



Committed to professional excellence

IIBF VISION

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VISION

To be premier Institute for developing and nurturing competent professionals in banking and finance field.

MISSION

To develop professionally qualified and competent bankers and finance professionals primarily through a process of education, training, examination, consultancy / counselling and continuing professional development programs.



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Bi-monthly Monetary Policy Statement 2016-17: 5th April 2016

Monetary and Liquidity Measures

On the basis of an assessment of the current and evolving macroeconomic situation, RBI has decided to:

- Reduce the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points from 6.75 per cent to 6.5 per cent;
- Reduce the minimum daily maintenance of the cash reserve ratio (CRR) from 95 per cent of the requirement to 90 per cent with effect from the fortnight beginning April 16, 2016, while keeping the CRR unchanged at 4.0 per cent of net demand and time liabilities (NDTL);
- Continue to provide liquidity as required but progressively lower the average ex ante liquidity deficit in the system from one per cent of NDTL to a position closer to neutrality; and
- Narrow the policy rate corridor from +/-100 basis points (bps) to +/- 50 bps by reducing the MSF rate by 75 basis points and increasing the reverse repo rate by 25 basis points, with a view to ensuring finer alignment of the weighted average call rate (WACR) with the repo rate;

Consequently, the reverse repo rate under the LAF stands adjusted to 6.0 per cent, and the marginal standing facility (MSF) rate to 7.0 per cent. The Bank Rate which is aligned to the MSF rate also stands adjusted to 7.0 per cent.

TOP STORIES

RBI to banks: Pay interest on savings a/c quarterly

For the benefit of saving account holders, RBI has asked banks to pay interest on savings bank accounts on a quarterly basis or at shorter duration. At present, the interest is credited on a half-yearly basis. The interest rate on a savings bank account is calculated on a daily basis since April 1, 2010. Now, as per RBI's notification, interest on savings deposits shall be credited at quarterly or at shorter intervals (on domestic savings deposits).

Banking Policies

Banks to comply with crop insurance plan provisions

RBI has advised banks to ensure strict compliance of the provisions of the crop insurance schemes and ensure 100% coverage of defined loanee farmers along with a good number of non-loanee farmers w.e.f. April 2016. This is because the scheme is compulsory for loanee farmers availing Seasonal Agricultural Operational (SAO) loans/Kisan Credit Card (KCC) holders for the notified crops in notified areas. In the present system, banks are using different formats for capturing requisite data of land and crop details of farmers which is not accessible for cross verification to all agencies concerned on the system.

Norms for PDs in exchange-traded currency futures

RBI has issued guidelines for permitting Primary Dealers (PDs) to participate in the exchange traded currency futures on approved stock exchanges, provided they adhere to certain risk control measures and do not dilute

the existing obligations in the G-sec market. This is expected to diversify the participation profile in the currency futures market and help in further deepening the market. Exposure to currency futures will be treated as a non-core activity for PDs. Only those PDs having a minimum Net Owned Fund of Rs.250 crore or any amount as prescribed from undertaking diversified activity, will be allowed to participate in currency futures. The capital charge for market risk for non-core activities which are expected to consume capital should not be more than 20% of the NOF as per last audited balance sheet.

Revised rules for resolution of stressed MSME loans

RBI has revised the rules pertaining to revival of advances to small businesses and has asked lenders to form district level committees for faster resolution of stressed loans to Micro, Small and Medium Enterprises (MSMEs). The rules have been revised for revival and rehabilitation of MSMEs having loan limits up to Rs.25 crore. Restructuring of accounts with higher exposure will continue to be governed by the extant guidelines on Corporate Debt Restructuring (CDR) or Joint Lenders' Forum (JLF) mechanism. RBI wants banks to put together a board-approved policy to operationalize the revised framework before June 30, 2016.

RBI amends Basel III Capital Regulations

On a review of the existing capital adequacy guidelines, the Reserve Bank on March 1, 2016 made some amendments to the treatment of certain balance sheet items for the purposes of determining banks' regulatory capital. The review was carried out with a view to further aligning the definition of regulatory capital with the internationally adopted Basel III capital standards, issued by the Basel Committee on Banking Supervision (BCBS). The salient features of the amendments were: Treatment of Revaluation Reserves. Revaluation reserves arising from change in the carrying amount of a bank's property consequent upon its revaluation would be considered as common equity tier 1 capital (CET1) at a discount of 55 per cent instead of Tier 2 capital as earlier, subject to following conditions:

- Bank is able to sell the property readily at its own will and there is no legal impediment in selling the property;
- The revaluation reserves are shown under Schedule 2: Reserves & Surplus in the Balance Sheet of the bank;
- Revaluations are realistic and in accordance with Indian Accounting Standards;
- Valuations are obtained from two independent valuers at least once in every three years; where the value of the property has been substantially impaired by any event, these are to be immediately revalued and appropriately factored into capital adequacy computations;
- The external auditors of the bank have not expressed a qualified opinion on the revaluation of the property. Treatment of Foreign Currency Translation Reserves Foreign Currency Translation Reserves (FCTR) arising due to translation of financial statements of a bank's foreign operations to the reporting currency may be considered as CET1 capital at a discount of 25 per cent subject to meeting the following conditions:
 - The FCTR are shown under Schedule 2: Reserves & Surplus in the Balance Sheet of the bank;
 - The external auditors of the bank have not expressed a qualified opinion on the FCTR. Treatment of Deferred Tax Assets
 - (i) Deferred Tax Assets (DTAs) associated with accumulated losses and other such assets should be deducted in full from CET1 capital.
 - (ii) DTAs arising due to timing differences (other than those related to accumulated losses) may be recognised as CET1 capital up to 10 per cent of a bank's CET1 capital at the discretion of banks

Instructions on Liquidity Risk Management revised

The Reserve Bank on March 23, 2016 revised certain instructions on measuring Liquidity Risk Management for Basel III norms, in view of recent developments, feedback received from the stakeholders and experience gained. Some of the revised norms included:

- The time buckets in Statements of Structural Liquidity (SLS) statement with Liquidity Coverage Ratio (LCR) monitoring requirement have been amended;
- The time buckets in Dynamic Liquidity statement with LCR monitoring requirement have been amended;
- In addition to the assets prescribed under Level 2B, with effect from February 1, 2016, Corporate debt securities (including commercial paper) can also be reckoned as Level 2B high-quality liquid asset (HQLAs) subject to a 50 per cent haircut and the securities having usual fundamental and market related characteristics for HQLAs and meeting certain conditions;
- Banks generally allow loans against deposits of customers. If a deposit is contractually pledged to a bank as collateral to secure a credit facility or loan granted by the bank that will not mature or be settled in the next 30 days, then banks may exclude such pledged deposit from the LCR calculation, i.e. outflows, subject to select conditions;
- Branches of foreign banks are exempted from submitting the statement relating to LCR by Significant Currency, as they do not hold any foreign currency HQLAs

Banking Developments

UDAY scheme: Private placement of securities

RBI has asked market participants interested in subscribing to the special securities under UDAY scheme through private placement route, to approach it by March 30, 2016. The Power Ministry had launched the Ujjwal Discom Assurance Yojana (UDAY) in November 2015 for revival of debt ridden power distribution companies (DISCOMs) in different States. The special securities under UDAY are being issued by governments of Bihar, Haryana, Jammu & Kashmir, Jharkhand, Punjab and Rajasthan.

Draft rules for account aggregators

RBI has announced draft regulations for new kinds of Non-Banking Financial Companies (NBFCs), which will be called Account Aggregators (NBFC-AA). NBFC-AAs will collect and provide information of customers' financial assets in a consolidated, organized and retrievable manner. The new regulations will allow viewing of individual investments like bank deposits, mutual funds, pension products and insurance policies in a single consolidated format.

Recommendations on Incentives in Distribution of Financial Products (FPs)

The Reserve Bank on March 4, 2016, placed the recommendations of the Committee to Recommend Measures for Curbing Mis-selling and Rationalising Distribution Incentives in Financial Products (FPs) on the RBI website. The Committee set up under the Chairmanship of Shri Sumit Bose, Former Union Finance Secretary, submitted its report on August 10, 2015 and had made a number of recommendations on the incentive structure in distribution of financial products. The report is available on the website of the Ministry of Finance.

Regulator's Speak...

Bretton Woods-like pact to deal with monetary policy issues

While speaking at International Monetary Fund/Government of India Conference on Advancing Asia: Investing for the Future, held at New Delhi on 12th March 2016, Dr. Raghuram Rajan, RBI Governor said that there are few areas of robust growth around the world, with the IMF repeatedly reducing its growth forecasts in recent quarters. This period of slow growth is particularly dangerous because both industrial countries and a number of emerging markets need high growth to quell rising domestic political tensions. Policies that attempt to divert growth from others rather than create new growth, or that creates growth while fostering instability elsewhere, are more likely under these circumstances. "Even as we create conditions for sustainable growth, we need new rules of the game, enforced impartially by multilateral organizations, to ensure countries adhere to international responsibilities. The conference will have to decide whether a new international agreement along with the lines of Bretton Wood is needed, or whether much can be accomplished by small changes in the International Monetary Fund's Articles of Agreement."

Economy

IMF pegs India's growth rate at 7.5% in 2016-17

According to the [International Monetary Fund \(IMF\)](#), India's economy is likely to grow @ 7.5% in the next fiscal, compared to 7.3% in 2015-16. IMF has advised Indian authorities to effect reforms, including implementing a well-designated goods and services tax regime; strengthening prudential regulation for bank asset quality recognition; rationalizing food and fertilizer subsidies; and facilitating land acquisition.

Co-operative Banking

Minimum Capital Adequacy Norms for StCBs/DCCBs

The Reserve Bank on March 10, 2016 permitted State and Central Cooperative Banks (StCBs/DCCBs) to include the following items under Tier I capital: i. Contributions received from associate / nominal members where the bye-laws permit allotment of shares to such members and provided there are restrictions on withdrawal of such shares as applicable to regular members. ii. Contribution / non-refundable admission fees collected from the nominal and associate members which are held separately as 'Reserves' under appropriate head since these are not refundable. iii. Outstanding amount in Special Reserve created under Section 36(1) (viii) of the Income Tax Act, 1961 if the bank has created Deferred Tax Liability (DTL) on this Reserve.

New Appointments

Name	Designation/Organisation
Mr. Natarajan Chandrasekaran Mr. Bharat Doshi Mr. Sudhir Mankad	Directors, Reserve Bank of India (RBI)
Mr. Sanjiv Mishra	Non-Executive, Chairman, Axis Bank
Mr. B.P. Kanungo	Executive, Director, RBI



Products & Alliances

Organisation	Organisation tied up with	Purpose
State Bank of India (SBI)	Uber	To provide vehicle finance for driver-partners on the Uber's platform
Axis Bank	Diners Club International	Forex prepaid card for providing cardholders global acceptance

Glossary

International Monetary Fund (IMF)

The [International Monetary Fund \(IMF\)](#) is an organisation of 188 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth and reduce poverty around the world. Created in 1945, the IMF governed by and accountable to the 188 countries that make up its near-global membership.

Financial Basics

Modified Duration

Modified Duration = Macaulay Duration / $(1+y/m)$, where 'y' is the yield (%), 'm' is the number of times compounding occurs in a year. For example if interest is paid twice a year $m=2$. Modified Duration is a measure of the percentage change in price of a bond for a 1% change in yield.

Institute's Training Activities

Training Programme Schedule for the month of April 2016

S.No.	Name of the Programme	Dates	Location
1.	IDBI-TTP	7th to 8th April 2016	Bhubaneswar
2.	IDBI-TTP	11th to 12th April 2016	Bangalore
3.	Recovery Management	20th to 22nd April 2016	Mumbai
4.	Certified Credit Officers - Post Exam. Training	25th to 29th April 2016	Mumbai
5.	Housing Finance	25th to 27th April 2016	Mumbai

News from the Institute

Institute's Professional Development Centre

The Institute's Professional Development Centre at Hindusthan Building (Annexe), 7th Floor, 4, C. R. Avenue, Kolkata-700 072 will be inaugurated on 20th April 2016 followed by a seminar on "Credit Scoring".

Foundation day of the Institute

The Institute has decided to organise its foundation day on 30th April, 2016. Shri R. Gandhi, Deputy Governor, RBI will be attending this event as Chief Guest and delivering the Keynote Address.

Bank Quest Themes for next issues

The themes for next five issues of "Bank Quest" are identified as:

- July-September, 2016: Stressed Account Management & Financial Stability
- October-December, 2016: Digital Banking
- January-March, 2017: Business Analytics
- April-June, 2017: Challenges in Infrastructure financing

KYC/AML & Customer Service Examination

The Institute will hold the Certificate Examinations in AML/KYC & Customer Service Examinations on a quarterly interval from April 2016 onwards. For details visit www.iibf.org.in. In addition, these examinations will be conducted at IIBF test centres at Mumbai and Kolkata on 2nd and 4th Saturdays from the month of August and September, 2016. For details visit www.iibf.org.in.

Cut-off Date of Guidelines /Important Developments for Examinations

In respect of the exams to be conducted by the Institute during May / June of a calendar year, instructions / guidelines issued by the regulator(s) and important developments in banking and finance up to 31st December of the previous year will only be considered for the purpose of inclusion in the question papers.

In respect of the exams to be conducted by the Institute during November / December of a calendar year, instructions / guidelines issued by the regulator(s) and important developments in banking and finance up to 30th June of that year will only be considered for the purpose of inclusion in the question papers.

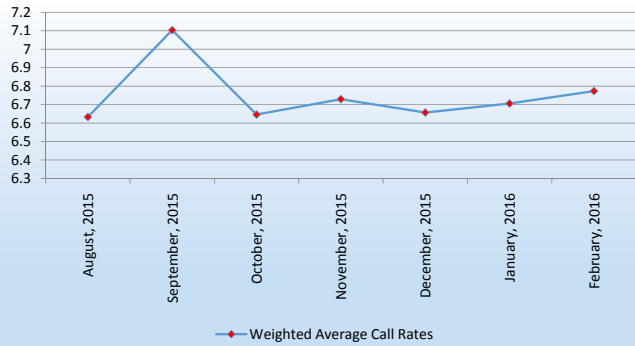
Green Initiative

Members are requested to update their e-mail address with the Institute and send their consent to receive the Annual Report via e-mail in future.

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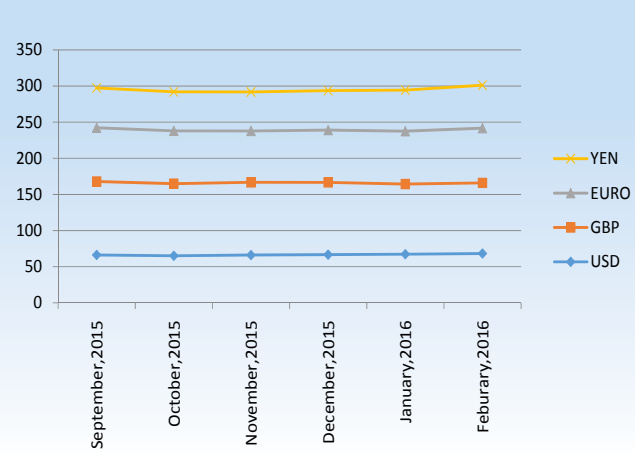
Market Roundup

Weighted Average Call Rates



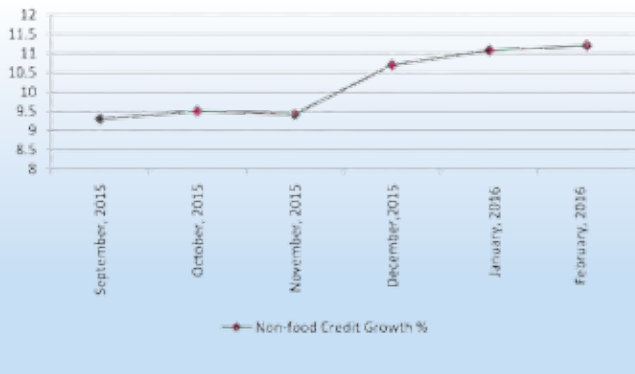
Source: CCIL Newsletters, 2015-16

RBI Reference Rate



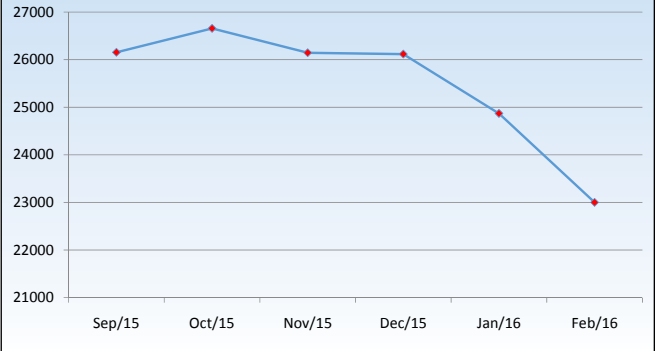
Source: Reserve Bank of India (RBI)

Non-food Credit Growth %



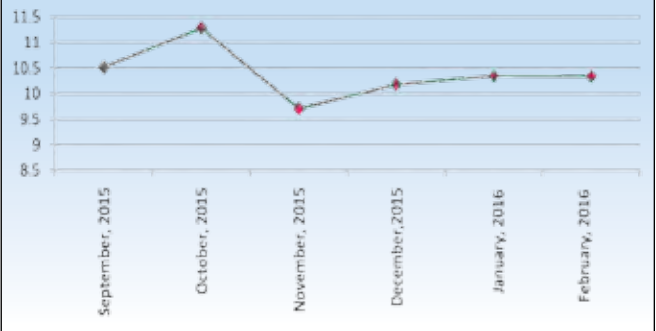
Source: CCIL, Monthly Economic Review, March 2016

BSE Sensex



Source: Bombay Stock Exchange (BSE)

Aggregate Deposit Growth %



Source: CCIL, Monthly Economic Review, March 2016

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