



IBS VIGYAN

VISIONING BANKERS



Evangelistically Speaking

Dear Stakeholders,

Another financial year begins. But the geopolitical scene does not offer much change sooner. Border conflicts are likely to be prolonged, crude prices are already rising and US Fed seems to have jumped the gun in rate cutting as roiling inflation has started upsetting their prognosis. Resultantly US Treasury yields have again risen, so also gold prices. Will the supply side shocks be exacerbated by demand side shocks too? Indian equity markets have exhibited some trepidation after the escalation in Iran - Israel conflict. Diversification appears to be the working mantra for an investor. Therefore, the Balanced Advantage Schemes of mutual funds have been the flavour consistently. As prospect of an immediate decline in interest rates dims, investors are keener to lock into longer tenors of fixed income instruments. As a borrower, the Government would be keener to borrow more for shorter tenors than locking in at higher rates for longer tenors. RBI has announced their decision to stick to multiple price based auction mechanism in the issuance of sovereign debt until further review. The benefits of the two methods of auction - uniform price based and multiple price based, have been analysed in this month's Curated Cube.

In the Fourth Pillar, we have articulated on Central Counterparty, Government Securities Lending and other current developments. The new financial year also marks the introduction of revised classification guidelines on Banks' Investment Portfolio, which has been covered in our earlier issue.

The market is witnessing the regulatory rigour of RBI gathering pace across the banking and non-banking entities, especially the Urban Cooperative Banks and Small Finance Banks. This has triggered the chase from these regulated entities for compliance management inputs.

These developments reinforce the need for BFSI professionals to remain continuously updated on regulatory and strategic developments. IIBF has perforce postponed the Certificate examinations to June-July on account of the ensuing parliamentary elections. This must be taken as an opportunity by all career aspirants to intensify their preparations for the examinations and aim for remarkably high scores that could hasten their career progression. IBS has responded to this elongated time availability by rolling out more capsule and crash programmes.

The need for conceptual clarity on fundamentals is reinforced by the findings of Annual Status of Education Report (ASER) 2023 which states that 26% of 14-18 year olds cannot read a standard two level text in their regional language!

Looking forward to a sustaining engagement with all.

Sincerely yours

Sathesh Kumar. S
Managing Director



Curated Cube

A communication on 1st April could be viewed suspicious. But RBI chose to issue an important communication on that day that henceforth all auctions of securities will be conducted by them under multiple price method. This has been decided in consultation with the government and will be in force till further review. Hence, this may be an apposite moment to understand the two auction methods.

Under Uniform Price method, also termed “Dutch” Auction, all successful bidders are allotted at the same cutoff price. Under Multiple Price method, also termed “French” Auction, all successful bidders are allotted at the respective price at which they have bid. Therefore, from a bidder’s perspective, bidding risk is minimum in Uniform Price auction as all are allotted uniformly at the cutoff price. In multiple price auction, the successful bidders who get allotted above the cut off price end up paying a premium over the cutoff price. This lament of the successful bidder is termed as “Winners Curse”. This is reflected in the following table representative of an auction, both when the security is at premium and at discount.

Multiple Price Method				
	Scenario 1		Scenario 2	
Bid amount in Face Value Crs	Price per 100 FV	Value of bid @ Bidded Price	Price per 100 FV	Value of bid @ Bidded Price
4000	112	4480	99	3960
3000	111	3330	98	2940
2000	110	2200	97	1940
1000	109	1090	96	960
10000		11100		9800
Uniform Price @ cut off				
10000	109	10900	96	9600

Under Multiple Price, 109 or 96 will be the cutoff. The three bids above 109 or 96 get allotted at their respective bid price. Therefore, these three successful bidders suffer “winners curse”.

From the issuer’s perspective, multiple price method enables Government to collect 200 crores more subscription from the bidders than under uniform price method. As a corollary, bidders are forced to be more aggressive if they need to be successful. Though the cutoff price is 109 or 96, the weighted average bid price is higher at 111 or 98 in the two scenarios.

This shift in auction methodology will put Primary Dealers on the defensive. Hitherto, they were enjoying more freedom to short the auctioned security in the When Issued market with the prospect of covering it in the uniform price auction. Maybe, this shift reflects RBI’s assessment of the maturity of the market participants. RBI is bidder agnostic, but sensitive to his bid price!

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

CRASH COURSE JAIIB/CAIIB - JUNE/JULY 2024

ADMISSION OPEN

Online Zoom Classes, Whatsapp/Telegram support, Recorded Videos & Mock Test Series

FOURTH PILLAR

CENTRAL COUNTERPARTY: In respect of Govt. Securities lending and borrowing, Central Counterparty refers to the system provider who interposes between participants in the transactions admitted for settlement, thereby becoming the buyer to every seller and seller to every buyer for the purpose of effecting settlement of their transactions.

ELIGIBLE GSL (Govt. Securities Lending) INSTRUMENTS FOR SLR QUALIFICATION:

SLR eligible securities borrowed under a GSL transaction shall be eligible to be reckoned for SLR by the borrower. Accordingly, such securities lent under a GSL transaction shall not be eligible to be reckoned for SLR by the lender. SLR eligible securities received as collateral under a GSL transaction shall be eligible to be reckoned for SLR by the lender. Accordingly, such securities placed as collateral under a GSL transaction shall not be eligible to be reckoned for SLR by the borrower.

NEW TRANSACTION CAP IN IMPS: NPCI has introduced a new rule that allows customers to transfer up to ₹5 lakh without adding beneficiary details w.e.f. Feb.1, 2024. Under the new simplified IMPS rules, users can initiate a transaction using just the recipient's mobile number and the name of their bank.

DOEMTSIC LEADERS IN DEBIT CARDS &

CREDIT CARDS: As per latest data, SBI is the market leader in the Debit cards market, holding a 24% share in December 2023 followed by Bank of Baroda 10%, Canara Bank, Union Bank and HDFC Bank 6% and Bank of India with a 5% of market shares.

HDFC Bank still reigns the race in credit cards market with a 20% share followed by SBI Cards, ICICI Bank and Axis Bank with 19%, 17% and 14% market share respectively as of December, 2023.

BIMA SUGAM: The Insurance Regulatory and Development Authority of India (IRDAI) is on the line of introducing an online insurance marketplace named 'Bima Sugam' very soon. This platform aims to improve the availability, accessibility, and affordability of insurance products by offering a one-stop solution. Through 'Bima Sugam', all insurance stakeholders, including customers, insurers, intermediaries, and agents, will have access to a transparent, efficient, and collaborative platform. The initiative seeks to promote technological innovation, democratize insurance, and achieve the vision of 'Insurance for all by 2047'.

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

INQUISITIVELY SPEAKING

1. What is the maximum tenor and moratorium periods for loans given under Standup India Scheme?

- a) 3y & 6m
- b) 5y & 12m
- c) 6y & 15m
- d) 7y & 18m

2. DigiSaathi is a 24x7 helpline for providing information on digital payment products & services for:

- a) AePS
- b) UPI
- c) Fastag
- d) IMPS

3. Under UCPDC-600 what is the time period during which Issuing Bank or Nominated Bank can check & verify the documents to ensure that these are as per LC requirement??

- a) 5 days
- b) 5 Banking days
- c) 7 days
- d) 7 Banking days

4. The Pre-Packaged Insolvency Resolution Process for MSMEs introduced in IBC with use of ____ of bidding to get best possible resolution plan.

- a) Swiss Challenge method
- b) Swedish Challenge method
- c) French Challenge method
- d) English Challenge method

5. What is the maximum amount that can be accepted under the Senior Citizen Deposit Scheme, 2004?

- a) No Limit
- b) ₹30 Lakh
- c) ₹20 Lakh
- d) ₹15 Lakh

6. A privately pooled investment vehicle that invests in alternative asset classes such as private equity, venture capital, hedge funds, real estate, commodities, and derivatives is known as:

- a) Mutual Fund
- b) Alternative Investment Fund
- c) Infra Investment Fund
- d) Alternative Mutual Fund

ANSWER KEY

1.d 2.b 3.b 4.a 5.b 6.b

Stretch n Speak

FBA: Financial Benchmark Administrator

MHP: Minimum Holding Period

SOFR: Secured Overnight Financing Rate

NaBFID: National Bank for Financing Infrastructure & Development

FRRR: Fixed Rate Reverse Repo