RBI moots extra provisioning for unhedged forex exposure of firms

The Reserve Bank of India (RBI) proposed incremental provisioning and capital requirements for banks’ exposure to corporates having unhedged foreign exposure, a moved aimed to ward-off any possibility of default by them, reports PTI. The RBI has come out with draft guidelines on capital and provisioning requirements for exposures to corporates having unhedged foreign currency exposure at a time when rupee is hovering at 59 level to a dollar, having touched all time lows against the American currency.

The extent of unhedged foreign currency exposures of the corporate continues to be significant and “increases the probability of default” in an environment of high currency volatility, the Reserve Bank said. RBI has sought comments on this from banks by August 2. “Corporates who do not hedge their foreign currency exposures can incur significant losses due to exchange-rate movements. These losses may reduce their capacity to service the loans taken from the banking system and thereby affect the health of the banking system,” it said.

RBI had in past issued various guidelines advising banks to closely monitor the unhedged foreign currency exposures of their corporate clients and also factor this risk into the pricing. Referring to estimation of extent of likely loss, the draft says the loss to the corporate in case of movement in USD-INR exchange rate may be calculated using the annualised volatilities.

FM TAKES ON SUBBARÁRAO AGAIN

In a veiled message to the Reserve Bank of India (RBI), Finance Minister P Chidambaram has hinted that it should not focus solely on containing inflation but also look at the larger mandate of growth and creation of jobs.

Ahead of his meeting with PSU bank chiefs today, he also said banks would have to be heard before advising them on taking a balanced view about passing on the benefit of rate cuts to consumers.

“RBI must understand its mandate in a broader sense. Yes, RBI’s mandate is price stability, containing inflation and maintaining fiscal stability but that must be understood as part of a larger mandate of growth and creation of jobs,” he told PTI.

He was replying to a question on what he expected from RBI in the next policy review on July 30.

On many occasions in the past, Chidambaram has not hidden his unhappiness over the hawkish stance adopted by RBI Governor D Subbarao over meagre interest rate cuts.

“I think all central bankers talk in very ambiguous terms but this I think there is nothing wrong in the statement,” Chidambaram said in reply to a question on the recent statement by Fed Chief Ben Bernanke which had led to spooking of markets across emerging economies.

Chidambaram will meet heads of public sector banks today to review financial performance of lenders and discuss ways to step up lending activity to boost sagging growth, besides passing on the rate cut benefit to borrowers.

To prop up growth, RBI has reduced the policy rates by 1.25% since January 2012. However, because of liquidity constraints, banks have lowered the lending rates by only 0.30% during the period. “Bankers have also got a case. Provisioning norms have been tightened, capital adequacy norms (they) have to meet Basel III norms in a period of four or five years. Banks also need to have higher profitability,” he said.

Manufacturing slide

Vowing to get manufacturing and economy out of the downturn, Chidambaram said key infrastructure projects facing delays have been identified and will be cleared in the next few weeks. However, he admitted that there was no quick-fixes to economic problems and the government is working to stabilise the economy which may take time.

LAX SECURITY LED TO CARD-SKIMMING FRAUDS

The recent instances of illegal debit card-skimming leading to money theft from other bank accounts can be attributed to non-practice of authentication processes in the jurisdiction where the money got withdrawn, Reserve Bank Executive Director G Padmanaban said.

“The problems relating to illegal card transactions happened because we are interlinked, and the two-factor authentication and the other security measures did not exist in overseas market where these cards were cloned and used,” he said while speaking at an event organised by Western Union Money Transfer and Kotak Mahindra Bank here.

He attributed the issue as one of the negative fallout of an interconnected world in which one lives. Recently, customers of private sector banks, including Axis Bank, had complained of amounts getting withdrawn in euros overseas. In its investigation, the law enforcement agencies found out that some ATMs were allegedly compromised by fraudsters to clone the cards.

After cloning, the account details were used to withdraw money in Greece.

He also questioned why banks are not using any alternatives to the usage of the fraud-prone cards, including near failed communication and mobile-based call options to avoid such instances.

Telecom Commission okays 100% FDI in telecom sector

Inter-ministerial body Telecom Commission gave its nod for raising foreign direct investment limit in the sector from 74% to 100% subject to Cabinet approval. “TC has approved raising of FDI limit to 100% from 74% at present where 49% of investment in an entity can be done through automatic route and FIPB approval will be required for raising further stake.” The decision will come in force only after cabinet approves it,” a senior government official said.

At present, FDI limit in the sector is at 74% where 49% is done through automatic route and rest requiring nod from Foreign Investment Promotion Board. The idea behind the proposal to increase FDI limit in telecom sector is to help the industry get fresh funds to lower financial burden.

Reacting to the proposal, telecom operator Aircel’s spokesperson said “the move will help the industry to bring in more FDI to fund the high CAPEX demands of this sector especially in areas where coverage needs to be enhanced and launch new 3G and BWA services. This will undoubtedly have a huge benefit for our customers and higher licence fee for the government.”

SOURCE: PTI

SOURCE: PTI

SOURCE: PTI

SOURCE: FREE PRESS
Experts attribute the selloff to weakness in rupee, which is instrumental in FBIs exiting the debt market as rising cost of hedging a volatile rupee hurts the yield differential that FBIs work with.

In their highest monthly outflow, overseas investors pulled out a record Rs 44,162 crore (over ₹7.5 billion) from the Indian capital markets this month amid concerns over the depreciating rupee, reports PTI.

The rupee has remained under stress in recent times and breached the psychological level of 60 during the week. The depreciation pressure is primarily due to stress in the global financial markets after the US Federal Reserve said it is likely to taper its $85-billion-a-month bond purchase later this year and end it ultimately next year if US economic recovery is up to its expectations. In the domestic economy, the wide current-account deficit (CAD) has added to the rupee's woes. CAD financing could pose a challenge in light of the tight liquidity scenario in global financial markets.

Net investments withdrawn in June include outflows worth about Rs 33,135 crore (USD 5.7 billion) from the debt securities and another Rs 11,027 crore (USD 1.85 billion) from equities, data available with market regulator Sebi showed. For the debt market alone, the June withdrawals were the highest ever for a month and took place amid the rupee hitting a record low. A weaker rupee further erodes the returns earned by the foreign investors in Indian markets, which were seen trading through turbulent times during June except for a late revival in equities on the last trading day. FBIs have turned net sellers of debt securities here for the first time in 13 months now. They were net buyers of the tune of Rs 1.63 lakh crore in debt and equities together last year.

SOURCE: PTI

Relief to IT sector; CBDT withdraws controversial circular, amends another

The decisions follow representation from Nasscom for greater clarity on two circulars concerning international taxation or transfer pricing.

In a breather to the IT industry, the Income Tax Department on Sunday withdrew a controversial circular and modified another one relating to taxation of R&D centres, which play a key role in software development, reports PTI.

The Central Board of Direct Taxes (CBDT) withdrew the circular relating to Profit Split Method (PSM) as a preferred mode for computation of tax liability and modified another one relating to development centres.

"It is noticed the circular appeared to give the impression that there was a hierarchy among the six method listed in section 92C and that Profit Split Method (PSM) was the preferred method in the case involving unique intangible or in multiple interrelated international transactions.

"...Accordingly, the Central Board of Direct Taxes withdraws circular No 2 dated March 26 2013 with immediate effect," CBDT said.

It further said the other circular (No 3) has been amended and new set of guidelines have been issued for identifying the Development Centre as a contract R&D service provider. Both the circulars (No 2 and 3) were issued in March based on a report of N Rangacharya Committee on 'Taxation of Development Centres and IT Sector'.

SOURCE: PTI

SBI to charge customers Rs 60 per year for SMS alerts

State Bank of India (SBI) customers will have to pay Rs 60 per year for getting SMS alerts, a move which is likely to be followed by other public sector lenders. "With effect from quarter ending June 2013, SMS charges of Rs 15 inclusive of service tax per quarter will be recovered," SBI said in an announcement.

The country’s largest bank, which has about 18.5 crore customers, did not specify whether the charges are for special alerts only or even debit or credit card transaction alerts sent as per regulatory guidelines will also come under this. SBI’s fee income during the fourth quarter of 2012-13 declined by 8.13% to Rs 3.873 cr.

Private sector banks ICICI and HDFC are already charging Rs 60 per year, excluding service tax, for sending special SMSes other than withdrawal and deposit alerts to its customers.

SOURCE: PTI

Walmart lobbying inquiry inconclusive; fresh probe likely

Walmart may face a fresh probe into its lobbying activities for entering India, after issues raised by a one-man inquiry committee, set up by the government earlier this year to look into this matter, were stonewalled by the global retailer.

The report concluded by the panel remained inconclusive and it was not satisfied with the replies provided by the US-based retail giant on various issues, including on the exact amount spent on its India-specific lobbying activities with the replies provided by the US-based retail giant on various issues, including on

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Pursuant to the suggestions made by the committee, which also observed that it lacked necessary "investigative or summoning powers" to conclude that Walmart indulged in lobbying and bribery for India operations, the government is considering initiating further investigations into the matter, they added.

Separately, Walmart is already facing a probe by the Enforcement Directorate here for alleged violation of FEMA (Foreign Exchange Management Act) norms.

Walmart, on its part, has maintained that it has closed all its lobbying activities as per the US rules and it did not violate any Indian regulations in this regard.

SOURCE: PTI

Over 3 dozen entities seek bank licences

About three dozen entities, including Aditya Birla Group, Tata Capital, Religare, Reliance Capital, and Apply for bank licences, the deadline for which expired on July 1. Entities which have taken board approval for applying for bank licence from the Reserve Bank include country’s oldest financial institution IFCI, IDFC, India Infoline, Videocon Industries, SREI Infrastructure Finance etc and the Department of Posts. Bajaj Finance, a subsidiary of Bajaj Finance, has already submitted its application for the licence.

According to sources as many as five micro finance institutions are also applying for bank licence. So, the final tally at the end of July 1 could go beyond three dozen. However, Mahindra Finance, a Mahindra and Mahindra Group entity has decided not to apply citing “disadvantageous” and unclear norms. Although RBI is closed on July 1 for public transactions to facilitate application for bank licence by private companies.

Intending applicants for setting up new banks can submit their applications up to 17.45 hrs to the Chief General Manager-in-Charge, Department of Banking Operations and Development, Central Office, RBI in a statement. Applications received after close of business on July 1, or incomplete applications will not be considered, it added.

SOURCE: FREE PRESS JOURNAL

FIIs pull out record $7.5 bn from Indian markets in June

FIIs have turned net sellers of debt securities here for the first time in 13 months now. They were net buyers of the tune of Rs 1.63 lakh crore in debt and equities together last year.

SOURCE: PTI

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SOURCE: PTI

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FM nudges PSU banks to cut loan rates, BOI first off block

With banks shying away from passing on RBI rate cut benefits, Finance Minister P Chidambaram today asked them to review their minimum lending rates or base rates so as to bring the cost of borrowing down for consumers. The Reserve Bank has reduced its key short-term lending rate (repo) by 1.25 percentage points since January 2012, but banks have passed on only 0.30% to consumers.

“We have asked them (PSU banks) to take a look at their base rates. I have impressed upon the bankers, as the RBI has cut the policy rates by 125 basis points, that some part of this lending rate (repo) by 1.25 must indeed be passed on to borrowers,” he said after his meeting with heads of PSU banks. He said all the banks have assured that they would review their base rate this month and they will take appropriate decision on cutting the base rate.

In my view, reduction in base rate would be a powerful booster to the economy, powerful stimulus to credit growth,“ the Finance Minister said.

Hours after Chidambaram prodded public sector banks to reduce lending rates, Bank of India announced a cut of 0.25% in base rate to 10.25%. The new rate would be effective from July 8, it said.

Chidambaram’s plea to bankers, however, did not cut much ice with the largest lender SBI saying there was little scope to reduce base rate as they are the lowest in the market.

Bankers said they are constrained to pass on the rate cut benefit because of higher provisioning norms as well as due to increase in their own borrowing cost by up to 0.5%. Chidambaram said while base rate of SBI was 9.7%, the average for other PSU banks is 10.2 or 10.25%.

SOURCE: FREE PRESS JOURNAL

RBI CHIEF SAYS NOT ALL APPLICANTS TO GET BANK LICENCES

The Reserve Bank of India Governor Duvvuri Subbarao on Thursday told not all eligible companies that have applied for banking licences will be granted one.

Earlier this week, the RBI said it had received 26 applications for new banking licences. RBI Governor Subbarao also said an increase in non-performing assets at lenders was a matter of concern, but added that banks were well capitalised, during a media briefing at the conclusion of the central bank’s board meeting.

Governor Duvvuri Subbarao also said that the monetary policy transmission is not as agile as needed, indicating banks’ reluctance to pass on lower interest rates. The RBI has already slashed the repo rate thrice since January to 7.25%, which is a two-year low.

Subbarao also said the central bank is not targeting a specific level for the rupee, a week after the Indian rupee slumped to a record low of Rs 60.76 to the dollar.

SOURCE: BUSINESS STANDARD

Banks to focus on top defaulters: FM

Concerned over rising bad loans, Finance Minister P Chidambaram said that all banks have been asked to focus on their top 30 non-performing accounts and take action recovery against the wilful defaulters.

“They are keeping a close watch on top 30 NPA accounts in each bank and action will be taken to recover especially when there is a case of wilful default,” he said.

Chidambaram said banks have informed that top 30 NPA as well as performing accounts are reviewed monthly. He said that increased focus on top accounts would help banks improve their balance sheet.

The gross NPAs of some public sector banks, including State Bank of India and Punjab National Bank have crossed 4% of the total assets at the end of March, 2013. Gross NPAs of PSU banks have risen from Rs 71,080 crore as on March 2011, to Rs 1.55 lakh crore as on December 2012.

On asset quality of banks, he said it has improved in the March quarter over the previous three months.

“There has been an improvement in every sector in terms of gross NPA. Therefore as of March 2013, compared to December 2012, the asset quality has, in fact, improved. But you cannot look at it as one quarter, we will have to see at the end of the year,” the Finance Minister said.

He also said while the deposit growth has been modest for the fiscal ending March 2013, the credit growth has been slow.

At the end of March, PSU banks’ deposits grew by 14.91%, slightly higher than the 14.4% recorded in the previous year. Credit growth at the end of March 31, 2013 was 15.62, down from 17.76% in 2011-12.

“There is good credit demand from a few sectors – agriculture, small and medium enterprises and retail loans,” he said. In housing, he said, there are signs of credit growth, especially in commercial real estate for residential purposes. On the infrastructure side, there are some signs of higher credit demand in road sector, non-conventional energy sector.

He also said all PSU banks are compliant Basel capital requirement norms. He said that except for four public sector banks – IDBI Bank, Indiabulls Housing Finance, ICICI Prudential Life Insurance and Dena Bank – all other have Capital Adequacy Ratio (CAR) of 8% and more.

SOURCE: PTI

Bharti Airtel raises stake in Qualcomm’s India venture

Says four entities part of the venture are now its subsidiaries

Telecom major Bharti Airtel today said it has acquired an additional 2% stake in all the four Indian broadband wireless access (BWA) entities of Qualcomm, thereby making them its subsidiaries.

“Bharti Airtel has subscribed to an additional 2% equity share capital in all the four India BWA entities of Qualcomm AP. With this, all four entities are now subsidiaries of Bharti Airtel,” the company said in a statement.

On May 24, 2012, Bharti Airtel and Qualcomm had announced an agreement under which Bharti had acquired 49% interest in Qualcomm AP’s India entities with licences to offer 4G data services in four circles of Delhi, Mumbai, Haryana and Kerala.

SOURCE: FREE PRESS JOURNAL

Govt allocates 14 coal blocks to power PSUs, NTPC gets 4

Kickstarting the process of coal blocks allocation, the government has allocated 14 coal mines to Central and state PSUs, including four to NTPC, reports PTI. Ministry of Coal has allocated 14 coal blocks for power sector. Among 15 states and six Central PSUs there have been allocated coal blocks, an official release said.

The allocation of the blocks, having a geological reserve of 6.311 million tonnes (MT), will lead to an investment of more than Rs 1.6 lakh crore in the power sector, it said. Of the four coal blocks allocated to NTPC, two are in Chhattisgarh and the remaining two in Odisha. Other PSUs which have been allocated mines include Neyveli Lignite Corporation Limited, Odisha Thermal Power Corp, Jharkhand State Power Dev Corp, Chhattisgarh State Power Gen Co Ltd, Andhra Pradesh Generation Co, Maharashtra State Power Generation Co, Rajasthan Vidyut Utpadan Nigam and Punjab State Power Corp Ltd.
The government plans to introduce a bill for a direct taxes code (DTC) during the forthcoming monsoon session of Parliament. Finance Minister P Chidambaram has said. The code, which will replace the existing Income Tax Act 1961, aims to rationalise tax rates to bring more people and companies under the tax net.

"It (modified draft of DTC) will be ready in a day or two. Then we will take it to the Law Ministry and do the drafting. Once the drafting is done, we will take the note to the Cabinet and the official amendments to the Direct Taxes Act, 2010, I hope to place it in the Monsoon session," he told PTI.

Also READ: Primer | The many faces of DTC Bill

The DTC Bill was introduced in Parliament in 2010 and was referred to the Standing Committee on Finance headed by senior BJP leader Yashwant Sinha.

The Minister said there are three versions to the DTC Bill - the DTC 2009 version, DTC 2010 bill and the Standing Committee report and he would endeavour to reconcile them.

"We have to reconcile all three as far as possible and I have an obligation to adhere, as far as possible, to the recommendations of the Standing Committee," Chidambaram said.

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