

January 2022



IBS VIGYAN

VISIONING BANKERS

Evangelistically Speaking



Dear Stakeholders,

The continuing disruption in social life is demanding innovative methods in pedagogy to bridge the learning loss among students. IBS surprisingly discovered that the challenges in andragogy are strikingly similar. Andragogy relates to adult education. Our target group is practising professionals in BFSI sector. Yet, we have been striving to innovate in our upskilling methodologies to ensure that our faculties rise to transcend the knowledge transmission challenges in on-line mode. We extensively use the social media messaging applications to simulate peer level learning, sustain the engagement beyond the classrooms and engage in representative heuristics to upskill career aspirants. While the New Educational Policy flags pre-existing inequalities as a challenge that needs to be identified and addressed so that inequality among students is reduced, we have been successful in bringing out such pre-existing inequalities among our diverse group of students and ensure that they rise to higher levels of comprehension to match the peers.

IBS is inspired by the following Subhashitham to continually invest in Knowledge that is precious and self-growing.

नचोरहार्यनचराजहार्यनभ्रातृभाज्यंनचभारकारि |
व्ययंकृतेवर्धतएवनित्यंविद्याधनंसर्वधनप्रधानम् ||

“Na chora haryam, na cha Raja haryam, na bhaatr bhajyam, na bharaakaari.
Vyayam krute vardhat evam nityam Vidhyadhanam sarva dhana pradhaanam.”

“Knowledge cannot be stolen, nor is it a treasure confined to Kings. It cannot be divided amongst brothers. It is not heavy to carry. As you spend it, it keeps growing. Knowledge is the most precious wealth amongst everything.”

The redeeming outcome of this approach has been the wider receptivity to our modules in the specialised certification programmes of IIBF, beyond CAIIB.

Looking forward to a meaningful and sustaining engagement.

Sincerely Yours
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CURATED CUBE

The ides of January, more specifically, the 14th is Makara Sankranti. The shift from Dakshinayanam to Uttarayanam. The phase that Bheeshmar pined for to forego his life. This 14th, RBI has published Discussion Paper on Valuation of Investment Portfolio of Banks, to be introduced from 1st April 2023. The driver for the changes is to bridge the gap between domestic norms and global standards. This could upend the existing accounting and valuation standards, to which Banks have got accustomed to since ages, albeit with some sporadic changes. In less than fifteen months, Banks are going to recognize unrealized gains as profits. Does this not give a glimpse of the upending that is in store? Investments in equity shares of subsidiaries, associates and joint ventures can be carried in Held To Maturity (HTM) category at cost. The Held For Trading (HFT) category will be subsumed under a new category Fair Value Through Profit and Loss (FVTPL). Hitherto, Available For Sale (AFS) was the residual category under which investments that did not fall under HTM or HFT were classified. . After the upending, FVTPL will be the residual category. Investments in equities, mutual funds, security receipts and derivatives (including those undertaken for hedging) will have to be carried under FVTPL.

The inclusion of derivatives under this residual category will remove the asymmetric treatment of gains/losses in cash and derivatives market. The Mark To Market (MTM) gains and losses on FVTPL portfolio can be taken to P&L. Will that be a double-edged sword? While MTM gains from FVTPL category will be available for dividend distribution, similar gains from AFS category will be credited to AFS Reserve without routing through P&L. Thus, it will not be available for dividend distribution, but will rank as eligible CET 1 Capital.

Hitherto, Banks enjoyed considerable flexibility to avoid MTM losses and yet encash profit booking opportunities by classifying securities in HTM. They could also shift to/from HTM category, securities every year. In fifteen months, such flexibility is going to be thing of past. But, instead of amortising the premium on securities held in HTM, Banks will have to recognize permanent diminution in value every quarter. While sales from HTM will be capped, the ceilings on holdings under HTM will be dispensed with. Each Bank's Board will have to decide on this. All this and more, to align with International Financial Reporting Standards (IFRS).

Cube gives a third dimension in geometry. Curated Cube endeavors to conflate events in the market over the past month.

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FOURTH PILLAR

- **Appointment of Scheduled Private Sector Banks as Agency Banks of RBI :** It has been decided to make scheduled payments banks and scheduled small finance banks eligible to conduct Government agency business.
- **Restriction on storage of actual card data [i.e., Card-on-File (CoF)] :** The timeline for storing of CoF data is extended by six months, i.e., till June 30, 2022; post this, such data shall be purged.
- **Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and LCR Disclosure Standards and Net Stable Funding Ratio – Small Business Customers :** With the objective to better align domestic guidelines with the BCBS standard and enable banks to manage liquidity risk more effectively, it has been decided to increase the threshold limit for deposits and other extensions of funds made by non-financial Small Business Customers from ₹ 5 crore to ₹ 7.5 crore for the purpose of maintenance of Liquidity Coverage Ratio (LCR). This is applicable to all Commercial Banks other than Regional Rural Banks, Local Area Banks and Payments Banks.
- **Payment of Invoked Guarantees :** Where guarantees are invoked, payment should be made to the beneficiaries without delay and demur. An appropriate procedure for ensuring such immediate honouring of guarantees should be laid down so that there is no delay on the pretext that legal advice or approval of higher authorities is being obtained. Any decision not to honour the obligation under the guarantee invoked may be taken after careful consideration, at a senior level, and only in the circumstances where the bank is satisfied that any such payment to the beneficiary would not be deemed a rightful payment in accordance with the terms and conditions of the guarantee under the Indian Contract Act, 1872.

Fourth Pillar strives to position beyond the three pillars of Basel and is culled from the Four Estates

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Inquisitively Speaking

1) RBI has mandated banks to go for legal audit and get the title deeds and documents audited in respect of finance of ₹ _____ and above.

- a) 1 crore
- b) 10 crores
- c) 2 crores
- d) 5 crores

2) In order to prevent frauds in payment of cheques, the multi-level scrutiny is mandatory where amount of cheque is above ₹ _____

- a) 10 Lakhs
- b) 5 Lakhs
- c) 2 Lakhs
- d) 1 Lakhs

3) Finance to a distressed farmer indebted to non-institutional lenders can be classified as credit to weaker section if the amount of credit does not exceed ₹ _____

- a) 1 lakh
- b) 50000
- c) 2 lakhs
- d) Any amount

4) In order to further harness the benefits of LEI, it has been decided that AD Category I banks, with effect from October 1, 2022, shall obtain the LEI number from the resident entities (non-individuals) undertaking capital or current account transactions of ₹ _____ (per transaction) under FEMA, 1999.

- a) 50 crores and above
- b) 75 crores and above
- c) 100 crores and above
- d) 150 crores and above

Answer Key

1. (d) 5 crores
2. (b) 5 Lakhs
3. (d) Any amount
4. (d) 50 crores and above

Stretch n Speak

CKYCR	Central KYC Registry
LEI	Legal Entity Identifier
ADR	American Depository Receipt
ASSO-CHAM	Associated Chambers of Commerce and Industry of India
PPIs	Prepaid Payment Instruments

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