the delivery of computing services—including servers, storage, data-bases, networking, software, analytics, and intelligence—over the Internet ("the cloud") to offer faster innovation, flexible resources, and economies of scale. You typically pay only for cloud services you use, helping lower your operating costs, run your infrastructure more efficiently and scale as your business needs change.

3D SECURE

- ❖ 3-D Secure is a protocol designed to be an additional security layer for online credit and debit card transactions. The name refers to the "three domains" which interact using the protocol: the merchant/acquirer domain, the issuer domain, and the interoperability domain.
- ❖ The basic concept of the protocol is to tie the financial authorization process with online authentication. This additional security authentication is based on a three-domain model (hence the "3-D" in the name). The three domains are: Acquirer domain (the bank and the merchant to which the money is being paid), Issuer domain (the card issuer), and Interoperability Domain (the infrastructure provided by the card scheme, credit, debit, prepaid or other types of a payment card, to support the 3-D Secure protocol). It includes the Internet, merchant plug-in, access control server, and other software providers.

ACCOUNT INFORMATION SERVICE PROVIDER (AISP): A very popular term in Open Banking, Account Information Service Provider (AISP), provides third-party access to account information with the customers' consent. AISPs help customers reduce manual work by offering quick access to their financial information, savings, and approval of loans.

ADVANCED ENCRYPTION STANDARD (AES): The Advanced Encryption Standard (AES), originally known as Rijndael, is one of the most secure encryption algorithms available. The symmetric-key block algorithm is the Fintech industry standard to encrypt and decrypt classified data.

BANK IDENTIFICATION NUMBER (BIN): Bank Identification Number (BIN) is the first 6 to 8 numbers present on the credit, debit, and prepaid cards. BIN is used to identify the card issuer and helps merchants validate transactions using credit/debit/prepaid cards.

CARD ON FILE TRANSACTIONS: Card on File or Subscription transactions are the stored card credentials available with a Merchant, Payment Gateway, or Aggregator. Used for future transactions, the card on file will have all the relevant details stored in the encrypted format except its CVV. A customer's explicit consent is needed to store the card details.

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CARD NOT PRESENT (CNP) TRANSACTIONS: Card-not-present (CNP) are the transactions that are processed without the cardholder and the card not physically present at POS. These transactions are facilitated virtually or by mobile wallets by entering the card details with a security code.

CHARGE CARDS: Charge cards are electronic credit cards by which the cardholder can make purchases that the card issuer pays. These cards have no spending limits and interests, but the cardholder is entitled to repay the debt within the due date.

CHARGEBACK: A chargeback is the refund amount returned to the cardholder for a dispute raised by him. It is a consumer protection tool and the easiest way for cardholders to request payment reversal from the issuing bank.

DECENTRALIZED FINANCE: Decentralized Finance (DeFi) is a blockchain-based system making products and services available on a decentralized public network. DeFi enables transparent transactions using peer-to-peer interaction by a software-based mediator.

NFC PAYMENTS: Near Field Communication (NFC) powers contactless payments through mobile wallets and contactless cards. NFC allows seamless checkouts by just placing the smartphone/ wearable within four inches from the NFC reader.

RBI-DIGITAL PAYMENTS INDEX

Reserve Bank of India has constructed a composite Digital Payments Index (DPI) to capture the extent of digitization of payments across the country. The RBI-DPI comprises of 5 broad parameters that enable measurement of deepening and penetration of digital payments in the country over different time periods. These parameters are -
Payment Enablers (weight 25%),
Payment Infrastructure - Demand-side factors (10%).
Payment Infrastructure - Supply-side factors (15%)
Payment Performance (45%)
Consumer Centricity (5%).

Digital Payments Index (RBI-DPI) with March 2018 as base to capture the extent of digitisation of payments across the country. The index for March 2022 stands at 349.30 as against 304.06 for September 2021, which was announced on January 19, 2022.

WHAT IS OPEN BANKING? Open Banking is the latest trend towards integration of banking platforms with 3rd parties' platforms. It redefines the interface between banks and 3rd parties, enabling radically new modes of interaction and business models. The integration of platforms allows also for both the seamless fruition of banking services across partner platforms and the enrichment of banking platforms' experience by incorporation of 3rd party services.

WHAT IS ROBOTIC PROCESS AUTOMATION (RPA) IN FINANCE AND BANKING?

- RPA in finance can be defined as the use of robotic applications to augment (or replace) human efforts in the financial sector. RPA helps banks and accounting departments automate repetitive manual processes, allowing the employees to focus on more critical tasks and the firm to gain a competitive advantage.
- A basic rule-driven robotic process automation is limited in what it can do. It simply follows the rules to automate tasks with no variation. For example, it can log in to an account, move some files, and log out.
- To further enhance RPA, banks implement intelligent automation by adding artificial intelligence technologies, such as machine learning and natural language processing capabilities. This enables RPA software to handle complex processes, understand human language, recognize emotions, and adapt to real-time data.
- It allows to scale operations seamlessly when needed. Robots can work longer hours and don't need to take breaks. They can manage increasing request volumes during peak hours.
- Saves time and cost.
- Reduces human error. Financial RPA has a systematic way of handling its allocated tasks. It will increase output quality by eliminating errors that regular employees may make due to human nature, such as not paying close attention to the task at hand.
- **RPA for accounts payable:** When done manually, handling accounts payable is time-consuming as employees need to digitize vendor invoices, validate all the fields, and only then process the payment. RPA in accounting enhanced with optical character recognition (OCR) can take over this task. OCR can extract invoice information and pass it to robots for validation and payment processing. In case of errors, the system will notify bank employees.
- **RPA for mortgage processing:** This is one of the most prominent RPA use cases in banking & finance. Robotic process automation in finance can cut loan-processing time by 80%, which will be a massive relief for both banks and clients.
- **RPA in know your customer (KYC):** Incorporating robotic process automation in finance into the KYC process will minimize errors, which would otherwise require unpleasant interactions with customers to resolve the problems. Therefore, RPA will accelerate customer onboarding and enhance customer experience.
- **RPA in fraud detection:** According to studies, highly skilled analysts who are supposed to uncover such crimes are wasting around 75% of their time collecting data and another 15% entering it into the system. Both tasks can be

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automated allowing anti-fraud professionals to focus on their main job. Robotic process automation in finance can further help in anti-money laundering investigations by deploying an "if-then" method to spot potential fraud. For instance, if many transactions were made in a short period of time, RPA can flag the account as a potential threat and report it to the concerned department.

TRADE RECEIVABLE E-DISCOUNTING SYSTEM (TReDS)

MSMEs are the back bone of Indian Economy and despite the important role played by them in country's overall economic growth, continue to face constraints in obtaining adequate finance, particularly in terms of their ability to convert their trade receivables into liquid funds. To mitigate this issue and improve cash flows in MSME ecosystem, RBI on December 3, 2014 issued guidelines on Trade Receivable e- Discounting

System (TReDS). TReDS is an electronic platform for facilitating the financing/ discounting of trade receivables of Micro, Small and Medium Enterprises (MSMEs) through multiple financiers. These receivables can be due from Corporates and other buyers, including Government Departments and Public Sector Undertakings (PSUs).

Salient Features of TREDS

- Unified platform for Sellers, Buyers and Financiers
- Eliminates Paper
- Easy Access to Funds
- Transact Online
- Competitive Discount Rates
- Seamless Data Flow
- Standardized Practices Participants of TREDS
- Sellers, buyers and financiers are the participants on a TREDS platform. Only MSMEs can participate as sellers in TReDS. Corporates, Government Departments, PSUs and any other entitites can participate as buyers in TREDS.
- Banks, NBFC Factors and other financial institutions as permitted by the Reserve Bank of India (RBI), can participate as financiers in TReDS. To set up a TReDS platform by a private entity, an authorization is required to be obtained from RBI under the Payment and Settlement Systems (PSS) Act, 2007. The eligible entity should have a minimum paid up capital of Rs. 25 crore.

PROCESS FLOW OF TREDS

- Creation of a Factoring Unit (FU)- Factoring Unit is the standard nomenclature used in TReDS for invoice(s) or bill(s) of exchange - containing details of invoices/bills of exchange (evidencing sale of goods/ services by the MSME sellers to the buyers) on TREDS platform by the MSME seller (in case of factoring) or the buyer (in case of reverse factoring).
- Acceptance of the FU by the counterparty buyer or the seller, as the case may be,
- Bidding by financiers: Selection of best bid by the seller or the buyer, as the case may be: Payment made by the financier (of the selected bid) to the MSME seller at the agreed rate of financing / discounting. Once a bid is accepted, the factoring unit will get tagged as "financed" and the funds will be credited to the seller's account by the financier on T+2 basis (T being the date bid acceptance).
- Payment by the buyer to the financier on the due date.
- The transactions processed under TReDS are "without recourse" to the MSMEs. This means MSME seller need not to pay to the financier in case the buyer defaults in repayment.
- Credit Guarantee Fund Scheme for factoring which is managed by NCGTC provides guarantee coverage for MLIs for transactions carried out through TReDS Platform.

Psbloansin59minutes

- Transformative initiative in MSME credit space will enable in principle approval for MSME loans up to Rs. 5 crore within 59 minutes from SIDBI and participating Public Sector Banks (PSBs)
- The web portal psbloansin59minutes.com enables in-principle approval for MSME loans up to Rs. 5 crore within 59 minutes from SIDBI and Public Sector Banks (PSBs).
- It is a strategic initiative of SIBDI led PSB consortium incubated under the aegis of Department of Financial Services (DFS), Ministry of Finance.
- MSME borrower is not required to submit any physical document for in-principle approval.
- The solution uses sophisticated algorithms to analyse data from various sources such as IT returns, GST data, bank statements, MCA21 etc. in less than an hour.

Limit of loans on psbloansin59minutes.com:

- **MSME** - 10 lakh to 5 crore
- **Mudra loan** - upto 10 lakh
- **Home loan** - upto 10 crore
- **Personal loan** - upto 20 lakh
- **Auto loan** - upto 1 crore

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CONGENERIC & CONGLOMERATE MERGER

- A congeneric merger is where the acquiring company and the target company are in the same or related industry but have different business lines or products. The two companies involved in a congeneric merger may share similar production processes, distribution channels, marketing, or technology.
- A congeneric merger can help the acquiring company to quickly increase its market share or expand its product lines. The overlap between the two companies in a congeneric merger can create a synergy where the combined performance of the merged companies is greater than the individual companies themselves.
- In contrast to a congeneric merger, where the target and the acquirer are in similar industries, a conglomerate merger occurs between companies that are in no way related. Often, the two companies involved engage in completely different industries with very little overlap in the way they operate their businesses. Conglomerates look to diversify their company by owning multiple unrelated products or businesses. This diversification is part of an overall risk management strategy that may help the company survive market downturns or fluctuations.

ETHEREUM

- Ethereum is a decentralized blockchain with smart contract functionality that establishes a peer-to-peer network that securely executes and verifies application code, called smart contracts. Smart contracts allow participants to transact with each other without a trusted central authority.
- Transaction records are immutable, verifiable, and securely distributed across the network, giving participants full ownership and visibility into transaction data. Transactions are sent from and received by user-created Ethereum accounts. A sender must sign transactions and spend Ether, Ethereum's native cryptocurrency, as a cost of processing transactions on the network.
- Ethereum was conceived in 2013 by programmer Vitalik Buterin. On 15 September 2022, Ethereum transitioned its consensus mechanism from proof-of-work (PoW) to proof-of-stake (PoS) in an upgrade process known as "the Merge".

CONSUMER SURPLUS

- Consumer surplus is defined as the difference between the consumers' willingness to pay for a commodity and the actual price paid by them, or the equilibrium price.
- Total social surplus is composed of consumer surplus and producer surplus. It is a measure of consumer satisfaction in terms of utility.
- Graphically, it can be determined as the area below the demand curve (which represents the consumer's willingness to pay for a good at different prices) and above the price line. It reflects the benefit gained from the transaction based on the value the consumer places on the good. It is positive when what the consumer is willing to pay for the commodity is greater than the actual price.
- Consumer surplus is infinite when the demand curve is inelastic and zero in case of a perfectly elastic demand curve.

FIVE EYES INTELLIGENCE ALLIANCE

- Since the Canadian Prime Minister alleged that the Indian Government may have “potential links” to the killing of a Sikh separatist leader and Khalistan Movement proponent in Canada, the ties between the two countries are under strain; where his allegations are backed by reports of Five Eyes Alliance.
- The Five Eyes Intelligence Alliance, often referred to as simply “Five Eyes,” is a secretive international intelligence coalition comprising five English-speaking countries.
- The Five Eyes alliance originated as a post-war intelligence-sharing agreement between the United States, the United Kingdom, Canada, Australia, and New Zealand. Formed in 1946, its primary objective was to share signals intelligence (SIGINT) to counter the emerging Soviet threat during the Cold War.

INDIA-MIDDLE EAST-EUROPE MEGA ECONOMIC CORRIDOR

- During the G20 summit, Prime Minister Narendra Modi unveiled plans for the India-Middle East-Europe economic corridor project. The corridor, which involves India, UAE, Saudi Arabia, European Union, Italy, Germany and the United States, is poised to be historic venture, surpassing even the legendary Silk and Spice routes of the past.
- For the project, a MoU has been signed between Saudi Arabia, European Union, India, the UAE, France, Germany, Italy and the US. The India Middle East Europe Economic Corridor (IMEC) is a transnational rail and shipping route spread across two continents. The IMEC will include two separate corridors — the east corridor connecting India to the Arabian Gulf and the northern corridor connecting the Arabian Gulf to Europe.
- It will include railway projects, which upon completion will provide a reliable and cost-effective cross-border ship-to-rail transit network to supplement existing maritime and road transport routes enabling goods and services to transit between India, the UAE, Saudi Arabia, Jordan, Israel, and Europe.
- India-Middle East-Europe mega economic corridor project aims to boost trade between the participating nations, with a particular focus on facilitating the exchange of energy-related goods.

NICHE MARKETING

- Niche marketing is defined as channeling all marketing efforts towards one well-defined segment of the population. There is one important thing to understand that ‘niche’ does not exist, but is created by smart marketing techniques and identifying what the customer wants..

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- Niche marketing is a marketing tactic deployed to target a specific market segment which is unique. Niche market is often created by identifying what a customer wants and this can be done if the company knows what the customer needs and then tries to deliver a better solution to a problem which was not presented by other firms. A niche market does not mean a small market, but it involves specific target audience with a specialized offering. By doing so, the company becomes a market leader and it becomes possible for other firms to enter that particular segment. For example, there are various cinema halls across India, but there are few which have recliner seats to offer. Not everybody wants to watch a movie by paying 5x-6x times the cost of a normal ticket. Hence, the target audience is very different and the hall is also only open at places where the company feels that it would be able to tap into target audience especially in posh areas.

MARKET STABILIZATION SCHEME

- The Market Stabilization Scheme is a policy introduced by the RBI in 2004. The main aim of this scheme is to withdraw excess money supply from the system by selling securities in the economy. The sale of government bonds achieves this. These securities are issued not to meet the government's expenditure.
- The bills/bonds issued under MSS have all the attributes of the existing treasury bills and dated securities. These securities will be issued by way of auctions to be conducted by the RBI. The timing of issuance, amount and tenure of such securities will be decided by the RBI.
- The securities issued under the MSS scheme are matched by an equivalent cash balance held by the government with the RBI. As a result, their issuance will have a negligible impact on the fiscal deficit of the government.
- The amounts raised under the MSS would be held in a separate identifiable cash account titled the Market Stabilisation Scheme Account (MSS Account) to be maintained and operated by the Reserve Bank.

CLEARING PRICE

- Clearing price is that price of a commodity or a security at which the market clears a commodity or a security. Quantity supplied is equal to quantity demanded and buyers and sellers conduct the trade.
- A price is a specific monetary value associated with a security or a commodity. Generally, it so happens that sellers expect to get the highest possible price for their product, while buyers want to get it at the lowest possible price. In such a scenario, a price that settles the transaction so that both the parties are in agreement is called the clearing price. Where this price settles is influenced by various other factors. It can also be referred to as the equilibrium price.
- It can be said that the clearing price is equal to a value that is the same as the lowest price a seller is ready to take for his commodity and the highest price a buyer is ready to pay for it. Thus, it becomes the price at which the latest transaction was conducted.

INTERNATIONAL CREDIT CARD (ICC) AND INTERNATIONAL DEBIT CARD (IDC) FOR UNDERTAKING FOREIGN EXCHANGE TRANSACTIONS

- Banks authorised to deal in foreign exchange are permitted to issue International Debit Cards (IDCs) which can be used by a resident individual for drawing cash or making payment to a merchant establishment overseas during his visit abroad. IDCs can be used only for permissible current account transactions and the usage of IDCs shall be within the LRS limit.
- Resident individuals maintaining a foreign currency account with an Authorised Dealer in India or a bank abroad, as permissible under extant Foreign Exchange Regulations, are free to obtain International Credit Cards (ICCs) issued by overseas banks and other reputed agencies.
- The charges incurred against the card either in India or abroad, can be met out of funds held in such foreign currency account/s of the card holder or through remittances, if any, from India only through a bank where the card-holder has a current or savings account. The remittance for this purpose, should also be made directly to the card-issuing agency abroad, and not to a third party. It is also clarified that the applicable credit limit will be the limit fixed by the card issuing banks. There is no monetary ceiling fixed by the RBI for remittances, if any, under this facility.
- Use of these instruments for payment in foreign exchange in Nepal and Bhutan is not permitted.

INDO-NEPAL REMITTANCE FACILITY SCHEME

- The scheme was launched by RBI in May 2008 to provide a safe and cost-efficient avenue to migrant Nepalese workers in India to remit money back to their families in Nepal.
- One can remit upto ₹2 lakhs per transaction to the beneficiary residing in Nepal; provided the sender maintains account with any NEFT enabled bank branch in India.
- Walk-in / Non-customer can remit upto ₹50,000 per transaction to Nepal residing beneficiary.
- There is no limit on remittances if the sender is maintaining account with any NEFT enabled bank-branch in India. Walk-in / Non-customers are allowed to remit 12 remittances in a year with ceiling of ₹50,000 per remittance.
- It is not mandatory that, the beneficiary need to maintain an account with a bank branch in Nepal. It would, however, be ideal if the beneficiary maintains an account with a bank branch in Nepal to which the credit could be afforded. In Nepal, the INRF Scheme is handled by Nepal SBI Ltd. (NSBL).
- The bank branches originating the Indo-Nepal remittance transactions under the NEFT will process it like any other NEFT transaction, the only difference being that these transactions will subsequently be pooled / collected at the designated branch of SBI in India.
- Charges: For transactions up to Rs.50000/-, Originating bank – Maximum ₹5/- per transaction. State Bank of India – ₹20/- per transaction. SBI would share this ₹20/- with NSBL at ₹10 each. In case the beneficiary does not maintain

an account with NSBL then, an additional amount would be charged- ₹50/- for remittances up to ₹5,000/- and ₹75/- for remittance above ₹5,000/-. For transactions above Rs.50000/-, charges prescribed by SBI shall apply

WAGE DRIFT

- Wage drift is defined as the difference or change in the wage actually paid to a worker as compared to a locally negotiated wage. The increase could be due to several reasons such as overtime, bonus payment paid out by the company etc.
- Wage drift is the difference between the rates negotiated by a company and wages actually given to a worker by the end of a period. Due to uneven demand, the company at times asks employees to put in extra work hours to meet the demand. In that case, a company has to pay overtime to the workers on an hourly basis. Overtime would result in a higher wage given to an employee when compared with the one negotiated by a company at the beginning of the contracts. This is because the wage would now include the overtime component.

FEDAI RULES ON HOLIDAY

- For the purpose of Foreign Exchange business, Saturday will not be treated as a working day.
- **"Known holiday"** is one which is known at least 3 working days before the date. A holiday that is not a "known holiday" is defined as a "**suddenly declared holiday**".
- Suppose days 1, 2, 3 and 4 are all working days. If day 4 is declared as a holiday on or after day 1, it will be a suddenly declared holiday. If day 4 is declared as a holiday prior to day 1, it would be a known holiday.

POST SHIPMENT CREDIT IN INR: APPLICATION OF RATES

- Foreign Currency bills will be purchased/discounted/negotiated at the Authorised Dealer's current bill buying rate or contracted rate. Interest for the normal transit period and/or usance period shall be recovered upfront simultaneously.
- For crystallisation into Rupee liability, the Authorised Dealer shall apply its TT selling rate of exchange. The amount recoverable, thereafter, shall be the crystallised Rupee amount along with interest and charges, if any.
- After receipt of advice of realisation, the authorised dealer will apply TT buying rate or contracted rate (if any) to convert foreign currency proceeds.
- In case of dishonour of a bill before crystallisation, the bank shall recover; i) Rupee equivalent amount of the bill and foreign currency charges at TT selling rate. ii) Appropriate interest and rupee denominated charges.

NORMAL TRANSIT PERIOD

- Concepts of normal transit period and notional due date are linked to interest rate on export bills and to arrive at due date of the bill/export credit. Normal transit period comprises of the average period normally involved from the date of negotiation/purchase/discount till the receipt of bill proceeds.
- In the case of export usance bills, where due dates are fixed or are reckoned from date of shipment or date of bill of exchange etc., the actual due date is known. Therefore, in such cases, normal transit period is not applicable.
- In case of Bill drawn on DP/At Sight Basis and not under Letter of Credit (LC), the NTP in case of Bill in Foreign Currencies is 25 days and in case of Bills in Rupees not under Letter of Credit it is 20 days.
- In case of extending finance beyond above prescribed NTP, maximum period is restricted up to 90 days from the date of shipment.

ENVIRONMENT DRIVEN TAX

Carbon taxes are the most contentious fiscal instruments widely discussed, which serve the dual purpose of acting as a deterrent and raising resources from activities that impact sustainable economic development. Some of the other taxes in this area which have also been explored globally are:

- Taxes on plastic bags in Ireland were introduced in 2002 which generated Euro 200 million in over 12 years.
- Deposit refund packaging scheme in Finland was first introduced in 1950.
- Landfill tax in the UK was introduced in 1996 to reduce the amount of waste sent for landfilling and boost waste recycling.
- Tax on nitrogen emissions in Sweden was introduced in 1992 to discourage activities with nitrogen emissions.

ECOTAX: An ecotax is a tax whose tax base is defined so as to internalise the negative externality generated either from the production/consumption/extraction behavior in an economy". Some examples of "ecotax" in India at a regional level are; Clean energy tax by the Government of India introduced in 2010, imposed on coal, peat and lignite, Gujarat Green Cess , Goa Green Cess, tax on old vehicles on some states etc.

PIP

- Generally the lowest and smaller increment in which a currency pair is priced. Pips are used to measure movement in a forex pair. Pips prices are subject to change and can be moved due to the timing of the trade and the amount that is being traded.
- Typically, it refers to the last decimal or digit of the instrument price.
- For example, the price of GBP/USD is 1.42630 / 1.42650 (Sell/Buy). If the price of GBP/USD moves to 1.42670 / 1.42690, this is a movement of 0.00040 or 40 pips.

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IMPACT INVESTING

- Impact investing refers to investments made into companies, organizations, and funds with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return. t its core, impact investing is about an alignment of an investor's beliefs and values with the allocation of capital to address social and/or environmental issues.
- Impact investors actively seek to place capital in businesses, nonprofits, and funds in industries such as renewable energy, housing, healthcare, education, microfinance, and sustainable agriculture. Institutional investors, notably North American and European development finance institutions, pension funds and endowments have played a leading role in the development of impact investing.
- Some of the impact investment funds in India are; Ankur Capital fund, IFMR FImpact Investment Fund, India Financial Inclusion Fund etc.

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IMPORTANT BANKING SUBJECT NOTES

GUIDELINES ON PRIORITY SECTOR LENDING

CATEGORIES OF PRIORITY SECTOR LENDING: The various categories under priority sector are as follows:

1. Agriculture
2. Micro, Small and Medium Enterprises
3. Export Credit
4. Education
5. Housing
6. Social Infrastructure
7. Renewable Energy
8. Others

TARGETS /SUB-TARGETS FOR PRIORITY SECTOR LENDING: The targets and sub-targets set under priority sector lending, to be computed on the basis of the Adjusted Net Bank Credit (ANBC)/ Credit Equivalent of Off-Balances Sheet Exposure (CEOBE) as applicable as on the corresponding date of the preceding year, are as under:

Category	Domestic commercial banks (excl. RRBs & SFBs) & foreign banks with 20 branches and above	Foreign banks with less than 20 branches	Regional Rural Banks	Small Finance Banks
Total Priority Sector	40 per cent of ANBC or CEOBE whichever is higher	40 per cent of ANBC CEOBE whichever is higher; out of which up to 32% can be in the form of lending to Exports and not less than 8% can be to any other priority sector	75 per cent of ANBC or CEOBE whichever is higher; However, lending to Medium Enterprises, Social Infrastructure and Renewable Energy shall be reckoned for priority sector achievement only up to 15 per cent of ANBC.	75 per cent of ANBC or CEOBE whichever is higher.
Agriculture	18 per cent of ANBC or CEOBE, whichever is higher; out of which a target of 10 percent# is prescribed for Small and Marginal Farmers (SMFs)	Not applicable	18 per cent ANBC or CEOBE, whichever is higher; out of which a target of 10 percent# is prescribed for SMFs	18 per cent of ANBC or CEOBE, whichever is higher; out of which a target of 10 percent# is prescribed for SMFs
Micro Enterprises	7.5 per cent of ANBC or CEOBE, whichever is higher	Not applicable	7.5 per cent of ANBC or CEOBE, whichever is higher	7.5 per cent of ANBC or CEOBE, whichever is higher.
Advances to Weaker Sections	12 percent# of ANBC or CEOBE, whichever is higher	Not applicable	15 per cent of ANBC or CEOBE, whichever is higher	12 percent# of ANBC or CEOBE, whichever is higher

The Targets / Sub Targets of Priority Sector Lending for **Urban Co-operative Banks are;**

Category	Primary Urban Co-operative Bank						
Total Priority Sector	40 per cent of ANBC or CEOBE, whichever is higher in FY 2019-20, which shall stand increased to 75 per cent of ANBC or CEOBE, whichever is higher, with effect from FY 2025-26. UCBs shall comply with the stipulated target as per the following milestones:						
	FY 19-20	**FY 20-21**	**FY 21-22**	**FY 22-23**	**FY 23-24**	**FY 24-25**	**FY 25-26**
	40%	45%	50%	60%	60%	65%	75%
Micro Enterprises	7.5 per cent of ANBC or CBoE, whichever is higher.						
Advances to Weaker Sections	12 per cent# of ANBC or CBoE, whichever is higher. The revised targets for weaker sections will be implemented in a phased manner as indicated below:						

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	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
	10%	11%	11.50%	11.50%	11.50%	11.75%	12.00%

 # Phase wise implementation of the revised targets for Weaker Section and SMFs: The targets for lending to SMFs and Weaker Sections revised upwards from FY 2021-22 onwards as follows:

Financial Year	Small and Marginal Farmers target	Weaker Sections target
2020-21	8%	10%
2021-22	9%	11%
2022-23	9.5%	11.5%
2023-24	10%	12%

Note:

- Sub-Target for Small and Marginal farmers is not applicable for UCBs.
- Weaker Sections target for RRBs will continue to be 15% of ANBC or CEOBE, whichever is higher.
- All domestic banks (other than UCBs) and foreign banks with more than 20 branches are directed to ensure that the overall lending to Non-Corporate Farmers (NCFs) does not fall below the system-wide average of the last three years' achievement which will be separately notified every year. The applicable target for lending to the non-corporate farmers for FY 2022-23 will be 13.78% of ANBC or CEOBE whichever is higher. All efforts should be made by banks to reach the level of 13.5 percent of ANBC (erstwhile target for direct lending to agriculture sector).

COMPUTATION OF ADJUSTED NET BANK CREDIT (ANBC): For the purpose of priority sector lending, ANBC denotes the outstanding Bank Credit in India and computed as follows:

Bank Credit in India [As prescribed in item No.VI of Form `A' under Section 42(2) of the RBI Act, 1934]	**I**
Bills Rediscounted with RBI and other approved Financial Institutions	**II**
Net Bank Credit (NBC)*	**III = I-II**
Outstanding Deposits under RIDF and other eligible funds with NABARD, NHB, SIDBI and MUDRA Ltd in lieu of non-achievement of priority sector lending targets/sub-targets + outstanding PSLCs	**IV**
Eligible amount for exemptions on issuance of long-term bonds for infrastructure and affordable housing	**V**
Advances extended in India against the incremental FCNR (B)/NRE deposits, qualifying for exemption from CRR/SLR requirements	**VI**
Investments made by public sector banks in the Recapitalization Bonds floated by Government of India	**VII**
Other investments eligible to be treated as priority sector (e.g. investments in securitization notes)	**VIII**
Face Value of securities acquired and kept under HTM category under the TLTRO 2.0 and Special Liquidity Facility for Mutual Funds (SLF-MF) and also Extended Regulatory Benefits under SLF-MF Scheme	**IX**
Bonds/debentures in Non-SLR categories under HTM category	**X**
For UCBs: investments made after August 30, 2007 in permitted non SLR bonds held under 'Held to Maturity' (HTM) category	**XI**
ANBC (Other than UCBs) III + IV- (V+VI+VII) +VIII - IX + X	
ANBC for UCBs III + IV - VI - IX + XI	

* For the purpose of priority sector computation only. Banks should not deduct / net any amount like provisions, accrued interest, etc. from NBC.

While calculating Net Bank Credit as above, if banks subtract prudential write off at Corporate/Head Office level, it must be ensured that the credit to priority sector and all other sub-sectors so written off should also be subtracted category wise from priority sector and sub-target achievement. Wherever, investments or any other items which are treated as eligible for classification under priority sector target/sub-target achievement, the same should also form part of Adjusted Net Bank Credit.

ADJUSTMENTS FOR WEIGHTS IN PSL ACHIEVEMENT IN IDENTIFIED DISTRICTS: To address regional disparities in the flow of priority sector credit at the district level, the districts have been ranked on the basis of per capita credit flow to priority sector and build an incentive framework for districts with comparatively lower flow of credit and a dis-incentive framework for districts with comparatively higher flow of priority sector credit. Accordingly, from FY 2021-22 onwards, a higher weight (125%) has been assigned to the incremental priority sector credit in the identified districts where the credit flow is comparatively lower (per capita PSL less than ₹6000), and a lower weight (90%) would be assigned for incremental priority sector credit in the identified districts where the credit flow is comparatively higher (per capita PSL greater than ₹25,000).

DESCRIPTION OF ELIGIBLE CATEGORIES UNDER PRIORITY SECTOR

1) AGRICULTURE: The lending to agriculture sector will include Farm Credit (Agriculture and Allied Activities), lending for Agriculture Infrastructure and Ancillary Activities.

FARM CREDIT –

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Individual farmers: Loans to individual farmers [including SHGs or Joint Liability Groups (JLGs) i.e. groups of individual farmers, provided banks maintain disaggregated data of such loans] and Proprietorship firms of farmers, directly engaged in Agriculture and Allied Activities, viz. dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture. This will include:

- Crop loans including loans for traditional/non-traditional plantations, horticulture and allied activities.
- Medium and long-term loans for agriculture and allied activities (e.g. purchase of agricultural implements and machinery and developmental loans for allied activities).
- Loans for pre and post-harvest activities viz. spraying, harvesting, grading and transporting of their own farm produce.
- Loans to distressed farmers indebted to non-institutional lenders.
- Loans under the Kisan Credit Card Scheme.
- Loans to small and marginal farmers for purchase of land for agricultural purposes.
- Loans against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months subject to a limit up to ₹75 lakh against NWRs/eNWRs and up to ₹50 lakh against warehouse receipts other than NWRs/eNWRs.
- Loans to farmers for installation of stand-alone Solar Agriculture Pumps and for solarisation of grid connected Agriculture Pumps.
- Loans to farmers for installation of solar power plants on barren/fallow land or in stilt fashion on agriculture land owned by farmer.

Corporate farmers, Farmer Producer Organisations (FPOs)/(FPC) Companies of Individual Farmers, Partnership firms and Co-operatives of farmers engaged in Agriculture and Allied Activities:

- Loans for the following activities will be subject to an aggregate limit of ₹2 crore per borrowing entity:
- Crop loans to farmers which will include traditional/non-traditional plantations and horticulture and loans for allied activities.
- Medium and long-term loans for agriculture and allied activities (e.g. purchase of agricultural implements and machinery and developmental loans for allied activities).
- Loans for pre and post-harvest activities viz. spraying, harvesting, grading and transporting of their own farm produce.
- Loans up to ₹75 lakh against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months against NWRs/eNWRs and up to ₹50 lakh against warehouse receipts other than NWRs/eNWRs.
- Loans up to ₹5 crore per borrowing entity to FPOs/FPCs undertaking farming with assured marketing of their produce at a pre-determined price.
- UCBs are not permitted to lend to co-operatives of farmers.
- All domestic banks (other than UCBs) and foreign banks with more than 20 branches to ensure that the overall lending to Non-Corporate Farmers (NCFs) does not fall below the system-wide average of the last three years' achievement.. The applicable target for lending to the non-corporate farmers for FY 2022-23 was 13.78% of ANBC or CEOBE whichever is higher.

AGRICULTURE INFRASTRUCTURE: Loans for agriculture infrastructure will be subject to an aggregate sanctioned limit of ₹100 crore per borrower from the banking system for the following activities;

- Loans for construction of storage facilities (warehouse, market yards, godowns and silos) including cold storage units/cold storage chains designed to store agriculture produce/products, irrespective of their location.
- Soil conservation and watershed development.
- Plant tissue culture and agri-biotechnology, seed production, production of bio-pesticides, bio-fertilizer, and vermi composting.
- Loans for construction of oil extraction/ processing units for production of bio-fuels, their storage and distribution infrastructure along with loans to entrepreneurs for setting up Compressed Bio Gas (CBG) plants.

ANCILLARY SERVICES: Following loans under ancillary services will be subject to limits prescribed as under:

- Loans up to ₹5 crore to co-operative societies of farmers for purchase of the produce of members (Not applicable to UCBs)
- Loans up to ₹50 crore to Start-ups, as per definition of Ministry of Commerce and Industry, Govt. of India that are engaged in agriculture and allied services.
- Loans for Food and Agro-processing up to an aggregate sanctioned limit of ₹100 crore per borrower from the banking system.
- Loans for setting up of Agri-clinics and Agri-business centres.
- Loans to Custom Service Units managed by individuals, institutions or organizations who maintain a fleet of tractors, bulldozers, well-boring equipment, threshers, combines, etc., and undertake farm work for farmers on contract basis.
- Bank loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi-Purpose Societies (LAMPS) for on-lending to agriculture.
- Loans sanctioned by banks to MFIs for on-lending to agriculture sector subject to prescribed conditions.
- Loans sanctioned by banks to registered NBFCs (other than MFIs) as per conditions specified by RBI.
- Outstanding deposits under RIDF and other eligible funds with NABARD on account of priority sector shortfall.

SMALL AND MARGINAL FARMERS (SMFs): For the purpose of computation of achievement of the sub-target, Small and Marginal Farmers will include the following:

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- Farmers with landholding of up to 1 hectare (Marginal Farmers).
- Farmers with a landholding of more than 1 hectare and up to 2 hectares (Small Farmers).
- Landless agricultural labourers, tenant farmers, oral lessees and share-croppers whose share of landholding is within the limits prescribed for SMFs.
- Loans to Self Help Groups (SHGs) or Joint Liability Groups (JLGs), i.e. groups of individual SMFs directly engaged in Agriculture and Allied Activities, provided banks maintain disaggregated data of such loans.
- Loans up to ₹2 lakh to individuals solely engaged in Allied activities without any accompanying land holding criteria.
- Loans to FPOs/FPC of individual farmers and co-operatives of farmers directly engaged in Agriculture and Allied Activities where the land-holding share of SMFs is not less than 75 per cent, subject to loan limits prescribed above.. UCBs are not permitted to lend to co-operatives of farmers.

LENDING BY BANKS TO NBFCs AND MFIs FOR ON-LENDING IN AGRICULTURE: Bank credit extended to registered NBFC-MFIs and other MFIs (Societies, Trusts etc.) which are members of RBI recognised SRO for the sector, for on-lending to individuals and also to members of SHGs / JLGs will be eligible for categorisation as priority sector advance under respective categories of agriculture (not applicable to RRBs, UCBs, SFBs and LABs). Bank credit to registered NBFCs (other than MFIs) towards on-lending for 'Term lending' component under agriculture will be allowed up to ₹ 10 lakh per borrower (not applicable to RRBs, UCBs, SFBs and LABs).

2) MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs):

The definition of MSMEs will be as per Government of India (GoI), Gazette Notification S.O. 2119 (E) dated June 26, 2020 Further, such MSMEs should be engaged in the manufacture or production of goods, in any manner, pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951 or engaged in providing or rendering of any service or services. All bank loans to MSMEs conforming to the above guidelines qualify for classification under priority sector lending.

In terms of Gazette Notification S.O. 2119 (E) dated June 26, 2020, an enterprise shall be classified as a micro, small or medium enterprise on the basis of the following criteria viz.,

a. A micro enterprise, where the investment in plant and machinery or equipment does not exceed ₹1 crore and turnover does not exceed ₹5 crore;
b. A small enterprise, where the investment in plant and machinery or equipment does not exceed ₹10 crore and turnover does not exceed ₹50 crore; and
c. A medium enterprise, where the investment in plant and machinery or equipment does not exceed ₹50 crore and turnover does not exceed ₹250 crore.

All the above enterprises are required to register online on the Udyam Registration portal and obtain 'Udyam Registration Certificate'.

Retail and Wholesale trade are included as MSMEs for the limited purpose of priority sector lending and are allowed to be registered on Udyam Registration Portal.

Factoring Transactions (not applicable to RRBs and UCBs): 'With Recourse' Factoring transactions by banks which carry out the business of factoring departmentally wherever the 'assignor' is a Micro, Small or Medium Enterprise would be eligible for classification under MSME category on the reporting dates. Factoring transactions pertaining to MSMEs taking place through the Trade Receivables Discounting System (TReDS) shall also be eligible for classification under priority sector.

Khadi and Village Industries Sector (KVI): All loans to units in the KVI sector will be eligible for classification under the sub-target of 7.5 percent prescribed for Micro Enterprises under priority sector.

Other Finance to MSMEs

- Loans up to ₹50 crore to Start-ups, as per definition of Ministry of Commerce and Industry, Govt. of India that confirm to the definition of MSME.
- Loans to entities involved in assisting the decentralized sector in the supply of inputs and marketing of output of artisans, village and cottage industries. In respect of UCBs, the term "entities" shall not include institutions to which UCBs are not permitted to lend under the RBI guidelines / the legal framework governing their functioning.
- Loans to co-operatives of producers in the decentralized sector viz. artisans, village and cottage industries (Not applicable for UCBs).
- Loans sanctioned by banks to NBFC-MFIs and other MFIs (Societies, Trusts etc.) which are members of RBI recognised SRO for the sector for on-lending to MSME sector. (not applicable to RRBs, SFBs and UCBs)
- Loans to registered NBFCs (other than MFIs) for on-lending to Micro & Small Enterprises (not applicable to RRBs, SFBs and UCBs).
- Credit outstanding under General Credit Cards (including Artisan Credit Card, Laghu Udyami Card, Swarojgar Credit Card and Weaver's Card etc. in existence and catering to the non-farm entrepreneurial credit needs of individuals).
- Overdraft to Pradhan Mantri Jan-Dhan Yojana (PMJDY) account holders as per limits and conditions prescribed by Department of Financial Services, Ministry of Finance from time to time, will qualify as achievement of the target for lending to Micro Enterprises.
- Outstanding deposits with SIDBI and MUDRA Ltd. on account of priority sector shortfall.

3) EXPORT CREDIT (NOT APPLICABLE TO RRBs AND LABs): Export credit under agriculture and MSME sectors are allowed to be classified as PSL in the respective categories viz. agriculture and MSME. Export Credit (other than in agriculture and MSME) will be allowed to be classified as priority sector as per the following table:

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Domestic banks / WoS of Foreign banks/ SFBs/ UCBs	Foreign banks with 20 branches and above	Foreign banks with less than 20 branches
Incremental export credit over corresponding date of the preceding year, up to 2 per cent of ANBC or CEOBE whichever is higher, subject to a sanctioned limit of up to ₹ 40 crore per borrower.	Incremental export credit over corresponding date of the preceding year, up to 2 percent of ANBC or CEOBE whichever is higher.	Export credit up to 32 per cent of ANBC or CEOBE whichever is higher.

4) EDUCATION: Loans to individuals for educational purposes, including vocational courses, not exceeding ₹ 20 lakh will be considered as eligible for priority sector classification. Loans currently classified as priority sector will continue till maturity.

5) HOUSING: Bank loans to Housing sector as per limits prescribed below are eligible for priority sector classification:

- Loans to individuals up to ₹35 lakh in metropolitan centres (with population of ten lakh and above) and up to ₹25 lakh in other centres for purchase/construction of a dwelling unit per family provided the overall cost of the dwelling unit in the metropolitan centre and at other centres does not exceed ₹45 lakh and ₹30 lakh respectively. Existing individual housing loans of UCBs presently classified under PSL will continue as PSL till maturity or repayment.
- Housing loans to banks' own employees will not be eligible for classification under the priority sector.
- Since Housing loans which are backed by long term bonds are exempted from ANBC, banks should not classify such loans under priority sector. Investments made by UCBs in bonds issued by NHB / HUDCO on or after April 1, 2007 shall not be eligible for classification under priority sector.
- Loans up to ₹10 lakh in metropolitan centres and up to ₹6 lakh in other centres for repairs to damaged dwelling units conforming to the overall cost of the dwelling unit as prescribed above.
- Bank loans to any governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers subject to dwelling units with carpet area of not more than 60 sq.m.
- Bank loans for affordable housing projects using at least 50% of FAR/FSI for dwelling units with carpet area of not more than 60 sq.m.
- Bank loans to HFCs (approved by NHB for their refinance) for on-lending, up to ₹20 lakh for individual borrowers, for purchase/construction/ reconstruction of individual dwelling units or for slum clearance and rehabilitation of slum dwellers.
- Outstanding deposits with NHB on account of priority sector shortfall.

6) SOCIAL INFRASTRUCTURE: Bank loans up to a limit of ₹5 crore per borrower for setting up schools, drinking water facilities and sanitation facilities including construction/ refurbishment of household toilets and water improvements at household level, etc. and loans up to a limit of ₹10 crore per borrower for building health care facilities including under 'Ayushman Bharat' in Tier II to Tier VI centres. In case of UCBs, the above limits are applicable only in centres having a population of less than one lakh. Bank loans to MFIs extended for on-lending to individuals and also to members of SHGs/JLGs for water and sanitation facilities subject to the criteria laid down.(not applicable to RRBs, UCBs and SFBs.)

7) RENEWABLE ENERGY: Bank loans up to a limit of ₹30 crore to borrowers for purposes like solar based power generators, biomass-based power generators, wind mills, micro-hydel plants and for non-conventional energy based public utilities, viz., street lighting systems and remote village electrification etc., will be eligible for Priority Sector classification. For individual households, the loan limit will be ₹10 lakh per borrower.

8) OTHERS: The following loans as per the prescribed limits are eligible for priority sector classification:

- Loans provided directly by banks to individuals and individual members of SHG/JLGs as per the guidelines for microfinance.
- Loans not exceeding ₹2.00 lakh provided by banks to SHG/JLG for activities other than agriculture or MSME, viz., loans for meeting social needs, construction or repair of house, construction of toilets or any viable common activity started by SHGs.
- Loans to distressed persons [other than distressed farmers indebted to non-institutional lenders] not exceeding ₹1.00 lakh per borrower to prepay their debt to non-institutional lenders.
- Loans sanctioned to State Sponsored Organisations for Scheduled Castes/ Scheduled Tribes for the specific purpose of purchase and supply of inputs and/or the marketing of the outputs of the beneficiaries of these organisations.
- Loans up to ₹50 crore to Start-ups, as per definition of Ministry of Commerce and Industry, Govt. of India that are engaged in activities other than Agriculture or MSME.

WEAKER SECTIONS: Priority sector loans to the following borrowers will be considered as lending under Weaker Sections category:

- Small and Marginal Farmers
- Artisans, village and cottage industries where individual credit limits do not exceed ₹1 lakh.
- Beneficiaries under Government Sponsored Schemes such as National Rural Livelihood Mission (NRLM), National Urban Livelihood Mission (NULM) and Self Employment Scheme for Rehabilitation of Manual Scavengers (SRMS).
- Scheduled Castes and Scheduled Tribes.
- Beneficiaries of Differential Rate of Interest (DRI) scheme.
- Self Help Groups

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- Distressed farmers indebted to non-institutional lenders.
- Distressed persons other than farmers, with loan amount not exceeding ₹1 lakh per borrower to prepay their debt to non-institutional lenders.
- Individual women beneficiaries up to ₹1 lakh per borrower (For UCBs, existing loans to women will continue to be classified under weaker sections till their maturity/repayment.)
- Persons with disabilities.
- Minority communities as may be notified by Government of India from time to time.

Overdraft availed by PMJDY account holders as per limits and conditions prescribed by Department of Financial Services, Ministry of Finance from time to time may be classified under Weaker Sections.

In States, where one of the minority communities notified is, in fact, in majority, item (xi) will cover only the other notified minorities. These States/ Union Territories are Punjab, Meghalaya, Mizoram, Nagaland, Lakshadweep and Jammu & Kashmir.

INVESTMENTS BY BANKS IN SECURITISATION NOTES AND TRANSFER OF ASSETS THROUGH DIRECT ASSIGNMENT /OUTRIGHT PURCHASE (not applicable to RRBs and UCBs): Investments by banks in 'securitisation notes' or assignment/outright purchase of pool of assets by banks representing loans to various categories of priority sector, except 'others' category, are eligible for classification under respective categories of priority sector depending on the underlying assets provided:

- The assets are originated by banks and financial institutions and are eligible to be classified as priority sector advances prior to securitisation and fulfil the Reserve Bank of India guidelines on 'Securitisation of Standard Assets'.or guidelines on 'Transfer of Loan Exposures'.
- The all-inclusive interest charged to the ultimate borrower by the originating entity should not exceed the investing bank's MCLR + 10% or EBLR + 14%.
- The investments in securitisation notes originated by MFIs, complying specific guidelines are exempted from this interest cap as there are separate caps on margin and interest rate for MFIs.
- Purchase/ assignment/investment transactions undertaken by banks with NBFCs, where the underlying assets are loans against gold jewellery, are not eligible for priority sector status.

INTER BANK PARTICIPATION CERTIFICATES (IBPCs) (not applicable to UCBs): IBPCs bought by banks, on a risk sharing basis, are eligible for classification under respective categories of priority sector, provided the underlying assets are eligible to be categorized under the respective categories of priority sector. IBPCs bought by banks on risk sharing basis relating to 'Export Credit' may be classified from purchasing bank's perspective for priority sector categorization. However, in such a scenario, the issuing bank shall certify that the underlying asset is 'Export Credit', in addition to the due diligence required to be undertaken by the issuing and the purchasing bank as per guidelines in this regard.

PRIORITY SECTOR LENDING CERTIFICATES (PSLCs): The outstanding PSLCs bought by banks will be eligible for classification under respective categories of priority sector provided the underlying assets originated by banks are eligible to be classified as priority sector advances and fulfil the Reserve Bank of India guidelines on Priority Sector Lending Certificates.

BANK LOANS TO MFIs (NBFC-MFIs, SOCIETIES, TRUSTS, etc.) FOR ON-LENDING (not applicable to RRBs, UCBs, SFBs and LABs): Banks other than SFBs are allowed to extend credit to registered NBFC-MFIs and other MFIs (Societies, Trusts etc.) which are members of RBI recognised SRO for the sector, for on-lending to individuals and also to members of SHGs / JLGs. With effect from 5th May 2021, SFBs are allowed to extend fresh credit to registered NBFC-MFIs and other MFIs (Societies, Trusts, etc.) which are members of RBI recognised 'Self-Regulatory Organisation' of the sector, and which have a 'gross loan portfolio' (GLP) of up to ₹500 crore as on March 31 of the previous year, for the purpose of on-lending to individuals. In case the GLP of the NBFC-MFIs/other MFIs exceeds the stipulated limit at a later date, all priority sector loans created prior to exceeding the GLP limit will continue to be classified by the SFBs as PSL till repayment/maturity, whichever is earlier. Bank credit as above will be allowed up to an overall limit of 10 percent of an individual bank's total priority sector lending. These limits shall be computed by averaging across four quarters of the financial year, to determine adherence to the prescribed cap.

BANK LOANS TO NBFCs For On-Lending (not applicable to RRBs, UCBs, SFBs and LABs): Bank credit to registered NBFCs (other than MFIs) for on-lending will be eligible for classification as priority sector under respective categories subject to the following conditions:

- **Agriculture:** On-lending by NBFCs for 'Term lending' component under Agriculture will be allowed up to ₹ 10 lakh per borrower.
- **Micro & Small enterprises:** On-lending by NBFC will be allowed up to ₹ 20 lakh per borrower.

BANK LOANS TO HFCs For On-Lending (not applicable to RRBs, SFBs and LABs): Bank credit to Housing Finance Companies (HFCs), approved by NHB for their refinance, for on-lending for the purpose of purchase/construction/ reconstruction of individual dwelling units or for slum clearance and rehabilitation of slum dwellers, subject to an aggregate loan limit of ₹20 lakh per borrower. Banks should maintain necessary borrower-wise details of the underlying portfolio.

Bank credit to NBFCs (including HFCs) as mentioned above, for on-lending, will be allowed up to an overall limit of five percent of individual bank's total priority sector lending.

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CO-LENDING BY BANKS AND NBFCs To Priority Sector (not applicable to RRBs, UCBs, SFBs and LABs): All Scheduled Commercial Banks (excluding SFBs, RRBs, UCBs and LABs) are permitted to co-lend with all registered NBFCs (including Housing Finance Companies) for lending to the priority sector..

NON-ACHIEVEMENT OF PRIORITY SECTOR TARGETS:

- Banks having any shortfall in lending to priority sector shall be allocated amounts for contribution to the Rural Infrastructure Development Fund (RIDF) established with NABARD and other funds with NABARD/NHB/SIDBI/ MUDRA Ltd., as decided by the Reserve Bank from time to time.
- With effect from March 31, 2021, all UCBs (excluding those under all-inclusive directions) will be required to contribute to Rural Infrastructure Development Fund (RIDF) established with NABARD and other funds with NABARD / NHB / SIDBI / MUDRA Ltd., against their priority sector lending (PSL) shortfall vis-à-vis the prescribed target.
- While computing priority sector target achievement, shortfall / excess lending for each quarter will be monitored separately. A simple average of all quarters will be arrived at and considered for computation of overall shortfall / excess at the end of the year.
- The interest rates on banks' contribution to RIDF or any other funds, tenure of deposits, etc. shall be fixed by Reserve Bank of India from time to time.
- Non-achievement of priority sector targets and sub-targets will be taken into account while granting regulatory clearances/approvals for various purposes.

COMMON GUIDELINES FOR PRIORITY SECTOR LOANS: Banks should comply with the following common guidelines for all categories of advances under the priority sector.

- **Rate of interest:** The rates of interest on bank loans will be as per directives issued by Department of Regulation (DoR), RBI from time to time.
- **Service charges:** No loan related and ad hoc service charges/inspection charges should be levied on priority sector loans up to ₹25,000. In the case of eligible priority sector loans to SHGs/ JLGs, this limit will be applicable per member and not to the group as a whole.
- **Receipt, Sanction/Rejection/Disbursement Register:** A register/ electronic record should be maintained by the bank wherein the date of receipt, sanction/rejection/disbursement with reasons thereof, etc. should be recorded. The register/electronic record should be made available to all inspecting agencies.
- **Issue of acknowledgement of loan applications:** Banks should provide acknowledgement for loan applications received under priority sector loans. Bank Boards should prescribe a time limit within which the bank communicates its decision in writing to the applicants.

START UP: As per notification of Ministry of Commerce and Industry,Government of India dated 19.02.2019, an entity shall be considered as a Start-up:

- Turnover of the entity for any of the financial years since incorporation/ registration hasnot exceeded Rs.100 crore.
- Up to a period of ten years from the date of incorporation/registration, if it is incorporated as a private limited company or registered as a partnership firm or a limited liability partnership in India.
- Entity is working towards innovation, development or improvement of products or processes or services, or if it is a scalable business model with a high potential of employment generation or wealth creation.
- Provided that an entity formed by splitting up or reconstruction of an existing business shall not be considered as ‗Start-up'.

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FRAMEWORK FOR RESOLUTION OF STRESSED ASSETS

EARLY IDENTIFICATION AND REPORTING OF STRESS: Lenders shall recognise incipient stress in loan accounts, immediately on default, by classifying such assets as special mention accounts (SMA) as per the following categories.

SMA Sub-categories	Basis for classification – Principal or interest payment or any other amount wholly or partly overdue between
SMA-0	Up to 30 days
SMA-1	More than 30 days and up to 60 days-
SMA-2	More than 60 days and up to 90 days

In the case of revolving credit facilities like cash credit/overdraft, the SMA sub-categories will be as follows:

SMA Sub-categories	Basis for classification – Outstanding balance remains continuously in excess of the sanctioned limit or drawing power, whichever is lower, for a period of:
SMA-1	More than 30 days and up to 60 days
SMA-2	More than 60 days and up to 90 days

- The above-mentioned instructions on classification of borrower accounts into SMA categories are applicable for all loans (including retail loans), other than agricultural advances governed by crop season-based asset classification norms.
- Classification of borrower accounts as SMA as well as NPA shall be done as part of day-end process for the relevant date and the SMA or NPA classification date shall be the calendar date for which the day end process is run. In other words, the date of SMA/NPA shall reflect the asset classification status of an account at the day-end of that calendar date.
- Example: If due date of a loan account is March 31, 2022, and full dues are not received before the bank runs the day-end process for this date, the date of overdue shall be March 31, 2022. If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running day-end process on April 30, 2022 i.e. upon completion of 30 days of being continuously overdue. Accordingly, the date of SMA-1 classification for that account shall be April 30, 2022. Similarly, if the account continues to remain overdue, it shall get tagged as SMA-2 upon running day-end process on May 30, 2022 and if continues to remain overdue further, it shall get classified as NPA upon running day-end process on June 29, 2022.
- Scheduled commercial banks shall report credit information, including classification of an account as SMA to Central Repository of Information on Large Credits (CRILC), on all borrowers having aggregate exposure of ₹5 crore and above with them. The CRILC-Main Report shall be submitted on a monthly basis. In addition, the lenders shall submit a weekly report of instances of default by all borrowers (with aggregate exposure of ₹5 crore and above) by close of business on every Friday, or the preceding working day if Friday happens to be a holiday.

IMPLEMENTATION OF RESOLUTION PLAN:

- All lenders must put in place Board-approved policies for resolution of stressed assets, including the timelines for resolution. The lenders initiate the process of implementing a resolution plan (RP) even before a default.
- Once a borrower is reported to be in default by any of the lenders, lenders shall undertake a prima facie review of the borrower account within thirty days from such default ("**Review Period**"). During this Review Period of thirty days, lenders may decide on the resolution strategy, including the nature of the RP, the approach for implementation of the RP, etc. The lenders may also choose to initiate legal proceedings for insolvency or recovery.
- In cases where RP is to be implemented, all lenders shall enter into an inter-creditor agreement (ICA), during the above-said Review Period, to provide for ground rules for finalisation and implementation of the RP in respect of borrowers with credit facilities from more than one lender. The ICA shall provide that any decision agreed by lenders representing 75 per cent by value of total outstanding credit facilities (fund based as well non-fund based) and 60 per cent of lenders by number shall be binding upon all the lenders.
- In respect of accounts with aggregate exposure above a threshold with the lenders, as indicated below, on or after the 'reference date', RP shall be implemented within 180 days from the end of Review Period. The Review Period shall commence not later than: The reference date, if in default as on the reference date; or the date of first default after the reference date.The reference dates for the above purpose shall be as under:

Aggregate exposure of the borrower to lenders mentioned at 3(a), 3(b) and 3(c)	Reference date
₹2000 crore and above	June 7, 2019
₹1500 crore and above, but less than ₹2000 crore	January 1, 2020
Less than ₹1500 crore	To be announced in due course

- The RP may involve any action / plan / reorganization including, but not limited to, regularisation of the account by payment of all over dues by the borrower entity, sale of the exposures to other entities / investors, change in ownership and restructuring.

IMPLEMENTATION CONDITIONS FOR RP: RPs involving restructuring / change in ownership in respect of accounts where the aggregate exposure of lenders is ₹100 crore and above, shall require independent credit evaluation (ICE) of the residual debt by credit rating agencies (CRAs) specifically authorised by the Reserve Bank for this purpose. While

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accounts with aggregate exposure of ₹500 crore and above shall require two such ICEs, others shall require one ICE. Only such RPs which receive a credit opinion of RP4 or better for the residual debt from one or two CRAs, as the case may be, shall be considered for implementation. Further, ICEs shall be subject to the following:
A RP in respect of borrowers to whom the lenders continue to have credit exposure, shall be deemed to be 'implemented' only if the following conditions are met:

- A RP which does not involve restructuring/change in ownership shall be deemed to be implemented only if the borrower is not in default with any of the lenders as on 180th day from the end of the Review Period. Any subsequent default after the 180-day period shall be treated as a fresh default, triggering a fresh review.
- A RP which involves restructuring/change in ownership shall be deemed to be implemented only if all of the following conditions are met: (I) All related documentation, including execution of necessary agreements between lenders and borrower / creation of security charge / perfection of securities, are completed by the lenders concerned, (II) the new capital structure and/or changes in the terms of conditions of the existing loans get duly reflected in the books of all the lenders and the borrower; and (III) the borrower is not in default with any of the lenders.
- A RP which involves lenders exiting the exposure by assigning the exposures to third party or a RP involving recovery action shall be deemed to be implemented only if the exposure to the borrower is fully extinguished.

DELAYED IMPLEMENTATION OF RESOLUTION PLAN: Where a viable RP in respect of a borrower is not implemented within the timelines given below, all lenders shall make additional provisions as under:

Timeline for implementation of viable RP	Additional provisions to be made as a % of total outstanding (funded+non-funded), if RP not implemented within the timeline
180 days from the end of Review Period	20%
365 days from the commencement of Review Period	15% (i.e. total additional provisioning of 35%)

The additional provisions shall be made over and above the higher of the provisions already held or the provisions required to be made as per the asset classification status of the borrower account, subject to the total provisions held being capped at 100% of total outstanding. The additional provisions shall also be required to be made in cases where the lenders have initiated recovery proceedings, unless the recovery proceedings are fully completed.
The above additional provisions may be reversed as under:

a. Where the RP involves only payment of overdues by the borrower – the additional provisions may be reversed only if the borrower is not in default for a period of 6 months from the date of clearing of the overdues with all the lenders;
b. Where RP involves restructuring/change in ownership outside IBC – the additional provisions may be reversed upon implementation of the RP;
c. Where resolution is pursued under IBC – half of the additional provisions made may be reversed on filing of insolvency application and the remaining additional provisions may be reversed upon admission of the borrower into the insolvency resolution process under IBC; or,
d. Where assignment of debt/recovery proceedings are initiated – the additional provisions may be reversed upon completion of the assignment of debt/recovery.

DISCLOSURES: Lenders shall make appropriate disclosures in their financial statements, under 'Notes on Accounts', relating to RPs implemented.

EXEMPTIONS: The above guidelines on resolution of stressed assets shall not be applicable to revival and rehabilitation of MSMEs, restructuring of agricultural advances on occurrence of natural calamity or for borrower entities in respect of which specific instructions have already been issued or are issued by the Reserve Bank to the banks for initiation of insolvency proceedings under the IBC.

PRUDENTIAL NORMS APPLICABLE TO RESTRUCTURING

- Restructuring is an act in which a lender, for economic or legal reasons relating to the borrower's financial difficulty, grants concessions to the borrower. Restructuring may involve modification of terms of the advances / securities, which would generally include, among others, alteration of payment period / payable amount / the amount of instalments / rate of interest; roll over of credit facilities; sanction of additional credit facility/ release of additional funds for an account in default to aid curing of default / enhancement of existing credit limits; compromise settlements where time for payment of settlement amount exceeds three months.
- For this purpose, the board-approved policies of lenders on resolution of stressed assets, required to be in place in terms of these guidelines, shall also have detailed policies on various signs of financial difficulty, providing quantitative as well as qualitative parameters, for determining financial difficulty as expected from a prudent bank. A default, as per the definition provided in the framework, shall be treated as an indicator for financial difficulty, irrespective of reasons for the default.

g) The above list provides examples of possible indicators of financial difficulty, but is not intended to constitute an

ASSET CLASSIFICATION: In case of restructuring, the accounts classified as 'standard' shall be immediately downgraded as non-performing assets (NPAs), i.e., 'sub-standard' to begin with. The NPAs, upon restructuring, would continue to have the same asset classification as prior to restructuring.

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CONDITIONS FOR UPGRADETION:

For MSME accounts where aggregate exposure of the lenders is less than ₹25 crores: An account may be considered for upgradation to 'standard' only if it demonstrates satisfactory performance during the specified period. 'Specified Period' means a period of one year from the commencement of the first payment of interest or principal, whichever is later, on the credit facility with longest period of moratorium under the terms of restructuring package. 'Satisfactory Performance' means no payment (interest and/or principal) shall remain overdue for a period of more than 30 days. In case of cash credit / overdraft account, satisfactory performance means that the outstanding in the account shall not be more than the sanctioned limit or drawing power, whichever is lower, for a period of more than 30 days.

For all other accounts:

- Standard accounts classified as NPA and NPA accounts retained in the same category on restructuring by the lenders may be upgraded only when all the outstanding loan / facilities in the account demonstrate 'satisfactory performance' (Satisfactory performance means that the borrower entity is not in default at any point of time during the period concerned) during the period from the date of implementation of RP up to the date by which at least 10 per cent of the sum of outstanding principal debt as per the RP and interest capitalisation sanctioned as part of the restructuring, if any, is repaid (**'monitoring period'**).Provided that the account cannot be upgraded before one year from the commencement of the first payment of interest or principal (whichever is later) on the credit facility with longest period of moratorium under the terms of RP.
- Additionally, for accounts where the aggregate exposure of lenders is ₹100 crores and above at the time of implementation of RP, to qualify for an upgrade, in addition to demonstration of satisfactory performance, the credit facilities of the borrower shall also be rated as investment grade (BBB- or better), at the time of upgrade, by CRAs accredited by the Reserve Bank for the purpose of bank loan ratings. While accounts with aggregate exposure of ₹500 crores and above shall require two ratings, those below ₹500 crores shall require one rating. If the ratings are obtained from more than the required number of CRAs, all such ratings shall be investment grade for the account to qualify for an upgrade.
- If the borrower fails to demonstrate satisfactory performance during the monitoring period, asset classification upgrade shall be subject to implementation of a fresh restructuring/ change in ownership. Lenders shall make an additional provision of 15% for such accounts at the end of the Review Period.
- Any default by the borrower in any of the credit facilities with any of the lenders (including any lender where the borrower is not in **"specified period"**) subsequent to upgrade in asset classification as above but before the end of the specified period, will require a fresh RP to be implemented within the above timelines as any default would entail. However, lenders shall make an additional provision of 15% for such accounts at the end of the Review Period.
- "Specified period" means the period from the date of implementation of RP (For accounts restructured under IBC, the specified period shall be deemed to commence from the date of implementation of the resolution plan as approved by the Adjudicating Authority) up to the date by which at least 20 per cent of the sum of outstanding principal debt as per the RP and interest capitalisation sanctioned as part of the restructuring, if any, is repaid.

PROVISIONING NORMS: Accounts restructured under the revised framework shall attract provisioning as per the asset classification category as laid out above. In respect of accounts of debtors where a final RP, as approved by the Committee of Creditors, has been submitted by the Resolution Professional for approval of the Adjudicating Authority (in terms of section 30(6) of the IBC), lenders may keep the provisions held as on the date of such submission of RP frozen for a period of six months from the date of submission of the plan or up to 90 days from the date of approval of the resolution plan by the Adjudicating Authority in terms of section 31 (1) of the IBC, whichever is earlier.This facility of freezing the quantum of the provision shall be available only in cases where the provisioning held by the lenders as on the date of submission of the plan for approval of the Adjudicating Authority is more than the expected provisioning required to be held in the normal course upon implementation of the approved resolution plan.

ADDITIONAL FINANCE: Any additional finance approved under the RP (including any resolution plan approved by the Adjudicating Authority under IBC) may be treated as 'standard asset' during the monitoring period under the approved RP, provided the account demonstrates satisfactory performance during the monitoring period. If the restructured asset fails to perform satisfactorily during the monitoring period or does not qualify for upgradation at the end of the monitoring period, the additional finance shall be placed in the same asset classification category as the restructured debt.

INCOME RECOGNITION NORMS: Interest income in respect of restructured accounts classified as 'standard assets' may be recognized on accrual basis and that in respect of the restructured accounts classified as 'non-performing assets' shall be recognised on cash basis. In the case of additional finance in accounts where the pre-restructuring facilities were classified as NPA, the interest income shall be recognised only on cash basis except when the restructuring is accompanied by a change in ownership.

CHANGE IN OWNERSHIP: In case of change in ownership of the borrowing entities, credit facilities of the concerned borrowing entities may be continued/upgraded as 'standard' after the change in ownership is implemented, either under the IBC or under this framework. If the change in ownership is implemented under this framework, then the classification as 'standard' shall be subject to the following conditions:

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- Lenders shall conduct necessary due diligence in this regard and clearly establish that the acquirer is not a person disqualified in terms of Section 29A of the IBC. Additionally, the 'new promoter' should not be a person/entity/subsidiary/associate etc. (domestic as well as overseas), from the existing promoter/promoter group.
- The new promoter shall have acquired at least 26 per cent of the paid up equity capital as well as voting rights of the borrower entity and shall be the single largest shareholder of the borrower entity.
- The new promoter shall be in 'control' of the borrower entity as per the definition of 'control' in the Companies Act, 2013 / regulations issued by the Securities and Exchange Board of India/any other applicable regulations / accounting standards as the case may be.
- Upon change in ownership, all the outstanding loans/credit facilities of the borrowing entity need to demonstrate satisfactory performance during the monitoring period. If the account fails to perform satisfactorily at any point of time during the monitoring period, it shall trigger a fresh Review Period.
- The quantum of provisions held (excluding additional provisions) by the bank against the said account as on the date of change in ownership of the borrowing entities can be reversed only after the end of monitoring period subject to satisfactory performance during the same.

RESTRUCTURING OF FRAUDS/WILLFUL DEFAULTERS: Borrowers who have committed frauds/ malfeasance/ willful default will remain ineligible for restructuring. However, in cases where the existing promoters are replaced by new promoters, and the borrower company is totally delinked from such erstwhile promoters/management, lenders may take a view on restructuring such accounts based on their viability, without prejudice to the continuance of criminal action against the erstwhile promoters/management.

ADDITIONAL PROVISION IN CASE OF WILFUL DEFAULTERS AND NON-COOPERATIVE BORROWERS: The provisioning in respect of existing loans/exposures of banks to companies having director/s (other than nominee directors of government/financial institutions brought on board at the time of distress), whose name/s appear more than once in the list of wilful defaulters, will be 5% in cases of standard accounts; if such account is classified as NPA, it will attract accelerated provisioning as under:

<table>
<tr><th>Asset Classification</th><th>Period as NPA</th><th>Regular provisioning (%)</th><th>Accelerated provisioning (%)</th></tr>
<tr><td rowspan="2">Sub-standard (secured)</td><td>Up to 6 months</td><td>15</td><td>No change</td></tr>
<tr><td>6 months to 1 year</td><td>15</td><td>25</td></tr>
<tr><td rowspan="4">Sub-standard (unsecured ab-initio)</td><td rowspan="2">Up to 6 months</td><td>25 (other than infrastructure loans)</td><td rowspan="2">25</td></tr>
<tr><td>20 (infrastructure loans)</td></tr>
<tr><td rowspan="2">6 months to 1 year</td><td>25 (other than infrastructure loans)</td><td rowspan="2">40</td></tr>
<tr><td>20 (infrastructure loans)</td></tr>
<tr><td rowspan="2">Doubtful I</td><td rowspan="2">2nd year</td><td>25 (secured portion)</td><td>40 (secured portion)</td></tr>
<tr><td>100 (unsecured portion)</td><td>100 (unsecured portion)</td></tr>
<tr><td rowspan="2">Doubtful II</td><td rowspan="2">3rd & 4th year</td><td>40 (secured portion)</td><td rowspan="2">100 for both secured and unsecured portions</td></tr>
<tr><td>100 (unsecured portion)</td></tr>
<tr><td>Doubtful III</td><td>5th year onwards</td><td>100</td><td>100</td></tr>
</table>

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BASEL NORMS

EVOLUTION:

- The Basel Committee - initially named the Committee on Banking Regulations and Supervisory Practices - was established by the central bank Governors **G10 countries** in the year **1974** in the aftermath of serious disturbances in international currency and banking markets (notably the failure of Bankhaus Herstatt in West Germany).
- The Committee **headquartered at the Bank for International Settlements in Basel, Switzerland** and was established to enhance financial stability by improving the quality of banking supervision worldwide.
- Since its inception, the Basel Committee has expanded its membership from the G10 to 45 institutions.
- The **first set of direction paper issued in 1975** that came to be known as the "**Concordat"** which stated the principles for sharing supervisory responsibility for banks' foreign branches, subsidiaries and joint ventures between host and parent (or home) supervisory authorities.

BASEL I: THE BASEL CAPITAL ACCORD:

Following comments on a consultative paper published in December 1987, a capital measurement system commonly referred to as the Basel Capital Accord was approved by the G10 Governors and released to banks in **July 1988**.The 1988 Accord **called for a minimum ratio of capital to risk-weighted assets of 8%** to be implemented by the end of 1992. Ultimately, this framework was introduced not only in member countries but also in virtually all countries with active international banks. The Committee also refined the framework to address risks other than credit risk, which was the focus of the 1988 Accord. In January 1996, following two consultative processes, the Committee issued the Amendment to the Capital Accord to incorporate market risks, to take effect at the end of 1997. An important aspect of the Market Risk Amendment was that banks were, for the first time, allowed to use internal models (value-at-risk models) as a basis for measuring their market risk capital requirements.

Under BASEL-I accord, only the credit risk element was considered and the minimum requirement of capital funds was fixed at 8.00 percent of the total risk weighted assets. Risk adjusted assets means weighted average of funded and non-funded assets after multiplying with the respective risk weights assigned to each class of assets. In India, however, Banks were mandated to maintain minimum Capital-to-Risk-Weighted-Asset-Ratio (CRAR) of **9.00 percent** on an ongoing basis.

BASEL II: THE NEW CAPITAL FRAMEWORK:

In June 1999, the Committee issued a proposal for a new capital adequacy framework to replace the 1988 Accord. This led to the release of a revised capital framework in **June 2004**. Generally known as "Basel II".

The BASEL-II introduced the following improvements/changes over the BASEL-I accord

- Assessment of risks based on Banks internal systems i.e Internal Risk Ratings as inputs for capital calculations.
- This accord is more risk sensitive than BASEL-I
- **Introduction of supervisory review and market discipline principles**.

The revised framework comprised **three pillars**: Pillar-(I) Minimum capital requirements, Pillar-(II) Supervisory review and Pillar-(iii) Market discipline.

PILLAR-I; MINIMUM CAPITAL REQUIREMENT: The capital base of Bank consists of Tier-1, Tier-II and Tier-III whose sum total will be the capital base.

Tier-I Capital: It includes only permanent shareholders equity i.e fully paid equity shares and perpetual non-cumulative preference shares and disclosed reserves (such as retained profit, share premium, general reserves)

Tier-II Capital: It includes undisclosed reserves (subject to acceptance by regulators), Revaluation reserves with a discount of 55 percent to the difference between book value and market value, General provisions/loan loss reserves with a maximum limit of 1.25 percent of Risk Weighted Assets, Hybrid capital (having combine characteristics of debt and equity) instruments including cumulative preference shares having characteristics of hybrid capital, Sub-ordinate Term Dept with minimum maturity of more than 5 years (during last five years to maturity, a cumulative discount factor of 20 percent per year will be applied on these instruments). Subordinated debt was limited to a maximum 50% of Tier-I capital. The total of Tier-II elements was limited to a maximum 100% of total Tier I elements.

Tier-III Capital: It consists of short term subordinated debt for the sole purpose of meeting capital requirement for market risk. Tier-III capital was limited to 250 percent of Banks Tier-I capital that is required to support market risk. That means minimum 28.5 percent of market risks needs to be supported by Tier-I capital that is not required to support risks in the reminder of the book. Tier II elements may be substituted for Tier III up to the same limit of 250 percent insofar as the overall limits are not breached, that is to say the eligible Tier II capital may not exceed the total Tier I capital and long-term subordinated debt may not exceed 50 percent of Tier I capital. For short term sub-ordinated debt to be eligible as Tier III capital, it should have an original maturity of at least two years and subject to lock-in clause.

PILLAR-II; SUPERVISORY REVIEW PROCESS: This process recognizes the Bank management in developing an internal capital adequacy assessment process based on Banks's risk profile and control environment. Supervisors should evaluate Banks on this score and intervene wherever found necessary.

PILLAR-III; MARKET DISCIPLINE: The committee aims to encourage market discipline by developing a set of disclosure requirement. Banks's disclosure should be consistent with the management of risks by Banks management/Board. Market discipline can contribute to a safe and sound Banking environment.

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BASEL III

Responding to the 2007-09 financial crisis, the Basel Committee issued Principles for sound liquidity risk management and supervision. In July 2009, the Committee issued a further package of documents to strengthen the Basel II capital framework. In September 2010, the Group of Governors and Heads of Supervision (GHOS) announced higher global minimum capital standards for commercial banks. This followed an agreement reached in July regarding the overall design of the capital and liquidity reform package, now referred to as "Basel III". In November 2010, the new capital and liquidity standards were endorsed at the G20 Leaders' Summit in Seoul and consequently, the Basel Committee on Banking Supervision (BCBS) released comprehensive reform package entitled “Basel III: A global regulatory framework for more resilient banks and banking systems” (known as Basel III capital regulations) in **December 2010.**
The enhanced Basel framework revises and strengthens the three pillars established by Basel II. Most of the reforms are being phased in between 2013 and 2019: The key factors introduced in BASEL-III include;

- Stricter requirements for the quality and quantity of regulatory capital, reinforcing the role of common equity and an additional layer of common equity - the capital conservation buffer - that, when breached, restricts pay-outs to help in meeting the minimum common equity requirement.
- A countercyclical capital buffer, which places restrictions on participation by banks in system-wide credit booms with the aim of reducing their losses in credit busts.
- A leverage ratio - a minimum amount of loss-absorbing capital relative to all of a bank's assets and off-balance sheet exposures regardless of risk weighting
- Liquidity requirements - a minimum liquidity ratio, the Liquidity Coverage Ratio (LCR), intended to provide enough cash to cover funding needs **over a 30-day period of stress**; and a **longer-term ratio, the Net Stable Funding Ratio (NSFR),** intended to address maturity mismatches over the entire balance sheet
- Additional requirements for systemically important banks, including additional loss absorbency and strengthened arrangements for cross-border supervision and resolution.

As per BCBS, globally, the implementation date of the Basel III standards finalized in December 2017 has been deferred to January 1, 2023. The accompanying transitional arrangements for the output floor have also been extended to **January 1, 2028.**

INDIAN CONTEXT;

RBI issued Guidelines based on the Basel III reforms on capital regulation on **May 2, 2012**, to the extent applicable to banks operating in India. The Basel III capital regulations were **implemented in India with effect from April 1, 2013 and have been fully implemented as on October 1, 2021**. Banks have to comply with the regulatory limits and minima as prescribed under Basel III capital regulations, on an ongoing basis.
The Basel III capital regulations continue to be based on three-mutually reinforcing Pillars, viz. **Pillar-I: Minimum capital requirements, Pillar II: Supervisory review of capital adequacy, and Pillar III: Market discipline.** The Supervisory Review Process has two components namely Internal Capital Adequacy Assessment Process (ICAAP) and Supervisory Review and Evaluation Process (SREP)

COMPOSITION OF REGULATORY CAPITAL:

Banks are required to maintain a minimum **Pillar 1 Capital to Risk-weighted Assets Ratio (CRAR) of 9%** on an on-going basis (other than capital conservation buffer and countercyclical capital buffer). RBI may consider prescribing a higher level of minimum capital ratio for each bank under the Pillar 2 framework on the basis of their respective risk profiles and their risk management systems. A bank should compute Basel III capital ratios in the following manner.
Total regulatory capital will consist of the sum of the **Tier 1 Capital (going-concern capital)** consisting of Common Equity Tier-1 & Additional Tier-1 and **Tier 2 Capital (gone-concern capital).**
Capital to Risk Weighted Asset Ratio (CRAR) = Capital / [RWA for Credit Risk + Market Risk + Operational Risk].

MINIMUM CAPITAL REQUIREMENT PROPOSED IN BASEL-III: The minimum capital requirement as percentage of Risk weighted Assets that the commercial Banks (excluding RRBs and LABs) should comply are as follows

	Type of Capital	As per BASEL-III applicable globally	As adopted by RBI for India
1	**Minimum Total Capital (1.a+1.b)**	**8.00%**	**9.00%**
1.a	**Minimum Tier-1 Capital**	**6.00%**	**7.00%**
	Out of Which Common Equity Tier-1	4.50%	5.50%
	Out of Which Additional Tier-1	1.50%	1.50%
1.b	Maximum Tier-2 Capital	2.00%	2.00%
2	**Capital Conservation Buffer (CCB)#**	**2.50%**	**2.50%**
	Minimum Total Capital + CCB	**10.50%**	**11.50%**
	Minimum Tier-1 Capital + CCB	8.50%	9.50%
	Minimum Common Equity Tier-1 Capital + CCB	7.00%	8.00%

CAPITAL CONSERVATION BUFFER (CCB): Banks will be required to hold a capital conservation buffer (CCB) of **2.50% of Risk Weighted Assets (RWA)** in addition to minimum capital requirement of 9.00% consisting of Common Equity Tier-I capital that can be used to absorb losses during periods of financial and economic stress. As per the

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guidelines, the CCB was proposed to be phased out over a period of 4 years in a uniform manner of 0.625% per year commencing from 1st January 2016. But In view of the continuing stress on account of COVID-19, RBI had decided to defer the implementation of the last tranche of 0.625 per cent of the Capital Conservation Buffer (CCB) to October 1, 2021 and accordingly the CCB of 2.5% of RWAs has been **fully phased in from October 1, 2021**.
The capital conservation buffer can be drawn down only when a bank faces a systemic or idiosyncratic stress. A bank should not choose in normal times to operate in the buffer range simply to compete with other banks and win market share.

COUNTERCYCLICAL BUFFER: Countercyclical buffer ranging from **0% to 2.5%** of RWA consisting of common equity or other loss absorbing capital has been introduced with an objective to increase capital requirement in good times which can be utilized in bad times.

ELEMENTS OF COMMON EQUITY TIER 1 CAPITAL:

- Common shares (paid-up equity capital).
- Stock surplus (share premium) resulting from the issue of common shares.
- Statutory reserves, Capital reserves representing surplus arising out of sale proceeds of assets
- Other disclosed free reserves and balance in Profit & Loss Account at the end of the previous financial year.
- Revaluation reserves arising out of change in the carrying amount of a bank's property consequent upon its revaluation at a **discount of 55%.** (valuations are obtained, from two independent valuers, at least once in every 3 years)
- Foreign currency translation reserve arising due to translation of financial statements of their foreign operations at a **discount of 25%.**
- Banks may reckon the profits in current financial year for CRAR calculation on a quarterly basis provided the incremental provisions made for non-performing assets at the end of any of the four quarters of the previous financial year have not deviated more than 25% from the average of the four quarters.

Common Equity is recognized as the highest quality component of capital and is the primary form of funding which ensures that a bank remains solvent.

ELEMENTS OF ADDITIONAL TIER-1 CAPITAL: Additional Tier 1 capital will consist of the following elements:

- **Perpetual Non-Cumulative Preference Shares (PNCPS);** The PNCPS will be issued by Indian banks, should be only in Indian rupees. These are without perpetual and shall not be issued with a 'put option', maturity period and no loan can be allowed against its security. However, banks may issue it with a call option but call option on the instrument is permissible after the instrument has run for **at least five years** with prior approval from RBI. The dividend shall not be cumulative. i.e., dividend missed in a year or in a year when the dividend is paid at a rate lesser than the prescribed rate, will not be paid in future years, even if adequate profit is available and the level of CRAR conforms to the regulatory minimum. On Balance sheet the amount should be shown as Schedule-I capital.
- **Perpetual Debt capital instruments (PDI) eligible for inclusion in Additional Tier 1 capital;** The PDIs shall be perpetual i.e. there is no maturity date. Put option is not permissible However, banks may issue the instruments with a call option which is permissible after the instrument has run for **at least five years** with prior approval from RBI. Principal of the instruments may be repaid only with prior approval of RBI with condition that Banks replace such instrument with capital of the same or better quality. On Balance sheet the amount should be shown as Schedule-IV Borrowings.
- Any other type of instrument generally notified by RBI from time to time for inclusion in Additional Tier 1 capital.
- Stock surplus (share premium) resulting from the issue of instruments included in Additional Tier 1 capital.
- While complying with minimum Tier 1 of 7% of risk weighted assets, a **bank cannot admit, Perpetual Non-Cumulative Preference Shares (PNCPS) together with Perpetual Debt Instruments (PDI) in Additional Tier 1 Capital, more than 1.5% of risk weighted assets.** However, once this minimum total Tier 1 capital has been complied with, any additional PNCPS and PDI issued by the bank can be included in Total Tier 1 capital reported. Excess PNCPS and PDI can be reckoned to comply with Tier 2 capital if the latter is less than 2% of RWAs i.e., while complying with minimum Total Capital of 9% of risk weighted assets.

ELEMENTS OF TIER-2 CAPITAL:

- General Provisions or loan-loss reserves i.e General Provisions on Standard Assets, Floating Provisions, incremental provisions in respect of unhedged foreign currency exposures, Provisions held for Country Exposures, Investment Reserve Account, excess provisions which arise on account of sale of NPAs and countercyclical provisioning buffer. However, these items together will be admitted as Tier 2 capital up to a maximum of 1.25% of the total credit risk-weighted assets under the standardized approach. Under Internal Ratings Based (IRB) approach, where the total expected loss amount is less than total eligible provisions, banks may recognize the difference as Tier 2 capital up to a maximum of 0.6% of credit-risk weighted assets calculated under the IRB approach.
- Investment Fluctuation Reserve shall also qualify for inclusion in Tier 2 capital, without any ceiling.
- Provisions ascribed to identified deterioration of particular assets or loan liabilities, whether individual or grouped should be excluded. Accordingly, for instance, specific provisions on NPAs, both at individual account or at portfolio level, provisions in lieu of diminution in the fair value of assets in the case of restructured advances, provisions against depreciation in the value of investments will be excluded.

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- **Debt Capital Instruments issued as bonds / debentures by Indian banks;** The debt instruments should have a minimum maturity of five years. The instruments shall be subjected to a progressive discount for capital adequacy purposes as they approach maturity. In case the remaining maturity period of the instruments is Four years and more but less than five years, the rate of discount will be 20%. Similarly, the discount will be 40%, 60%, 80% and 100% if the remaining maturity period is Three years and more but less than four years, Two years and more but less than three years, One year and more but less than two years and less than one year respectively. Put option is not permissible, however, banks may issue the instruments with a call option but call option on the instrument is permissible after the instrument has run for at least five years with prior approval from RBI. Banks may issue Tier 2 Debt Instruments in Foreign Currency without seeking the prior approval of RBI subject to the total outstanding amount of Tier 2 Instruments in foreign currency shall not exceed 25% of the unimpaired Tier 1 capital. The amount raised by way of issue of Tier 2 debt capital instrument may be classified under 'Schedule 4 – Borrowings' in the Balance Sheet.
- **Perpetual Cumulative Preference Shares (PCPS) / Redeemable Non-Cumulative Preference Shares (RNCPS) / Redeemable Cumulative Preference Shares (RCPS).** These instruments could be either perpetual (PCPS) or dated (RNCPS and RCPS) instruments with a fixed maturity of minimum five years and there should be no step-ups or other incentives to redeem. The perpetual instruments shall be cumulative and the dated instruments could be cumulative or non-cumulative. The Redeemable Preference Shares (both cumulative and non-cumulative) shall be subjected to a progressive discount for capital adequacy purposes over the last five years of their tenor, as they approach maturity. In case the remaining maturity period of the instruments is Four years and more but less than five years, the rate of discount will be 20%. Similarly, the discount will be 40%, 60%, 80% and 100% if the remaining maturity period is Three years and more but less than four years, Two years and more but less than three years, One year and more but less than two years and less than one year respectively. Put option is not permissible. However, banks may issue the instruments with a call option permissible after the instrument has run for at least five years with prior approval from RBI. These instruments will be classified as 'Borrowings' under Schedule 4 of the Balance Sheet.
- Stock surplus (share premium) resulting from the issue of instruments included in Tier 2 capital.

Banks will continue to have the option to net off the floating provisions from Gross NPAs to arrive at Net NPA or reckoning it as part of their Tier 2 capital.

REGULATORY ADJUSTMENTS / DEDUCTIONS: The following important regulatory adjustments / deductions will be applied to Common Equity Tier 1 capital apart from other deductions.

- Goodwill and all other intangible assets to be deducted net of any associated deferred tax liabilities.
- Deferred Tax Assets (DTAs).
- The amount of the cash flow hedge reserve which relates to the hedging of items that are not fair valued on the balance sheet (including projected cash flows) should be derecognized in the calculation of Common Equity Tier 1. This means that positive amounts should be deducted and negative amounts should be added back.
- Shortfall of the Stock of Provisions to Expected Losses under the Internal Ratings Based (IRB) approach should be made in the calculation of Common Equity Tier 1.
- Gain-on-Sale Related to Securitization Transactions
- Cumulative Gains and Losses due to Changes in Own Credit Risk on Fair Valued Financial Liabilities.
- Defined Benefit Pension Fund Assets and Liabilities

APPROACHES FOR COMPUTATION OF CAPITAL REQUIREMENT FOR VARIOUS RISK: Under Pillar 1, the three distinct options for computing capital requirement for various risk elements are;

- **Credit risk** through Standardised Approach, Foundation Internal Rating Based Approach and Advanced Internal Rating Based Approach.
- **Operational risk** through Basic Indicator Approach (BIA), Standardised Approach (TSA) and Advanced Measurement Approach (AMA).
- The capital requirement for **market risk** is computed through Standardised approach [maturity method and duration method] and Internal Risk based approach.

RBI had decided in 2007 that all commercial banks in India (excluding Local Area Banks and Regional Rural Banks) should adopt Standardised Approach for credit risk, Basic Indicator Approach for operational risk by March 2009 and banks should continue to apply the Standardised Duration Approach (SDA) for computing capital requirement for market risks. Based on time schedule laid down for implementation of the advanced approaches for the regulatory capital measurement in July 2009, banks were advised to undertake an internal assessment of their preparedness for migration to advanced approaches and take a decision with the approval of their Boards, whether they would like to migrate to any of the advanced approaches. Besides, banks, at their discretion, would have the option of adopting the advanced approaches for one or more of the risk categories, as per their preparedness, while continuing with the simpler approaches for other risk categories, and it would not be necessary to adopt the advanced approaches for all the risk categories simultaneously. However, banks should invariably obtain prior approval of the RBI for adopting any of the advanced approaches.

SCOPE OF APPLICATION OF CAPITAL ADEQUACY FRAMEWORK: A bank shall comply with the capital adequacy ratio requirements at two levels:(i) the consolidated ("Group") level capital adequacy ratio requirements, which measure the capital adequacy of a bank based on its capital strength and risk profile after consolidating the assets and liabilities of its subsidiaries / joint ventures / associates etc. except those engaged in insurance and any

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non-financial activities; and (ii) the standalone ("Solo") level capital adequacy ratio requirements, which measure the capital adequacy of a bank based on its standalone capital strength and risk profile.
Accordingly, overseas operations of a bank through its branches will be covered in both the above scenarios.
All banking and other financial subsidiaries except subsidiaries engaged in insurance and any non-financial activities (both regulated and unregulated) should be fully consolidated for the purpose of capital adequacy.
It is clarified that group/ consolidated level capital adequacy would also mean application of consolidated capital adequacy norms to the Non-Operative Financial Holding Company (NOFHC) after consolidating the relevant entities held by it.

CAPITAL CHARGE FOR CREDIT RISK: Under the Standardized Approach, the rating assigned by the eligible external credit rating agencies will largely support the measure of credit risk. The Risk weights assigned for various exposures are as follows;

Assets/Claim (Standard Assets) denominated in INR	**Risk weight**
Fund and Non-fund-based loans and claims from Central Government and State Government, Loans guaranteed by Central Government and amount receivable from GoI under Agricultural Debt Waiver Scheme, 2008	0%
Claims on the RBI, DICGC, CGTMSE, Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH), and individual schemes under National Credit Guarantee Trustee Company Ltd. (NCGTC) which are backed by explicit Central Government Guarantee	0%
State Government guaranteed claims/Loans, claims on ECGC	20%
Claims on the Bank for International Settlements (BIS), the International Monetary Fund (IMF) and Multilateral Development Banks (MDBs) evaluated by the BCBS such as World Bank Group. Asian Development Bank, European Bank for Reconstruction and Development, Asian Infrastructure Investment Bank (AIIB), Islamic Development Bank etc.	20%
Consumer credit, including personal loans, but excluding credit card receivables	100%
Credit Card receivables	125%
Capital market exposures	125%
Claims on Credit Information Companies (CICs)	100%
Commercial Real Estate	100%
Commercial Real Estate-Residential Housing	75%
Regulatory Retail loans other than housing and including education loans. (Excluding NPA) The Criteria for classification as Regulatory retail portfolio are (i) Exposures to a small business with average last three years turnover less than Rs.50.00 crores, (ii) No aggregate exposure to one counterpart should exceed 0.2 per cent of the overall regulatory retail portfolio, and (iii) The maximum aggregated retail exposure to one counterpart should not exceed Rs.7.50 crore.	75%
Unsecured portion of NPA net of specific provisions where provision is less than 20% (The risk weight will be 100% where there is at least 20% provision and 50% where at least 50% provisioning of the outstanding amount is there.)	150%
Claims secured by residential property, which are NPA will be risk weighted at 100 per cent net of specific provisions. If the specific provisions in such loans are at least 20 per cent but less than 50 per cent of the outstanding amount, the risk weight applicable to the loan net of specific provisions will be 75 per cent. If the specific provisions are 50 per cent or more the applicable risk weight will be 50 per cent.	
Staff loans secured by mortgage or charge on superannuation benefits	20%
Other staff loans being part of regulatory retail lending	75%
Claims on Venture Capital funds	150%

Risk weight on claims on foreign sovereigns/ Foreign Central Banks/Banks based on ratings assigned by international rating agency S&P/Fitch/Moody's

S&P*/Fitch ratings	**AAA to AA**	**A**	**BBB**	**BB to B**	**Below B**	**Unrated**
Moody's ratings	**Aaa to Aa**	**A**	**Baa**	**Ba to B**	**Below B**	**Unrated**
Foreign governments and Central Banks	0%	20%	50%	100%	150%	100%
Foreign Banks	20%	50%	50%	100%	150%	50%
Foreign Public Sector Enterprises						
S&P*/Fitch ratings	AAA to AA	A	BBB to BB		Below BB	Unrated
Moody's ratings	Aaa to Aa	A	Baa to Ba		Below Ba	Unrated
Risk Weight	20%	50%	100%		150%	100%

Risk weight on exposure to Corporates and NBFCs excluding Core Investment Companies (CICs)-

Domestic ratingagencies	**AAA**	**AA**	**A**	**BBB**	**BB &below**	**Unrated**
Risk weight (%)	20	30	50	100	150	100

- Claims on domestic public sector entities will be risk weighted in a manner similar to claims on Corporates.
- Claims on Primary Dealers shall be risk weighted in a manner similar to claims on corporate
- Exposures to NBFC-CICs, rated as well as unrated, will be risk-weighted at 100%.

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- Claims on corporates and NBFCs, except CICs, having aggregate exposure from banking system of more than ₹100 crore which were rated earlier and subsequently have become unrated will attract a risk weight of 150%.
- All unrated claims on corporates and NBFCs, except CICs, having aggregate exposure from banking system of more than ₹200 crore will attract a risk weight of 150%.

Claim on Non-Resident Corporates:

S&P*/Fitch ratings	AAA to AA	A	BBB to BB	Below BB	Unrated
Moody's ratings	Aaa to Aa	A	Baa to Ba	Below Ba	Unrated
Risk Weight	20%	50%	100%	150%	100%

- Unrated claims having aggregate exposure from banking system of more than ₹200 crore will attract a risk weight of 150%.
- Claims with aggregate exposure from banking system of more than ₹100 crore which were rated earlier and subsequently have become unrated will attract a risk weight of 150%.

RISK WEIGHT ON INDIVIDUAL HOUSING LOANS: The LTV ratios, risk weights for individual housing loans sanctioned on or after the date of RBI circular dated 07.06.2017 shall be as under

Outstanding loan	**LTV ratio (%)**	**Risk Weight (%)**
Up to Rs.30 lakh	≤ 80	35
	> 80 and ≤ 90	50
Above Rs.30 lakh and up to Rs.75 lakh	≤ 80	35
Above Rs.75 lakh	≤ 75	50

Further, as a countercyclical measure, RBI vide circular dated 16 October 2020 has rationalised the risk weights, irrespective of the amount for all new housing loans sanctioned on or after 16 October 2020 and upto March 31, 2022 (extended **up to 31st March 2023**) as 35 **% where the LTV ratio is** ≤ 80 percent and 50% where the LTV ratio is > 80 and ≤ 90 percent irrespective of loan amount.

OFF BALANCE SHEET EXPOSURES; The notional amount of Off-Balance sheet exposure is converted into a credit equivalent amount, by multiplying the amount by the specified credit conversion factor. The Credit Conversion factors (CCB) applicable on some common off-balance sheet items are as follows;

Instruments	**CCB (%)**
Direct credit substitutes e.g. general guarantees of indebtedness (including standby L/Cs serving as financial guarantees for loans and securities, credit enhancements, liquidity facilities for securitization transactions), and acceptances (including endorsements with the character of acceptance).	100
Financial Bank Guarantees	100
Performance Bank Guarantee	50
Certain transaction-related contingent items (e.g. performance bonds, bid bonds, warranties, indemnities and standby letters of credit related to particular transaction).	50
Short-term self-liquidating trade letters of credit arising from the movement of goods (e.g. documentary credits collateralized by the underlying shipment) for both issuing bank and confirming bank.	20

In respect of borrowers having aggregate **fund based working capital limit of ₹150 crore and above from the banking system**, the **undrawn portion of cash credit / overdraft limits** sanctioned, irrespective of whether unconditionally cancellable or not, **shall attract a credit conversion factor of 20 percent**.

COUNTERPARTY CREDIT RISK (CCR): This is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. An economic loss would occur if the transactions or portfolio of transactions with the counterparty has a positive economic value at the time of default. Unlike a firm's exposure to credit risk through a loan, where the exposure to credit risk is unilateral and only the lending bank faces the risk of loss, **CCR creates a bilateral risk of loss**: the market value of the transaction can be positive or negative to either counterparty to the transaction. The market value is uncertain and can vary over time with the movement of underlying market factors.

SECURITIES FINANCING TRANSACTIONS (SFTs): These are transactions such as repurchase agreements, reverse repurchase agreements, security lending and borrowing, collateralised borrowing and lending (CBLO) and margin lending transactions, where the value of the transactions depends on market valuations and the transactions are often subject to margin agreements.

NETTING SET: It is a group of transactions with a single counterparty that are subject to a legally enforceable bilateral netting arrangement and for which netting is recognised for regulatory capital purposes. Each transaction that is not subject to a legally enforceable bilateral netting arrangement that is recognised for regulatory capital purposes should be interpreted as its own netting set for the purpose of these rules.

HEDGING SET: It is a group of risk positions from the transactions within a single netting set for which only their balance is relevant for determining the exposure amount or EAD under the CCR standardised method.

CURRENT EXPOSURE: It is the larger of zero, or the market value of a transaction or portfolio of transactions within a netting set with a counterparty that would be lost upon the default of the counterparty, assuming no recovery on the value of those transactions in bankruptcy. Current exposure is often also called Replacement Cost.

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CREDIT VALUATION ADJUSTMENT: It is an adjustment to the mid-market valuation of the portfolio of trades with a counterparty. This adjustment reflects the market value of the credit risk due to any failure to perform on contractual agreements with a counterparty. This adjustment may reflect the market value of the credit risk of the counterparty or the market value of the credit risk of both the bank and the counterparty.

APPROVED CREDIT RATING AGENCIES: The lists of domestic and international Credit Rating agencies approved by RBI are;

Domestic Rating Agencies;
1. CRISIL Ratings Limited
2. Credit Analysis and Research Limited (CARE)
3. ICRA Limited,
4. India Ratings and Research Private Limited (India Ratings)
5. INFOMERICS Valuation and Rating Pvt Ltd. (INFOMERICS)
6. Acuite Ratings & Research Limited (Acuite)

International Rating Agencies; Fitch, Moody's and Standard & Poor's

CAPITAL CHARGE FOR MARKET RISK: Market risk is defined as the risk of losses in on-balance sheet and off-balance sheet positions arising from movements in market prices. The market risk positions subject to capital charge requirement are:
- The risks pertaining to interest rate related instruments and equities in the trading book; and
- Foreign exchange risk (including open position in precious metals) throughout the bank (both banking and trading books).

The minimum capital requirement is expressed in terms of two separately calculated charges, (i) "specific risk" charge for each security, which is designed to protect against an adverse movement in the price of an individual security owing to factors related to the individual issuer, both for short (short position is not allowed in India except in derivatives and Central Government Securities) and long positions, and (ii) "general market risk" charge towards interest rate risk in the portfolio, where long and short positions (which is not allowed in India except in derivatives and Central Government Securities) in different securities or instruments can be offset.

CAPITAL CHARGE FOR OPERATIONAL RISK: Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Under the Basic Indicator Approach, banks must hold capital for operational risk equal to **15% of the average over the previous three years positive annual gross income**. Figures for any year, in which annual gross income is negative or zero should be excluded from both the numerator and denominator when calculating the average.

LIQUIDITY COVERAGE RATIO (LCR): Basel Committee on Banking Supervision (BCBS) had introduced Liquidity Coverage Ratio (LCR), which requires banks to maintain High Quality Liquid Assets **(HQLAs) to meet 30 days net outgo** under stressed conditions. Further, as per Banking Regulation Act, 1949, the banks in India are required to hold liquid assets to maintain Statutory Liquidity Ratio (SLR). In view of the fact that liquid assets under SLR and HQLAs under LCR are largely the same, RBI has been allowing banks to use a progressively increasing proportion of the SLR securities for being considered as HQLAs for LCR so that the need to maintain liquid assets for both the requirements is optimized.

NET STABLE FUNDING RATIO (NSFR): Basel Committee on Banking Supervision (BCBS) had introduced the concept of Net Stable Funding Ratio (NSFR) which reduces funding risk by requiring banks to fund their activities with sufficiently stable sources of funding over a time horizon of a year in order to mitigate the risk of future funding stress.

Net Stable Funding Ratio = (Available amount of stable funding ÷Required amount of Stable funding) × 100 which **should be more than 100%.**

As per the prescribed timeline, banks in India were required to maintain NSFR of 100 per cent from April 1, 2020. But on account of COVID19 pandemic, RBI has deferred its implementation and these guidelines which now come into effect from October 1, 2021.

LEVERAGE RATIO: A review of financial crisis of 2008 has indicated that the value of many assets fell quicker than assumed from historical experience. Thus, BASEL III introduced leverage ratio to serve as a safety net. Leverage ratio is the relative amount of capital to total assets (not risk-weighted). Basel III established a **3%** minimum requirement for the Tier 1 leverage ratio, while it left open the possibility of increasing those threshold for certain systematically important financial institutions. As per RBI guidelines the minimum Leverage Ratio shall be **4%** for Domestic Systemically Important Banks (DSIBs) and **3.5%** for other banks in India.

LIMITS ON A BANK'S INVESTMENTS IN THE CAPITAL OF BANKING, FINANCIAL AND INSURANCE ENTITIES: A bank's investment in the capital instruments issued by banking, financial and insurance entities is subject to the following limits:
- A bank's investments in the **capital instruments issued by banking, financial and insurance entities should not exceed 10% of its capital funds**, but after all deductions.
- Banks should not acquire any fresh stake in a bank's equity shares, if by such acquisition, the investing bank's holding exceeds 10% of the investee bank's equity capital.
- Under the provisions of Section 19(2) of the Banking Regulation Act, 1949, a banking company cannot hold shares in any company whether as pledge or mortgagee or absolute owner of an amount **exceeding 30% of the paid-up**

share capital of that company or 30% of its own paid-up share capital and reserves, whichever is less.

- Equity investment by a bank in a subsidiary company, financial services company, financial institution, stock and other exchanges should not exceed 10% of the bank's paid-up share capital and reserves.
- Equity investment by a bank in companies engaged in non-financial services activities would be subject to a limit of 10% of the investee company's paid up share capital or 10% of the bank's paid up share capital and reserves, whichever is less.
- Equity investments in any non-financial services company held by (a) a bank; (b) entities which are bank's subsidiaries, associates or joint ventures or entities directly or indirectly controlled by the bank; and (c) mutual funds managed by AMCs controlled by the bank should in the aggregate not exceed 20% of the investee company's paid up share capital.
- A bank's equity investments in subsidiaries and other entities that are engaged in financial services activities together with equity investments in entities engaged in non-financial services activities should not exceed 20% of the bank's paid-up share capital and reserves. The cap of 20% would not apply for investments classified under 'Held for Trading' category and which are not held beyond 90 days.

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PROJECT FINANCING

Project financing is distinct from conventional long term asset financing in many ways. The project being financed is often a distinct legal entity, company sponsored by group of promoters, unlike conventional term loans financed for acquisition of one or more long term assets by an enterprise. Appraisal of a project financing is done mainly on the basis of Cash flow estimation for a long but finite period and focused on assessing and mitigating the risk throughout the life of the project. Mining, road projects, and other various infrastructure projects are some examples of this category.
Mostly such types of finances are unsecured, as the property on which the assets are created belongs to the sovereign. For example, a highway or a bridge project etc, where the charge on assets is not possible.

SPECIAL PURPOSE VEHICLES (SPVs): Also known as Special Purpose Entity (SPE) OR Special Purpose Corporation (SPC) is the separate legal entities created with strategic purpose. In the context of project finance, SPVs are formed with the objective of transferring risk from the sponsor to another Balance sheet when a large financial commitment is being undertaken by the parent / sponsor. They have separate balance sheet and are different from the sponsor company. The project SPV plays an important role in non-recourse / limited recourse project financing. It provides limited liability to the promoter, only to the extent of their stake in the SPV.

CASH FLOW BASED APPRAISAL:

The project finance envisages Cash Flow based appraisal, where both the costs and benefits are measured in terms of Cash flows, where costs are treated as cash outflow and benefits are treated as cash inflows. The following principles should be kept in mind under cash flow based appraisal;

- Cash flows are measured on incremental basis. (Difference in the sponsors' cash flow with and without the project). Funds incurred for preliminary work are irrelevant to the analysis. In essence, only the future expenses (cash outflows) and revenues (cash inflows) are relevant for appraisal. The opportunity cost of the resources should be recognised in the project appraisal.
- Principle of interest exclusion: In a project appraisal, the cash flows are discounted by the cost of long term debts in order to calculate the present value of future project cash flows. The interest cost on long term debt is not deducted as an expense while calculating the operating cash flow. The cost of debt is represented by the interest. Therefore, charging the interest together with discounting of future cash flows would amount to double accounting of cost. Alternatively, Present value of the cash flow before charging interest may be calculated.

Free Cash Flow: Lenders usually compute Free Cash Flow (FCF) which is equal to: PAT + Depreciation + Amortisation + Interest on Loans – Capital Expenditure – (+) Increase (Decrease) in Current Assets + (-) Increase (Decrease) in Current Liabilities. In other words, FCF is worked out by taking the Operating Cash Flow of the project to which the borrowing cost is added and capital expenditure is subtracted. The realizable value of capital assets at the end of the period and the NWC built up flow back to the project at the end are assumed as cash inflow.

CASH FLOW RIGHTS: In non-recourse financing, the main security of lenders are their rights on the cash flows. The rights of lenders over the cash flows are available both in the construction as well as operational phase. The 'Escrow' and 'Trust & Retention Account (TRA)' mechanism enable all the parties involved in the project finance to have their rights on the project cash flow.

ESCROW ARRANGEMENT: The escrow arrangement provides for directing a pre-determined payment stream from the customers of the borrower to a special account maintained with a designated agent (escrow agent, usually a Bank). Payment / deposit by the user / buyer into such an account is assumed to be a valid discharge of his liability to the supplier of the goods / services. Escrow arrangement usually involves four parties; The Lender, The Borrower, Customers of the borrower and the escrow agent. The mandate to the escrow agent is usually finalised by the lenders in consultation with the borrower and its customers.
Example: Suppose SBI has financed a power plant which sells power to State Electricity Boards (SEB). In this case the escrow arrangement includes the power plant (borrower), SBI (The Bank), SED Concerned (customer) and the escrow agent (the designated Bank. Say SBI itself in this case). The SEB would agree to direct its collection centres and bulk consumers to deposit electricity charges collected / payable to deposit directly with the escrow agent (SBI in this case) in specified account (Escrow Account). The Escrow agent (SBI in this case), would then appropriate the funds in the escrow account as per the escrow agreement.

TRUST & RETENTION ACCOUNT (TRA): TRAs are operated on the basis of a mandate which is drawn up by lenders in consultation with the borrower for the TRA Agent (Bank maintaining the TRA) as to periodic transfer and utilization of funds available in the TRA. The mandate basically spells out the manner and purpose of various payments including the debt service to the lenders. The payment to the lenders is to be made directly by the TRA agent as per its mandate without any intervention by the borrower.

WATERFALL: The mandate to the TRA agent for appropriation of cash flows usually follows the following sequence;
First: All operation and maintenance expenses of the project.
Second: Monthly dues / accruals of net principal and interest payment to lenders.
Third: Maintenance of a 'Debt Service Reserve' equal to say six months dues.
Fourth: A 'Cash Reserve' equal to say 3 months operating expenses.

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After meeting all the above obligations, the residual funds (if any), would be available to the project company for disposal as per their discretion or as pre-determined by the mandate given to the TRA agent. This process of appropriation is also called as Waterfall.

DCF (DISCOUNTED CASH FLOW) BASED ANALYSIS OF CASH FLOW:

PV & NPV METHOD: In project financing, the lenders of long term fund analyse the Net Present Value (NPV) and Present Value (PV) of the cash flows in order to determine whether it worthwhile to invest funds in the project. PV of a stream of Cash Flows is the sum of the discounted values of individual cash flows, whereas NPV is worked out by subtracting the PV of future cash flows from the initial investment which is treated as a negative cash flow. If NPV is positive, it may be a viable option for investing in the project. The rate of discounting / discounting factor used in such cases is typically the Weighted Average Cost of Capital (WACOC) or the minimum required rate of return whichever is higher.

TIME VALUE OF MONEY & IRR:

COMPOUNDING: It's obvious that the value of money invested now will be more in a future date due to application of interest. Say with a rate of interest of 10% p.a, Rs.1/- invested now will become Rs.1.10/- at the end of one year.
The amount payable on maturity (A) of sum of money invested or principal (P) after a certain number of years (T) at a rate of interest (R) will be equal to;
A = P × (1+TR) with simple interest and A = P $(1+R)^{T}$ with compounding interest.
If the compounding is done with a frequency of more than once in a year, say monthly or quarterly etc, then, the value at maturity A = P $(1+R/N)^{TN}$, Where 'N' is the number of compounding in a year. In this case the bracketed expression on the right side is the compounding factor.

DISCOUNTING: The concept of discounting uses the logic of reverse of compounding. Instead of saying that, Rs.1/- invested now shall return a maturity value of Rs.1.1/- after one year, we may say that, the value of Rs.1.1/- receivable at the end on one year is Rs.1/- as on today.
So the above equation may be written as; P = A × $\frac{1}{(1+R/N)^{TN}}$
We may call the figure in the right side after 'A' as the discount factor. When this factor is multiplied by the future value (maturity amount), as represented by 'A' in the above equation, gives the Present Value (P).

INTERNAL RATE OF RETURN (IRR): This is the rare of discounting at which the NPV of the Free Cash flow of the project becomes zero. Lenders compare IRR of a project with benchmark to take a credit decision. The project may be treated as feasible/acceptable if the IRR is more than the benchmark.
The IRR is calculated as described in the following table by calculating the NPV of project free cash flows arithmetically starting with lower discounting rate to higher discounting rate until the NPV of net cash flows becomes zero.

$$IRR = Lower\ Discount\ Rate + \left(\text{Diff. in both discount rates} \times \frac{\text{NPV at Lower discounting rate}}{\text{Absolute diff. of NPV in both the discount rates}}\right)$$

LOAN LIFE COVERAGE RATIO (LLCR): This ratio compares the present value of the future cash flows from the project with Term Loan outstanding at any point of time. The average LLCR of a project is worked out by taking the arithmetic mean of the individual years LLCR. The ratio indicates the ability of the borrowing entity to service its loan obligations from its future cash flows.
LLCR = $\frac{PV\ of\ the\ future\ cash\ flows\ covering\ the\ repayment\ period}{Outstanding\ balance\ in\ Term\ Loan}$

PROJECT LIFE COVERAGE RATIO (PLCR): This ratio is an extended concept of LLCR and is computed in same manner as that of LLCR with the difference that, in case of PLCR, the cash flow is considered for the remaining portion of project life instead of the remaining repayment period.
PLCR = $\frac{PV\ of\ the\ future\ cash\ flows\ over\ the\ remaining\ period\ of\ the\ project}{Outstanding\ balance\ in\ Term\ Loan}$
The average PLCR of a project is worked out by taking the arithmetic mean of the individual years LLCR.

NON-DCF (NON-DISCOUNTED CASH FLOW) BASED ANALYSIS OF CASH FLOW:

PAYBACK PERIOD METHOD: This method ascertains the time period during which the initial cash outlay on the project is covered in full by the promoters.

AVERAGE RATE OF RETURN METHOD: In this method, the rate of return on investments is calculated by dividing the yearly returns (Profit after tax) with the average book value of fixed assets during the year [(opening net block + closing net block)/2] as the denominator. The average of the yearly figures of the rate of return is then compared with the benchmark rate of return.

VARIOUS STAGES & TERMINOLOGIES IN PROJECT FINANCING

ZERO DATE: The zero date of a project signals the effective start of the project. It is an important part of the project planning and establishment. The completion of projection will be counted from this point of time. It is important to ensure that all activities that effect project performance like arrangement of finance, infrastructure facilities, formation

of new company, division, government and clearance etc. beside time, cost and technical parameters are fully dealt /designed / established / started by this time.

MORATORIUM: This is the repayment holiday provided in a term loan, where no instalment is demanded by the Bank. In case of initial moratorium, id is the period from the date of first disbursement till the first instalment due date fixed. Sometimes interim moratorium is provided in case of restructuring, where repayment holiday is provided in between the tenor of the loan. In some cases, the interest during moratorium is capitalised and recovered in equally monthly / quarterly/Half yearly or yearly instalments after moratorium and in some cases the interest during moratorium is demanded by Banks as and when charged during moratorium.

DOOR TO DOOR TENOR: It is generally used to indicate the total period within which the total debt borrowed is to be paid back by the borrower to the lender. This total period also includes the period of moratorium.

IMPLEMENTATION SCHEDULE: The project implementation schedule is an important time management document that defines and schedules the major phases of project work being carried out to fulfill the desired project objective(s) and achieve the expected deliverables.

DRAW-DOWN SCHEDULE: The draw schedule is a detailed payment plan for a construction project. If a bank is financing the project, the draw schedule determines when the bank will disburse funds to the borrower / supplier/ contractor based on progress of construction.

TRIAL RUN: A trial is a small-scale implementation planned in before the main rollout of a project. It enables the project team to test logistics, communications, stakeholder management plans and the effectiveness of any rollout tools.

RAMP UP PERIOD: Ramp-up describes the period from completed initial product development to maximum capacity utilization characterized by product and process experimentation and improvements.

DATE OF COMMENCEMENT OF COMMERCIAL OPERATION (DCCO): Banks must fix a Date of Commencement of Commercial Operations (DCCO) for all project loans at the time of sanction of the loan. The Commercial Operation date is the date from which the unit starts its commercial operation.

TAIL PERIOD: Tail Period is the time difference between the end of planned debt amortization period and the end of operating period. The debt should be planned to be repaid well before the completion of operating period. It is better to have longer Tail Period in Infrastructure project financing.

PUBLIC-PRIVATE PARTNERSHIP: Public Private Partnership (PPP) means an arrangement between a Government / statutory entity / Government owned entity on one side and a private sector entity on the other, for the provision of public assets and/or public services, through investments being made and/or management being undertaken by the private sector entity, for a specified period of time, where there is well defined allocation of risk between the private sector and the public entity and the private entity who is chosen on the basis of open competitive bidding, receives performance linked payments that conform (or are benchmarked) to specified and pre-determined performance standards, measurable by the public entity or its representative. Upto 100% FDI in equity of SPVs in the PPP sector is allowed on the automatic route for most sectors.

DIFFERENT TYPES OF PPP: PPPs can take a wide range of forms varying in the degree of purpose, involvement of the private entity, legal structure and risk sharing. The broad contractual forms, as covered by extant policy include:

DESIGN, BUILD, FINANCE, OPERATE AND TRANSFER(DBFOT)/ BUILD, OPERATE & TRANSFER (BOT): The most common form of PPP used where the private sector operator designs, builds, finances, owns and constructs the facility and operates it commercially for the concession period, after which the facility is transferred to the authority. In this case legal ownership of the asset vests with the public sector the concession period ends. The most common form of a BOT project is a Toll Road project.
OPERATIONS & MAINTENANCE (SERVICE CONTRACT): the Government bids out the right to deliver a specific service or gives part of the undertaking to the private sector for operations and maintenance of the assets. Such contracts are normally of a shorter duration than concession contracts.
LEASE, DEVELOP, OPERATE AND MAINTAIN (a variation of BOT): Assets are leased out to the private sector under specific terms, to operate and maintain the asset for the term of the concession period.
BUILD-OWN-OPERATE (BOO): In this model ownership of the newly built facility will rest with the private party. On mutually agreed terms and conditions public sector partner agrees to ‘purchase’ the goods and services produced by the project.
BUILD-OWN-OPERATE & TRANSFER (BOOT): In this variant of BOT, after the negotiated period of time, project is transferred to the government or to the private operator. BOOT model is used for the development of highways and ports.
BUILD-OPERATE-LEASE-TRANSFER (BOLT): In this approach, the government gives a concession to a private entity to build a facility (and possibly design it as well), own the facility, lease the facility to the public sector and then at the end of the lease period transfer the ownership of the facility to the government.
DESIGN-BUILD-OPERATE-TRANSFER (DBFOT): In this type of investment model either the government or the public sector entity retains ownership of the newly created infrastructure facility and receives payments in terms of a lease agreement with the private promoter. It is mostly followed in the development of airport facilities.

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DESIGN-BUILD (DB): In this project agreement, a private partner is contracted by the government to design and build the facility based on the requirements performed by the government. Along with the agreement, the government will state the responsibilities in order to perform the operation and the maintenance of the facility. DB is also called as Build – Transfer (BT).

DESIGN BUILD OPERATE(DBO): A single contract is awarded to a private business which designs, builds, and operates the public facility, but the public retains legal ownership.

DESIGN-BUILD-MAINTAIN (DBM): his model is similar to Design-Build except that the private sector also maintains the facility. The public sector retains responsibility for operations.

BUILD-DEVELOP-OPERATE (BDO): The private business buys the public facility, refurbishes it with its own resources, and then operates it through a government contract.

BUILD-OWN-LEASE-TRANSFER (BOLT): The government grants the right to finance and build a project which is then leased back to the government for an agreed term and fee. The facility is operated by the government. At the end of the agreed tenure, the project is transferred to the government.

CONTRACT ADD AND OPERATE (CAO): As per the contract agreement involved in CAO, to an infrastructure facility, the project developer will expand the facility and rent it from the government. This is operated over a agreed period of time. This project may or may not be transferred back to the government by the project developer.

DEVELOP OPERATE AND TRANSFER (DOT): As per the contractual agreement for DOT, the private developer will be given favourable conditions to built the infrastructure project along with the right to develop the property adjoining the same. Hence, the private developer is allowed to enjoy the benefits that is created by the investment. The investment includes rents, property values.

LEASE-DEVELOP-OPERATE (LDO): LDO model is particularly appropriate when the government agency retains ownership of the existing infrastructure and receives payments under lease agreement with a private lessee, who in turn finances development and oversees operation of the facility/utility.

OPERATE-MAINTAIN-TRANSFER (OMT): Operation, maintenance and training (OMT) is a form of facilities management contract that can be adopted when organisations are appointed to establish and manage the operation and maintenance of facilities for a period of time, typically after completion.

ENGINEERING-PROCUREMENT & TRANSFER (EPC): This is a PPP model for the development of infrastructure projects especially highways. Under this model, the cost is completely borne by the government. Government invites bids for engineering knowledge from the private players. Procurement of raw material and construction costs are met by the government. The private sector's participation is minimum and is limited to the provision of engineering expertise. A difficulty of the model is that financial is the high financial burden for the government.

TOLL-OPERATE-TRANSFER (TOT): Under the TOT model, the concessionaire pays a one-time fee upfront to the government for gaining toll rights say for 30 years. The funds the government receives from highway monetisation are used for new infrastructure programmes.

VIABILITY GAP FUNDING (VGF):

The Viability Gap Funding Scheme of the Government of India for Financial Support to Public Private Partnerships in Infrastructure, provides financial support (Capital grant) of up to 40% of the Total Project Cost in the form of grant (one time or deferred) to infrastructure projects undertaken through public private partnerships with a view to making them commercially viable. Administered by the Ministry of Finance, budgetary provisions are made in the Annual Plans on a year-to-year basis for the Scheme.

The scheme aims at supporting infrastructure projects that are economically justified but fall marginally short of financial viability. Support under this scheme is available only for infrastructure projects where private sector sponsors are selected through a process of competitive bidding. The total Viability Gap Funding under this scheme will not exceed twenty percent of the Total Project Cost; provided that the Government or statutory entity that owns the project may, if it so decides, provide additional grants out of its budget, upto a limit of a further twenty percent of the Total Project Cost.

VGF under this Scheme is normally in the form of a capital grant at the stage of project construction.

Eligibility criteria for getting support under VGF Scheme: In order to be eligible for funding under VGF Scheme, a PPP project should meet the following criteria:

The project should be implemented (i.e. developed, financed, constructed, maintained and operated) for the Project Term by a Private Sector Company to be selected by the Government or a statutory entity through a process of open competitive bidding; provided that in case of railway projects that are not amenable to operation by a Private Sector Company, the Empowered Committee may relax this eligibility criterion.

The PPP Project should be from one of the following sectors

- Roads and bridges, railways, seaports, airports, inland waterways, Power.
- Urban transport, water supply, sewerage, solid waste management and other physical infrastructure in urban areas;
- Infrastructure projects in Special Economic Zones and internal infrastructure in National Investment and Manufacturing Zones;
- International convention centres and other tourism infrastructure projects;
- Capital investment in the creation of modern storage capacity including cold chains and post-harvest storage;
- Education, health and skill development, without annuity provision. (As per the Notification No. 3C/1/2012-PPP dated November 4, 2013 issued by Department of Economic Affairs, as regards medical college, VGF would be admissible only if the proposed medical college is located in one of the backward districts identified under various

schemes of GoI, provided there is no medical college in that district as on the date of in-principle approval of VGF by the competent authority.)

- Oil/Gas/Liquefied Natural Gas (LNG) storage facility (includes city gas distribution network).
- Oil and Gas pipelines (includes city gas distribution network).
- Irrigation (dams, channels, embankments, etc.).
- Telecommunication (Fixed Network) (includes optic fibre/wire/cable networks which provide broadband/internet).
- Telecommunication towers.
- Terminal markets.
- Common infrastructure in agriculture markets; and
- Soil testing laboratories.

INDIA INFRASTRUCTURE PROJECT DEVELOPMENT FUND (IIPDF):

The Scheme supports the Central and the State Governments and local bodies through financial support for project development activities (feasibility reports, project structuring etc.) for PPP projects. For providing financial support for quality project development activities for PPP projects to the Central and the State Governments and local bodies, Scheme and Guidelines of India Infrastructure Project Development Fund (IIPDF), have been notified. The IIPDF would assist ordinarily up to 75% of the project development expenses. On successful completion of the bidding process, the project development expenditure would be recovered from the successful bidder.

HYBRID ANNUITY MODEL (HAM):

The HAM is a mix EPC and BOT- ANNUITY model, with the government and the private companies sharing the total project cost in the ratio of 40:60 respectively. Apart from 60% project cost, the private player will also build the road and on completion will hand it over to the government. The government shoulders the responsibility of revenue collection (by toll). The government will then pay the fixed amount of annuity annually to the private player for the defined period (10 or 20 years) as per the contract.

The government will select that private player (in competitive bidding) who asks for minimum annuity from the government. HAM is a kind of win- win situation for both private players and government. The government has reduced responsibility for arranging for cost of project (only 40%, while in EPC it was 100%). The private player has to arrange for only 60% of project cost (in BOT- ANNUITY, it was 100%, unless government gives viability gap funding, VGF of 20%; nevertheless it was minimum 80%). Moreover all regulatory clearances risk, compensation risk, commercial risk and traffic risk is borne by government, so risk for private sector is also minimal

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ANALYSIS OF FINANCIAL RATIOS

VARIOUS TYPES OF RATIOS AND THEIR INTERPRETATION:

1: PROFITABILITY RATIOS:

RETURN ON INVESTMENT (Overall Profitability Ratio): It indicates the percentage returns on the capital employed in the business.

$$Return\ on\ Investment = \frac{Operating\ Profit}{Capital\ Employed}$$

Capital Employed is the Sum Total of Long-Term funds employed in business i.e Share Capital + Reserves & Surplus + Long Term Loans – (Non-Business Assets + Fictitious Assets).
Operating Profit means, Profit before Interest (Only interest on Long Term Borrowings), non-operating income and Taxes.
Interpretation: ROI is the measure of profit on investment of a unit of capital. Profit being the net result of all operation, this ratio is used for measuring overall efficiency of a business. The ratio also indicates whether the company/firms borrowing policy is economical and whether the capital employed is fruitful. Ideally the Return On Investment should be more than the cost of long term funds (Interest on long term borrowings and opportunity cost of capital) for the survival of business and to be economical. *Higher the ratio is better.*
EARNINGS PER SHARE: This Ratio helps in determining the market price of the equity share of the Company.

$$Earning\ per\ Share = \frac{Net\ Profit\ after\ Tax\ and\ Dividend\ on\ Preference\ Shares}{Number\ of\ Equity\ Shares}$$

Interpretation: Comparing EPS of a company with another help in determining the market price of the equity share of the company and help in deciding whether the equity share capital is being effectively used or not. It also helps in determining the company's capacity to pay dividend to its equity shareholders. *Higher the ratio is better.*
PRICE – EARNINGS RATIO (P/E RATIO): This Ratio indicates the market value of a share in comparison to the earnings of the share.

$$PE\ Ratio = \frac{Market\ Price\ per\ Equity\ Share}{Earning\ Per\ Share}$$

Interpretation: It is an indicator to know whether the share price of a particular share is costly of cheap and it helps the investor to decide to buy or not to buy a share in a particular market price. *Lower the ratio is better for investors.*
GROSS PROFIT RATIO: It expresses the relationship between Gross profit and Net sales.

$$Gross\ Profit\ Ratio = \frac{Gross\ Profit}{Net\ Sales} \times 100$$

Interpretation: This ratio indicates the percentage of Gross profit margin of the unit. This ratio also indicates the degree to which the firm can reduce the selling price per unit of goods to remain competitive in the market without incurring loss from operation. The Gross Profit ratio should be adequate to cover operating expenses and to provide for fixed charges, dividends and for building up reserves. *Higher the ratio is better.*
NET PROFIT RATIO: It expresses the net margin on sales and indicates the efficiency of the business.

$$Net\ Profit\ Ratio = \frac{Net\ Profit}{Net\ Sales} \times 100$$

Interpretation: Over a period, increase in Net Profit Ratio keeping the Gross Profit ratio constant indicates improvement in operational efficiency. This ratio is an indicator of profitability. *Higher the ratio is better.*

2: SOLVENCY RATIOS: A business entity is said to be solvent if it is able to meet all long term and short term financial obligations without any strain.
LONG TERM SOLVENCY RATIOs:
FIXED ASSET RATIO: It expresses the level of fixed assets in proportion to the long term funds.

$$Fixed\ Asset\ Ratio = \frac{Fixed\ Assets}{Long\ Term\ Funds}$$

Fixed Assets includes Net Block and other Non-Current Assets (such as investments). **Long Term Funds** includes Capital, Reserves and Long-Term Loans.
Interpretation: The Ratio should not be more than 1.0 because if the ratio is more than 1.0, it indicates that the company has created more fixed assets/investments by diverting short term funds and may create liquidity crisis. The ratio of less than 1.0 indicates that part of working capital has been funded through long term funds. Ideal Fixed Assets ratio is 0.67. *Lower the ratio is better from liquidity point of view, but much lower ratio indicates that the unit is conservative for investment and future expansion.*
DEBT EQUITY RATIO: It expresses the level of Long-Term Debt in proportion to the Equity i.e Net Worth.

$$Debt\ Equity\ Ratio = \frac{Total\ Long\ Term\ Debt}{Share\ holders\ Funds}$$

Shareholders' funds include Paid up capital + Reserves and Surplus.
Interpretation: The Ratio indicates the extent to which the unit depends on outside funds to finance its long-term requirements. Lower ratio indicates the firm is solvent in long term. *Lower the ratio is better*

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SHORT TERM SOLVENCY RATIOs OR LIQUIDITY RATIOs:

CURRENT RATIO: This is the most important ratio for assessment of Working Capital Finance. This ratio indicates the firm's commitments to meet its short-term liabilities out of its by liquidating its Current Assets.

$$Current\ Ratio = \frac{Current\ Assets}{Current\ Liabilities}$$

Current Assets includes Cash, inventory, receivables and other Current Assets which is convertible into Cash during the operating cycle of business and maximum within one year. **Current liabilities** are the liabilities payable within a year which includes Bank Cash Credit/Overdraft, Sundry Creditors outstanding, Instalments of Term Loan payable within a year and other Current Liabilities.

Interpretation: The ideal ratio in India is 1.33 as per Tandon Committee recommendations (2nd Method). That means the promoters margin is 25% of the Current Assets. Lower Current ratio indicates liquidity risk in business and much higher ratio is also not desirable as it indicates less efficient use of long-term funds.

SIGNIFICANCE OF NET WORKING CAPITAL(NWC): Net Working Capital is the Difference between Current Asset and Current Liabilities which is also equal to the Difference between Long Term Sources of fund and Long Term Uses of Fund. It represents the borrower's margin in the Working Capital and it should be funded through long term sources of only as the surplus of long-term sources over long term uses.

Though NWC is not a ratio, it has significant impact on liquidity of the enterprise and is inter-related with the Current Ratio.

A credit analyst would be happy at the prospect of an increasing trend in Current Ratio over a period of time, however it is possible to change the ratio by simply making compensatory changes in both numerator and denominator. For example, when Current Asset is Rs.125 Lakhs and Current Liability is Rs.100 Lakhs the Current Ratio will be 1.25. But it improves to 1.5 when the Current Asset level is at Rs.75.00 Lakhs and Current Liability is at Rs.50.00 Lakhs. Hence there is improvement in Current Ratio with compensatory reduction in both numerator and denominator by Rs.50.00 Lakhs.

It is therefore significant to track the movement of NWC along with Current Ratio to take a balanced view on the trend. Lets observe the trend from the following table;

	Year I	Year II	Year III
Current Ratio	1.33	1.35	1.30
NWC (Current Asset-Current Liability)	250	233	277

It may be observed from the above table that, the direction of change in NWC doesn't necessarily go in line with change in Current Ratio.

QUICK RATIO or ACID TEST RATIO: This is the proportion of liquid Assets (That is Current Assets less inventories) to Current Liabilities.

$$Quick\ Ratio = \frac{Current\ Assets - Inventories}{Current\ Liabilities}$$

Interpretation: The ideal ratio is 1.00. A comparison of Current Ratio to Quick ratio can indicate inventory hold up position of a concern. For example, two units having same current ratio, the one having lower quick ratio indicates over stocking of inventories.

3: TURNOVER RATIOS:

STOCK TURNOVER RATIO or INVENTORY TURNOVER RATIO: It indicates the liquidity of inventories and the efficiency of use of inventories to generate cash.

$$Stock\ or\ Inventory\ Turnover\ ratio = \frac{Cost\ of\ Goods\ sold\ during\ a\ year}{Average\ Inventory}$$

Average inventory is calculated by adding inventory at the end of each month of the year divided by 12. Or if data is not available it may be calculated as Inventory position at the beginning of the accounting year plus inventory at the end of the accounting year divided by Two.

Interpretation: This ratio signifies the liquidity of inventory. Higher ratio indicates quick sales whereas low ratio indicates blockage of funds in inventories.

DEBTORSTURNOVER RATIO (DEBTORS VELOCITY): It indicates the efficiency of debt collection by the enterprise.

$$Debtors\ Turnover\ ratio = \frac{Credit\ Sales}{Average\ Receivables}$$

In case the data on credit sales and month wise receivables position is not available, the Ratio can be calculated dividing Total sales to receivables.

Interpretation: Higher ratio indicates that debts are being collected quickly. The Ratio helps in Cash budgeting, since the flow of Cash from customers can be worked out on the basis of sales.

CALCULATION OF HOLDING PERIODS

Holding period norms were evolved in the year 1974, when the Tandon committee report prescribed standard holding period norms for different units for use by Banks in India. However later on RBI suggested that holding norms may be

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consulted for guidance purpose only and Banks were made free to evolve their own standards for assessment of Working Capital.

$$Raw\ material\ Holding\ Period\ in\ days = \frac{Average\ Stock\ of\ Raw\ material}{Annual\ Consumption\ of\ Raw\ material} \times 365$$

$$Stock\ in\ Process\ Holding\ Period\ in\ days = \frac{Average\ Stock\ in\ process\ level}{Cost\ of\ Production} \times 365$$

$$Finished\ Goods\ Holding\ Period\ in\ days = \frac{Average\ Stock\ of\ Finished\ Goods}{Cost\ of\ Goods\ Sold} \times 365$$

$$Debt\ Collection\ Period\ in\ days = \frac{Average\ Receivables}{Sales} \times 365$$

$$Creditors\ payment\ Period\ in\ days = \frac{Average\ Outstanding\ Creditors}{Annual\ Credit\ purchases\#} \times 365$$

Average inventory/receivables/creditors are calculated by adding their levels at the end of each month of the year divided by 12. Or if data is not available it may be calculated as the position at the beginning of the accounting year plus inventory at the end of the accounting year divided by Two. Or the outstanding position of these items at the end of accounting years may be considered.
Annual Consumption of Raw materials is calculated as Opening Stock of Raw material + Purchase of Raw material – Closing Stock of Raw material.
Cost of Productions is calculated as Raw material consumption + Stores & spares consumed + Power & Fuel + Factory labour + Repairs and maintenance + Depreciation + Other operating expenses + Opening Stock in process – Closing Stock in process.
Cost of Goods sold is calculated as Cost of Production + Opening Stock of Finished Goods – Closing Stock of Finished Goods.
If the figure of Annual Credit purchase is not available, Annual purchase figure may be used to calculate this.

4. OTHER IMPORTANT RATIOS USED BY BANKS IN FINANCIAL APPRAISAL (PARTICULARLY IN CASE OF TERM LOANS):

DEBT SERVICE COVERAGE RATIO (DSCR): The Debt Service Coverage Ratio (DSCR) measures the ability of a company to use its operating income to repay all its debt obligations, including repayment of principal and interest. Gross DSCR is the most important ratio used in appraisal of Term Loan.

$$Average\ Gross\ DSCR = \frac{Net\ Profit + Depreciation + Interest\ on\ Term\ Loan}{Repayment\ of\ Principal + Repayment\ of\ interest\ on\ Term\ Loan}$$

To arrive at the average Gross DSCR over the period of repayment of Term Loan, the aggregate of numerator of all the years is divided by aggregate of denominator of all the years.
Interpretation: The ideal ratio is 1.50-2.00. A lower DSCR may result in default in repayment of Term Loan. Similarly, if the DSCR is much higher, the repayment period may be shortened.
INTERREST COVERAGE RATIO: ICR indicates the degree of comfort enjoyed by the enterprise in paying interest obligations. The formula to calculate ICR is;

$$ICR = \frac{Profit\ Before\ Depreciation\ Interest\ and\ Tax}{Interest\ \#\#}$$

Interest includes all types of interest i.e interest on Term Loan, Working Capital, Unsecured Loans etc.
Different Banks use different Benchmarks for this ratio, however the ratio of minimum 2:1 to 3:1 is ideal. The ratio may normally be lower in case of trading businesses where the profit margin is low and it may remain low in the initial years of a project due to higher interest obligations.
FINANCIAL GEARING (TOL/TNW) RATIO: This ratio measures the total leverage employed by the business; meaning that the firm has used its net worth as a lever to raise outside funds. The ratio is calculated by dividing Total outside liabilities both Current and long-term liabilities by Tangible Net Worth. Different Banks have different Benchmark for this ratio which varies from 3:1 to 5:1 (Upper Cap). Lower the ratio is better from Banks point of view.
FIXED ASSET COVERAGE RATIO (FACR): This is used in appraisal of Term Loan. FACR indicates the level of Fixed Assets are charged/available to Bank against the Term Loan sanctioned.

$$FACR = \frac{Fixed\ Assets\ as\ part\ of\ Primary\ Security + Collateral\ Security}{Term\ Loan\ obligations.}$$

ASSET COVERAGE RATIO (ACR): ACR indicates the level of Assets charged in favour of Bank against the credit facilities availed by the borrower.

$$ACR = \frac{Primary\ Security + Collateral\ Security}{Total\ Outstanding\ Credit\ Facilities}$$

Both FACR and ACR are used to judge, the level of assets charged in favour of Bank against credit facilities availed by the borrower and to know whether the loan can be recovered by realization of assets/securities in case of default by the borrower. Different Banks use different minimum level of ACR/FACR.

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