Banking Current Affairs for SBI Clerk Written Examination 2012

RBI directed Banks to Print MICR and IFSC Code on Passbook

Apex Indian bank, the Reserve Bank of India on 21 April 2012 directed all commercial banks to print the MICR (Magnetic Ink Character Recognition) and IFSC (Indian Financial System Code) code on the passbook and statement of account of the customers. The bank made the printing of MICR and IFSC code compulsory for all the banks.

The banks, under their current practice, provide MICR code on the cheque leaf along with the IFSC code of the branch.

Under the RBI guidelines, MICR code is mandatory for all electronic clearing services (credit and debit) transactions. IFSC code is a pre-requisite for national electronic funds transfer (NEFT) and real time gross settlement (RTGS) transactions.

RBI instructed Commercial Banks to reduce their Exposure to Gold Loan Companies to 7.5%

Reserve Bank of India (RBI) on 17 April 2012 instructed commercial banks to reduce their exposure to gold loan companies to 7.5% of their capital funds from the existing 10%. The directive will impact the gold loan companies such as Muthoot Finance and Manappuram Finance as they will receive less funding. The central bank also set up a working group to suggest ways to deal with the issue.

Banks were directed to reduce their regulatory exposure ceiling in a single NBCFC, having gold loans to the extent of 50% or more of its total financial assets, from the existing 10% to 7.5% of bank's capital funds. The direction was given in the back of a situation when gold loans were growing rapidly and there was a concentration risk.

Banks barred from charging Prepayment Penalty on Floating Rate Home Loans

The Reserve Bank of India (RBI) on 17 April 2012 banned banks from charging a prepayment penalty on floating rate home loans. Banks were barred from charging any fee from a customer who wants to repay an outstanding loan and close the account.

Housing finance regulator National Housing Bank (NHB) had previously barred home finance companies from charging any prepayment penalty. Among banks, State Bank of India was the first to do away with the pre-payment fee on both fixed and floating rate loans. Taking cue nearly 20 banks withdrew the penalty on floating rate loans. However, most lenders continue to charge the penalty on premature closure of fixed rate loans.

RBI also directed banks to minimise the wide variation in rates offered to retail and bulk depositors on deposits with very little difference in maturities. It also mandated that banks offer a basic savings and deposit account to all their customers. These accounts should have some minimum common facilities and not prescribe a minimum balance.

Reserve Bank of India cut the Repo Rate by 50 Basis Points

Reserve Bank of India, the apex Indian Bank, on 17 April 2012, cut the key policy rates for the first time in the past three years. While the repo rate (the rate at which the RBI lends money to banks) was cut down by 50 basis points from 8.50 per cent to 8.00 per cent, the reverse repo rate (normally fixed at a spread of 100 basis points below the repo rate) was reduced to 7.0 per cent.

The marginal standing facility rate, which has a spread of 100 basis points above the repo rate, now stands at 9.0 per cent.

The RBI’s move to cut down key policy rates came in the wake of slumping growth which was reduced to 6.1 per cent in the third quarter of fiscal year 2011-12. Headline WPI inflation had moderated to below 7 per cent by end March although there are fears that it will flare up again. The RBI has, therefore, played it safe by projecting an inflation target of 6.5 per cent by March 2013. Its GDP projection for this year is 7.3 per cent.

Reporting Requirements of the Banks to Monitor Gold Import tightened

The Reserve Bank of India on 3 April 2012 tightened the reporting requirements of the banks. As per the directions issued, banks will have to submit a monthly statement informing the central bank about the quantity of gold imported and mode of payment adopted. The statement is to be filed with the foreign exchange department of the RBI and has to be submitted at the end of March and September.

The directive was issued amidst concerns of huge outflow of foreign exchange on import of gold which is believed to be putting pressure on the India's current account deficit (CAD).

Banks were directed to file a half yearly statement on quantity and value of gold imported by nominated banks, agencies, export-oriented units (EOUs) and special economic zone (SEZs) in gem & jewellery sector, as well as mode of payment. Also they have to file monthly statement on the quantity and value of gold imports by the nominated agencies (other than the nominated banks), EOUs, SEZs as well as the cumulative position at the end of the reporting month.

Earlier, banks were only required to submit a monthly statement on the number of transactions and value of gold imported by EOUs, units in SEZ\export processing zone and nominated agencies/banks. India is the world's largest importer and consumer of the precious metal.

RBI released September 2011 Quarterly Statistics on Deposits & Credit

The Reserve Bank of India (RBI) on 3 April 2012 released 'Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks, September 2011’. The release included data related to deposits and credit of scheduled commercial banks including regional rural banks (RRBs) as on

30 September 2011. The data included in the release were based on Basic Statistical Return (BSR)-7 received from all scheduled commercial banks (including RRBs).

Highlights of RBI's Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks

Number of banked centres

- The number of banked centres of Scheduled Commercial banks stood at 35,435. 27,913 of these centres were single office centres and 68 centres had 100 or more bank offices.

Deposits and Credit of top 100/200 centres

- The top hundred centres, arranged according to the size of deposits accounted for 69.6 per cent of the total deposits. Whereas the top hundred centres arranged according to the size of bank credit accounted for 78.5 per cent of total bank credit.

- In September 2010, the corresponding shares of top hundred centres in aggregate deposits and gross bank credit had stood at 68.8 per cent and 78.0 per cent.

- Aggregate deposits of top hundred centres increased by 23.5 per cent in September 2011 over September 2010.

- Annual growth rate of gross bank credit of top hundred centres at 24.3 per cent in September 2011 was higher than the 19.7% growth recorded in September 2010.

- The top 200 centres in terms of aggregate deposits covered 32.4 per cent of reporting offices and 74.5 per cent of aggregate deposits. The top 200 centres in terms of gross bank credit accounted for 31.8 per cent of reporting offices and 81.9 per cent of gross bank credit.

RBI directed Indian Banks to maintain Tier I Capital of at least 7% of their Risk Weighted Assets

The Reserve Bank of India on 2 May 2012 published guidelines for implementation of the new global capital adequacy norms, called Basel III, by March 2018. Indian banks will have to maintain Tier I capital, or core capital, of at least 7 per cent of their risk weighted assets on an ongoing basis. The objective is to strengthen risk management mechanism. As per the guidelines specified by the central bank, commercial banks will have to maintain their total capital adequacy ratio at 9 percent, higher than the minimum recommended requirement of 8 percent under the Basel III norms.

It was decided that scheduled commercial banks (excluding LABs and RRBs) operating in India will have to maintain a minimum total capital (MTC) of 9 percent of total risk weighted assets (RWAs) as against a MTC of 8 percent of RWAs as prescribed in Basel III rules text of the BCBS (Basel Committee on Banking Supervision).

Also, banks were directed to keep a capital conservation buffer of 2.50 percent. It essentially means that banks will have to set aside more capital as buffer to avoid a 2008-like crisis again. On failing to set aside the mentioned capital, the banks will not be able to pay dividend and bonus. The RBI tightened the norms to monitor banks' investments, inter-connectedness and cross-holdings in the financial sector services which are beyond the active regulatory purview of the central bank.

Basel III requires banks to have a higher share of core capital – which is equity and reserves. Banks will thus require additional Rs 1-1.5 lakh crore over the next six years for doing the same level of business.

The implementation of the capital adequacy guidelines based on the Basel III capital regulations will begin on 1 January 2013. Banks are to attain a minimum Tier I capital ratio of 4.5 per cent by January 2013, 5.5 per cent by January 2014, and 6 per cent by January 2015. The new capital regulations will be fully implemented by 31 March 2018.

Under the existing Basel II framework, banks are required to maintain Tier I capital of at least 6 per cent of their risk weighted assets. Under Basel III, Tier I capital will predominantly consist of common equity, defined as paid-up equity capital, share premium, surpluses arising from sale of assets, other disclosed free reserves, and balance in the profit and loss account at the end of the financial year.

RBI raised Interest Rate Ceiling on NRI Deposits in Foreign Currencies by up to 3%

The Reserve Bank of India (RBI) on 4 May 2012 raised the interest rate ceiling on NRI deposits in foreign currencies by up to 3%. The interest rate ceiling on Foreign Currency Non-Resident FCNR (B) deposits of banks was raised from 125 basis points (bps) (1.25%) above the corresponding LIBOR or swap rates to 200 bps for maturity period of one year to less than three years, and to 300 bps for maturity period of three to five years. The RBI's measure was aimed at checking flight of foreign currency in the wake of continued fall in the value of the Indian rupee.

The Indian banks will from now on be able to offer higher interest rates on NRI deposits in foreign currency. The central bank deregulated interest rates on export finance, a development that would help exporters to freely raise money in foreign currency without any limit on interest ceilings. The measures adopted by the central bank are aimed at arresting the declining value of the Indian rupee which closed at Rs53.47 against a dollar. For one-year, LIBOR (London Inter-Bank Offered Rate) stood at 1.0472%. LIBOR is world's most widely used benchmark for short-term interest rates.

Reserve Bank of India also decided to allow banks to determine their interest rates on export credit in foreign currency with effect from 5 May 2012.

Following RBI’s Deregulation 5 Indian Banks raised Interest Rates on NRE Deposits

Reserve Bank of India deregulated non-resident external (NRE) deposits on 16 December 2011 allowing banks to offer higher interest rates to dollar-denominated accounts. Reserve Bank freed the rates on non-resident external accounts, offering interest as high as 9.6% per annum.

Following RBI’s deregulation five Indian banks, including HDFC Bank and Yes Bank on 23 December 2011 raised their interest rates on such deposits in order to lure foreign money.

The Reserve Bank of India's move to deregulate interest rates on non-resident external (NRE) rupee deposits and ordinary non-resident accounts encouraged banks to attract dollars.

Private lender Yes Bank increased the interest rates on fixed deposits held by non-resident Indians (NRIs) to 9.6 per cent from 3.82 per cent. The new rate is being offered on term deposits of 15 months 15 days to 16 months. The bank also raised savings bank rate by 200 basis points to 6 per cent.

Lakshmi Vilas Bank revised the rate of interest for NRE term deposits with effect from December 22. Deposits under the maturity slab of one year to below two years will in fact attract 10 per cent from 3.82 per cent previously. Deposits of 2 years to below three years will fetch 8 per cent against 3.51 per cent and three years and above 7 per cent against 3.64 per cent.

IndusInd Bank increased the interest rates on NRE deposits to 9.25 per cent from 3.82 per cent.

Similar steps were also taken by banks like Federal Bank, HDFC Bank, State Bank of Travancore (SBT).

The new rates are effective from 24 December for fresh deposits as well as those being renewed on maturity.

Standard and Poor’s (S&P) assigned Stable Outlook to 10 Indian Banks

Credit rating agency Standard and Poor’s (S&P) assigned stable outlook to 10 Indian banks and kept their long term and short-term issuer credit rating (ICR) at BBB- and A-3.

As per S&P’s ratings definition, BBB- denotes a long-term issue rating that exhibits adequate protection parameters but shows a weakened capacity to meet obligations under adverse economic conditions. A-3 on the other hand is a short-term issue rating that exhibits adequate protection parameters but shows a weakened capacity to meet obligations under adverse economic conditions.

Out of the top four Indian Banks in the list, S&P rated HDFC Bank highest on standalone credit profile (SACP) and offered it BBB+ while giving a BBB- to Axis Bank. State Bank of India (SBI) and ICICI Bank were assigned BBB.

HDFC Bank’s business position was rated as strong, its capital and earnings and risk position were rated adequate, and its funding and liquidity position was concluded to be above average and strong. Customer deposits represent more than 90 per cent of HDFC’s funding base. Its savings and current deposits, which are inherently low cost and stable, have been stable at about 50 per cent of the bank’s deposit base. Also HDFC’s liquidity ratios were found to be noticeably stronger compared to the other players’.

Private Sector Lender HDFC Bank launched Premium Credit cards Exclusively for Women

Private sector lender HDFC Bank launched premium credit cards exclusively for women on 30 November 2011. HDFC expects to add 4 million credit card customers in the next two years. The bank has about six million credit card customers. Of this, 1.5 million customers are women.

The card Solitaire introduced exclusively for women has a credit limit of up to 2 lakh. The bank also launched a special card, Solitaire Premium, with a credit limit of Rs 5 lakh for women. Solitaire will provide unmatched lifestyle offers, its wellness aspects will help women take holistic care of themselves in the midst of a busy career.

Solitaire is expected to fulfil a long-standing need of women who are pursuing a successful career, travelling the world and are at the forefront of the global consumption story.

The bank, which is the biggest issuer of credit cards in the country decided to come out with new credit card products including co-branded card every quarter.

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US Banking Major Citi Group sold Stake in HDFC for 1.9 Billion Dollars

US banking major Citi group on 25 February 2012 sold its 9.85 percent stake in HDFC, India's biggest mortgage lender, for around 1.9 billion dollars.

Citi group, the third largest lender of US by assets, was in alliance with the HDFC for last seven years. The sale of stake has come as the part of company's strategy to disinvest in order to raise the capital as Citigroup faces a potential multi-billion-dollar writedown of its minority stake in Morgan Stanley Smith Barney brokerage.

Citi group, by selling its stake in HDFC, has joined the league of European and American banks like HSBC and Goldman Sachs who have also sold their Asian assets as global rules for higher risk buffers force lenders to raise their capital.

National Australia Bank opened its Maiden Branch in India

National Australia Bank on 22 February 2012 opened its maiden branch in India. Bank opened its first branch in Mumbai which will support the bank's existing business in the country.

The new branch will also provide a link for Indian clients aspiring to expand their business in Australia or New zealand.

National Australia Bank, by opening its maiden Indian branch is eyeing at tapping the growing opportunity of business between India and Australia.

ICICI Bank and P&B slashed Lending Rates by 25 Basis Points

Largest private sector lender ICICI Bank and Punjab National Bank (PNB) the second largest public sector bank on 19 April 2012 reduced lending rates by lowering their benchmark rates by 25 basis points. On 18 April 2012, the state owned IDBI bank had also cut down its lending and deposit rates by 25 basis points

The bank's move came in the backdrop of the RBI's decision to cut down the key policy rates. The RBI on 17 April 2012 had slashed the repo rate and reverse repo rate by 50 basis points.

South Korean Woori Bank opened Maiden Indian Branch in Chennai

South Korean lender Woori Bank on 18 April 2012 opened its maiden Indian branch in Chennai. The Seoul based bank slated Chennai as the first city to launch their operation in India given the fact that the southern metro city is home to more than 170 Korean companies, including big names such as Hyundai Motors, Lotte and Samsung.

The bank as per its strategy will first provide banking assistance to Korean companies located in Chennai and subsequently it will start focusing on local business, keeping in mind the needs of the India companies and customers.

Woori Bank, the South African government –owned bank with the opening of its first branch in India aims at tapping the growing economic opportunities in India.

RBI allowed NRIs to hedge their Currency Risk in respect of External Commercial Borrowings (ECB)

The Reserve Bank of India on 29 December 2011 allowed non-residents to hedge their currency risk in respect of external commercial borrowings (ECB) denominated in rupees, with AD Category-I (authorised dealer) banks in India.

The apex bank mentioned that the amount and tenor of the hedge cannot not exceed that of the underlying transaction. Besides, it should be in consonance with the extant regulations regarding tenor of payment or realisation of the proceeds.

The NGOs (non-Government organisations) engaged in microfinance activities were permitted to avail themselves of ECBs designated in Indian rupee under the automatic route from overseas organisations and individuals as per the ECB guidelines.

According to the RBI, once cancelled the contracts cannot be rebooked. The contracts may, however, be rolled over on or before maturity. On cancellation of the contracts, gains may be passed on to the customer.

Eligible borrowers were permitted to avail of ECBs designated in Indian rupees from foreign equity holders under the automatic/ approval route, as the case may be, as per the extant ECB guidelines.

Reserve Bank of India ordered Banks to set aside more Capital for Investments in Financial Entities

The Reserve Bank of India (RBI) ordered banks to set aside more capital for their investments in financial entities such as insurance with an objective to strengthens the ring fence around banks. However the move can strain capital resources which are increasingly getting scarce. The RBI proposed the raise in risk weight to prevent banks from getting affected because of their holdings in other finance entities.

The banks are to set aside 25% more capital following the central bank raise of the risk weight for buying or holding of equity in financial entities. Banks' investments in paid-up equity of financial entities, even if they are exempted from the capital market exposure norms, will thus be assigned a 125 percent risk weight. The proposal is expected to lead banks, which at present set aside Rs 9 for every Rs 100 of investment in financial entities, to keep aside about Rs 11.

As per the apex bank, inter-linkages between insurance and banking sector are a matter of concern, as many insurance companies being part of financial conglomerates. Any financial stability issue regarding the bank in the conglomerate therefore may have an amplifying effect on the insurer. The contagion between the banking and insurance sector will also depend on the insurance companies' overall exposure to banks.

RBI opined that consolidation in the banking sector would pave the way for stronger financial institutions with the capacity to meet corporate and infrastructure funding needs, and to rescue distressed lenders. However, it prescribed a non-operative bank holding company structure to avoid creation of complex institutions.

Voluntary mergers and transfers help consolidation in the financial sector and pave the way for stronger financial institutions to rescue the weaker ones. These voluntary measures provide business opportunity to the stronger ones to spread their presence in different geographies. The Competition Act, 2002 (as amended by the Competition (Amendment) Act, 2007) could however come in the way of consolidation. One of the provisions of the Act require an enterprise proposing to enter into a combination via a merger or an amalgamation to notify the Competition Commission.

RBI directed Banks to issue Cheques conforming to Cheque Truncation System 2010 Standard

The Reserve Bank on 27 December 2011 directed all banks to issue cheques conforming to Cheque Truncation System (CTS) 2010 standard with uniform features from 1 April 2012 onwards.

All banks providing cheque facility to their customers were advised to issue only CTS-2010 standard cheques not later than 1 April 2012 on priority basis in northern and southern region. The two- northern and southern region will be part of the northern and southern CTS grids respectively. CTS-2010 standard cheques are to be issued by banks across the country by 30 September 2012 through a time bound action plan.

The Indian Banks Association (IBA) and National Payment Corporation of India (NPCI) were vested with the responsibility of coordinating and implementing the uniform cheque standard across the country by all participating banks.

Need for the CTS

The introduction of new cheque standards 'CTS 2010' was needed on account of several developments in the cheque clearing: growing use of multi-city and payable-at-par cheques at any branch of a bank, increasing popularity of Speed Clearing for local processing of outstation cheques and implementation of grid based Cheque Truncation System (CTS) for image-based cheque processing etc

Advantage of the CTS

The new cheque standard CTS 2010 with set of minimum security features will ensure uniformity across all cheque forms issued by banks in the country as well as help presenting banks while scrutinising and recognising cheques of drawee banks in an image-based processing scenario, RBI said in a notification.

The homogeneity in security features is also expected to act as a deterrent against cheque frauds. Also, the standardisation of field placements on cheque forms would enable straight-through-processing both under CTS and MICR clearing.

Current Practise

At present in most parts of the country banks have to physically move cheques presented to them for clearing to the clearing house. The cheques are then sent to the issuing banks which verify the signature before releasing the funds. Under RBI cheque truncation programme banks will release payments based on images of cheques conveyed to them.

The Securities and Exchange Board of India (SEBI) proposed new rules for investment advisors under which the advisors would be required to be registered with a self-regulatory organisation (SRO) before undertaking such a role (role of an advisor). The proposed framework was proposed with an objective to regulate investment advisory services in various forms, including independent financial advisors, banks, distributors and fund managers.

While the activity of giving investment advice will be regulated under the proposed framework through an SRO, issues relating to financial products other than securities will come under the jurisdiction of the respective sector regulators.

Persons or entities seeking registration as investment advisors shall have to obtain it from the SRO. The SRO formed to regulate investment advisors will be registered under the SEBI (Self Regulatory Organisation) Regulations, 2004.

The duties of the SRO will include registering and setting minimum professional standards, including certification of investment advisors, laying down rules and regulations and enforcing those, informing and educating the investing public, setting up and administering a disputes resolution forum for investors and registered entities.

Those entities registered with the SRO will provide advice on investments in financial products or products that are traded and settled like financial products.

The services will include financial advice, financial planning service and actions which would influence an investment decision.

RBI tightened the Capital Adequacy Norms for all Non-banking Financial Companies (NBFCs)

The Reserve Bank on 26 December 2011 tightened the prudential norms for the non-banking financial companies (NBFCs) under which the NBFCs will have to account for risks towards off-balance sheet items while computing capital adequacy requirement.

The NBFCs can thus participate in the credit default swap market only as users. As users, the NBFCs would be permitted only to hedge their credit risk on corporate bonds they hold. However, they are not permitted to sell protection. They are therefore not permitted to enter into short positions in the credit default contracts. NBFCs are however permitted to exit their bought CDS positions by unwinding them with the original counter-party or by assigning them in favour of buyer of the underlying bond.

RBI also tightened the capital adequacy norms for all NBFCs. The rule tightening exercise comes in the wake of their stepped-up exposure to off- balance sheet items.

The RBI revised capital adequacy norms for non-banking finance companies (NBFCs) with an objective to improve their capacity and help manage off-balance sheet exposure.

The regulatory framework was expanded to have greater granularity in the risk weights and credit conversion factors for different types of off-balance sheet items.

The RBI prescribed that the total risk weighted off-balance sheet credit exposure be calculated as the sum of the risk weighted amount of the market-related and non-market related off-balance sheet items. The RBI specified that for the off-balance sheet items already contracted by NBFCs, the risk weight shall be applicable with effect from the financial year beginning 1 April 2012.

As per the apex bank, off-balance sheet exposures of NBFCs have increased with the increased participation in the designated currency options and futures and interest rate futures as clients for the purpose of hedging their underlying exposures.

Asset liability management for NBFCs had become complex and large, requiring strategic management with a greater use of derivatives.

In the normal course of their business, NBFCs are exposed to credit and market risks due to asset-liability transformation as the Indian markets are now more integrated with global ones.

Reserve Bank of India kept its Policy Repo Rate unchanged at 8.5 percent at its Mid-quarter Review

The Reserve Bank of India on 16 December 2011 left its policy rate unchanged at a three-year high of 8.5 per cent. RBI paused the hike after 13 consecutive rate hikes since March 2010.

The Reserve Bank of India kept its policy repo rate unchanged at 8.5 percent at its mid-quarter review two days after data showed November wholesale price index inflation at 9.11 percent, far lower than the 9.73 percent clocked in October.

The RBI also left the cash reserve ratio unchanged at 6 percent, despite market specualtion that it might cut the ratio in order to boost market liquidity.

The central bank noted that while inflation remained on the projected trajectory, downside risks to growth clearly increased. It reiterated that further rate hikes might not be warranted as the growth momentum was moderating.

Retaining its option to raise rates again if inflationary expectations persist, the RBI mentioned that the timing and magnitude of further action would depend on how things panned out on the inflation and rupee fronts.

RBI's policy statement stated that inflation risks remain high and inflation could quickly recur as a result of both supply and demand forces. Also, the rupee remains under stress.

The central bank that the GDP growth declined to 6.9 per cent in the second quarter (July-September) from 7.7 per cent in the first (April-June), and key deficit indicators worsened mainly due to higher expenditure and lower revenues.

Noting that liquidity conditions were tight, consistent with the policy intent, the RBI mentioned that it would conduct open market operations as and when it felt the need for it.

RBI announced Non-direct Intervention Measures in the Wake of Rupee Depreciation

The Reserve Bank of India announced non-direct intervention measures in the wake of steady weakening of the rupee against the dollar. The non-direct intervention measures are aimed at curbing speculative positions in the foreign exchange market.

Re-booking cancelled forward contracts, whatever the type and tenor of the underlying exposure, by resident and foreign institutional investors has been disallowed. Forward contracts booked to hedge current account transactions regardless of the tenor were allowed to be cancelled and rebooked. Such facility was also available to hedge capital account transactions that were falling due within one year.

The apex bank through the new measures made it clear that forward contracts once cancelled cannot be rebooked.

The central bank also modified the currency risk hedging norms for importers and exporters. Importers were earlier allowed to hedge currency risk on the basis of a declaration of an exposure based on past performance up to the average of the previous three financial years' actual import/export turnover or the previous year's import/export turnover, whichever is higher. Also, contracts booked in excess of 75 per cent of the eligible limit were to be on a deliverable basis and could not be cancelled. The apex bank revised these norms.

As a result of the revision the earlier 75 per cent facility stands reduced to 25 per cent of the limit as compounded by above for importers who avail themselves of the past performance facility. If importers have already used up in excess of the revised or reduced facility, they will not be allowed further bookings. the RBI also specified that this facility will be available on fully deliverable basis only.

The RBI reduced the net overnight open position limit (NOOPL) of authorised dealers across the board with an objective to prevent speculations in the foreign exchange market. It asserted that the intra-day open position/ daylight limit of authorised dealers should not exceed the RBI-approved NOOPL.

The apex bank indicated that these arrangements would be reviewed periodically in line with the evolving market conditions.

ICICI's & IDBI's launch of CDS marked Formal Introduction of Local Currency CDS Market in India

India's largest private lender by assets, ICICI Bank and IDBI Bank, the seventh largest public sector bank in India together launched India's first credit default swap (CDS) on 7 December 2011. CDS was launched seven days after the product was cleared by the Reserve Bank of India on 30 November 2011. Public sector undertaking Rural Electrification Corporation (REC) bought the CDS cover for its Rs 5 crore loan from ICICI Bank.

The launch of the CDS was a landmark transaction for the domestic corporate debt market and marked the formal introduction of local currency CDS market in India.

IDBI Bank became the country's first PSU bank to underwrite a CDS transaction in the domestic market for managing credit risks associated with Indian corporate bonds. This is the first transaction of its kind entered by any public sector bank with another bank in India on selling protection in the domestic market on corporate bonds.

The central bank, RBI had issued prudential guidelines on CDS transactions on corporate bonds on 30 November 2011. The guidelines referred to CDS transactions underwritten by Indian operations of foreign banks, Indian banks and overseas branches/subsidiaries/joint ventures of Indian banks.

Benefits

The launch of the CDS market in India will encourage foreign institutional investors to invest in domestic corporate bonds. The investment in domestic corporate bonds will provide much-needed funding for projects, including infrastructure sector projects.
Credit default swaps also will investors to transfer and manage credit risk in an effective manner through redistribution of risk. Such products are expected to increase investors' interest in corporate bonds and is likely to prove beneficial to the development of the corporate bond market in India.

What is CDS?

A CDS is similar to a traditional insurance policy where it obliges seller of the CDS to compensate the buyer in the event of a loan default. The agreement is that in the event of a default, buyer of the CDS receives the money which is equivalent to the face value of the loan and seller of the CDS receives the defaulted loan and with it the right to recover it at some later time.

RBI approved Creation of Separate Category of Non-banking Financial Companies for MFI Sector

The Reserve Bank of India (RBI) on 2 December 2011 approved the creation of a separate category of non-banking financial companies for the microfinance institution (MFI) sector. The central bank also specified that such institutions need to have a minimum net owned fund of Rs 5 crore.

An RBI-appointed panel headed by YH Malegam had earlier recommended setting up of a special category of NBFCs operating in the micro finance sector. The panel had suggested a minimum net worth of 15 crore for an entity to qualify as an NBFC-MFI.

The RBI highlighted that the NBFC-MFIs should have a minimum net worth of Rs 5 crore. However, for those operating in the North-Eastern states, the slab was kept at Rs 2 crore.

The RBI had in its second quarter policy review in October 2011 approved of setting up of this category of specialised financial companies which would cater to low-income groups.

RBI announced Revisions to Liberalise Norms for Direct Investment Abroad by Indian Residents

The Reserve Bank of India (RBI) on 28 March 2012 announced a several revisions with an objective to liberalise the norms for direct investment abroad by Indian residents. The revisions include liberalisation in regulations on qualification shares, professional services rendered and Esop (employee stock option plan) schemes.

The revisions stated are as follows:

- It was stated that proposals from the Indian party for creation of charge in the form of pledge or mortgage on the immovable or movable property and other financial assets of the Indian Party and their group companies may be considered by the RBI.

- Also, it was declared that the bank guarantee issued by a resident bank on behalf of an overseas JV or WOS of the Indian party would be reckoned for computation of the financial commitment.

- Considering the nature of the compulsorily convertible preference shares (CCPS), it was decided that the CCPS is to be treated at par with equity shares. The Indian party is to be allowed to undertake financial commitment based on the exposure to JV by way of CCPS.

- RBI decided to grant general permission to resident individuals to acquire qualification shares of an overseas company for holding the director post, to acquire shares in a foreign company through ESOP scheme etc. The central bank removed the cap of one per cent on resident individuals acquiring qualification shares for holding the post of a director in a foreign company.

- Indian resident employees or directors were permitted to accept shares offered under an Esop scheme globally, on a uniform basis, in a foreign company irrespective of the percentage of the direct or indirect equity stake. The facility was earlier subject to equity holding of not less than 51 per cent.

The central bank however stated that shares under the Esop scheme should be offered by the issuing company globally on a uniform basis and the annual return filed by the Indian company to RBI through the authorised dealer category- I bank, giving details of remittances and beneficiaries.