RBI bans gold coin imports, unveils capital control steps

Prohibits inward shipment of gold coins, medallions and dores without license

mid continuing pressure on the rupee, the RBI announced stern measures, including curbs on Indian firms investing abroad and a reduction of outward remittances, to restrict the outflow of foreign currency. Seeking to reduce gold imports, the Reserve Bank also prohibited inward shipment of gold coins, medallions and dores without license.

"From now onwards, import of gold in the form of coins and medallions is prohibited and henceforth all import of gold in any form or purity shall be subject to a licence issued by DGFT prescribing 20-80 scheme," Economic Affairs Secretary Arvind Mayaram said.

The latest measures are part of the series of steps taken to curb gold import, the single biggest contributor to the widening Current Account Deficit (CAD). After a dip in June, gold imports again surged in July with 47 tonnes of inward shipments compared to 31 tonnes in the previous month. Import of gold in April-July rose 87% to 383 tonnes.

He said it shall be incumbent on all nominated banks, agencies and other entities to ensure that at least one-fifth, or 20 per cent, of every lot of import of gold is exclusively made available for the purpose of exports and the balance for domestic use.

It has further stipulated that nominate banks, agencies and other entities shall make available gold for domestic use only to the entities engaged in jewellery business, bullion dealers and banks authorised to administer the gold deposit scheme against whole upfront payment.

Also importers will be required to make full upfront payment for the shipments. Curbs on outflows: The central bank reduced the limit for overseas direct investment (ODI) by domestic companies, other than oil PSUs, under the automatic route from 400 per cent of net worth to 100 per cent. Oil India and ONGC Videsh are exempt from this limitation.

"This reduced limit would also apply to remittances made under the ODI scheme by Indian companies for setting up unincorporated entities outside India in the energy and natural resources sectors," the apex bank said.

The RBI reduced the limit for remittances made by resident individuals under the liberalised remittances scheme (LRS) from $2 lakhs to $75,000 a year. Resident individuals are, however, allowed to set up joint ventures or wholly owned subsidiaries outside under the ODI route within the revised LRS limit. It also said new curbs on the use of LRS for prohibited transactions like margin trading and lottery will continue and use of LRS for buying immovable property outside directly or indirectly will not be allowed.

The measures are aimed at restricting the outflow of foreign currency, thus reducing pressure on the rupee.

PMO to set up special team to defuse NSEL payment crisis

As concerns mount over possible defaults of over Rs 5,600 crore dues, PMO plans to set up a panel headed by Economic Affairs Secretary Arvind Mayaram.

With a payment crisis engulfing the National Spot Exchange Ltd (NSEL), the Prime Minister’s Office is planning to set up a special team headed by the Economic Affairs Secretary to look into the issue.

Besides Economic Affairs Secretary Arvind Mayaram, the team would comprise of secretaries of Department of Consumer Affairs and Ministry of Corporate Affairs, sources told PTI. It would also comprise of officials of RBI, SEBI, Directorate of Revenue Intelligence and Enforcement Directorate. The mandate of the committee would also be to see that there are no systemic threats. The crisis-ridden exchange on Wednesday submitted its seven-month plan with regulator FMC for settling dues worth Rs 5,600 crore to investors.

The Forward Markets Commission (FMC) said it will take a decision on the settlement plan after getting views from brokers and investors while directing NSEL not to make payments to related-entity IBMA (Indian Bullion Market Association) without prior approval. As per NSEL, the settlement process could start from August 16 and run till March 11, next year. Earlier, the exchange had said it would settle the payments to over 13,000 investors over the next five months.

FMC has been empowered to oversee the settlement process. "Today, we have finalised the detailed settlement plan... Starting this Friday, August 16th, there will be pay-in every Friday and pay-out every subsequent Tuesday," NSEL MD and CEO Anjani Sinha said in a statement. As per the plan, Rs 3,494.4 crore would be settled this year in weekly installments of Rs 174.02 crore.

Poster: Costlier onion, veggies push inflation to 5-mth high of 5.79%
Subbarao: RBI must regulate all deposit-taking companies

RBI Govt cautions against taking away regulatory oversight on NBFCs from RBI and placing them under a Unified Financial Authority, saying such a move will go against financial stability and whittle down the impact of monetary policy.

Subbarao, who had disagreed with bankers’ call to further trim the cash reserve ratio or pay interest on these deposits, says ‘perhaps’ there is a need to reduce these rates.

Outgoing RBI Governor D Subbarao, who had disagreed with bankers’ call to further trim the cash reserve ratio or pay interest on these deposits, and cut SLR, said “perhaps” there is a need to reduce these rates, reports PTI. “I do recognise perhaps a need, for further reduction (in CRR and SLR),” he told the FIBAC summit, the premier annual banking summit.

The Governor, however, added RBI has “progressively” brought down mandatory ratios on both CRR, or the portion of deposits banks park with RBI as a solvency buffer, and SLR, another solvency tool under which banks have to subscribe to government bonds and other liquid assets, over the years. Subbarao, after a five-year tenure, will demit office on September 4 and new Governor Raghuram Rajan will assume office the next day.

Currently, the CRR is pegged at a low of 4%, while SLR that includes securities such as government bonds, stands at 23%, down from 25 per cent in 2010. There have been demands from bankers for further reduction of CRR. Describing CRR as “dead money”, SBI Chairman Pratip Chaudhuri had earlier said that if RBI could not reduce this requirement further, at least banks should be paid interest on this deposit.

Chaudhuri has been the most vociferous among bank chiefs asking for a phasing out of CRR. The central bank had recently tightened liquidity norms by raising short-term interest rates and draining cash in a bid to defend the rupee. While RBI has brought down short-term lending rates by 125 bps since March 2012, there was only a 30 bps reduction by banks in their lending rates, as they have to attract deposits by paying high interest rates. Though CRR and SLR have been retained at low level, to prop up rupee availability, the RBI since last month has increased the call money rates by 300 bps to 10.25%.

SOURCE: Free Press Journal

Birla to pump Rs 750 cr more to brace for banking foray

The Aditya Birla group is spending Rs 750 crore more in its financial business in the rest of the fiscal 2014 to prepare the business for a smooth transition to a bank, as and when the Reserve Bank of India (RBI) gives it the permit to set up the bank.

Top company officials said the funds will be used to expand its financial services business in rural Indian where the group will be opening more branches. One of Birla’s group holding firm, Aditya Birla Nuvo Ltd, has applied for a banking license with the RBI along with 25 others companies.

The financial services business has recorded revenue of Rs 1,366 crore in the first quarter of this financial year mainly due to Rs 895 crore revenues generated by its life insurance business. Other financial services recorded Rs 474 crore of revenues. The profit of the financial services business was Rs 220 crore in the first quarter of this year. Of this, Rs 136 crore was contributed by life insurance business.

“Once we get the license, we will be able to launch the bank in the next six months,” a top official said asking not to be quoted. “We are ready with all the background work including talent and software,” the official said.

The lending book of Aditya Birla Finance doubled to reach Rs 8,400 crore while the group pumped another tranche of Rs 125 crore into the unit to take its net worth to Rs 1,242 crore.

The bank will use the parent’s logo which shows a rising sun and uses the Aditya Birla group name. “We have not taken any final decision on the name of the bank,” Sushil Agarwal, the CFO of ABNL said. Analysts say all big industrial groups like Aditya Birla, Tata Sons, Videocon, L&T, and Reliance Capital – which have applied for a bank – meet the net worth and capital criteria with ease. The RBI will have to think deeply before allotting licence to one or two corporate house and denying it to others, analysts say.

Interestingly, the group chairman, Kumar Mangalam Birla recently resigned from the Board of Reserve Bank of India to avoid any allegations of “conflict of interest” over ABNL’s application.

SOURCE: Business Standard

RBI cautions against creating ‘too-large-to-fail bank’

Amidst the ongoing talks of consolidating small state-run banks to create one or two globally large size banks, Reserve Bank governor D Subbarao cautioned against making a ‘too-large-to-fail’ banks, saying what is needed is not a monopoly but a number of comparatively large banks.

Earlier in May, Finance Minister P Chidambaram had called for consolidation in the banking sector to create a few large global-sized banks saying it was needed for a large growing economy. Citing the 2008 credit crisis, which was triggered by too-big-to-fail banks, Subbarao said, “we don’t need monopolies, instead we need four-five banks of big size, as large banks can become too-big-to-fail, leading to moral hazard problems.” He also said “too large banks lead to complexity and too-big-to-fail or too-connected-to-fail moral hazards with adverse impact on financial stability.” Significantly big banks can resort to monopolistic practices that may result in unequal competition and distortive and even predatory behaviour in the market.

SOURCE: Free Press Journal
Sebi to overhaul functions to attract investors to mkt

The move comes close on the heels of the government granting it greater powers to deal with market manipulators.

With an aim to enhance its focus on mobilising household savings into capital markets and to strengthen its supervisory functions, Securities and Exchange Board of India (Sebi) decided to go for a major overhaul of its role, vision and organisational set-up with a stronger workforce and greater IT resources, reports PTI. The nine-member board of the capital markets regulator decided to implement a plan of action in this regard, following recommendations made by an independent consultant.

The move comes close on the heels of the government granting it greater powers to deal with market manipulators and perpetrators of investment frauds.

June factory output contracts 2.2%, dashes recovery hopes

Meanwhile, factory output for May was revised downwards to a decline of 2.82% from a provisional 1.6% dip in production. During April-June this year, factory output contracted 1.1%, down from a decline of 0.2% in the same period last fiscal.

The manufacturing sector, which constitutes over 75% of the index, contracted 2.2% in June compared with a 3.2% drop a year earlier. During April-June, the sector saw a decline of 1.2% compared with a contraction of 0.8% in the period last year.

Mining output declined 4.1% in June, compared with a dip of 1.1%. In April-June, the sector declined 4.5% compared with a contraction of 1.6%. Power generation was flat in June compared with a growth of 8.8% in same month in 2012. Power generation in the first quarter grew 3.3% compared with an expansion of 6.4%. Output of capital goods contracted 6.6% during the month compared with a decline of 27.7% a year earlier. During April-June, capital goods production dipped 3.3% compared with a production drop of 20.1% in same period last year.

Among others, it has been recommended that Sebi should impart a greater focus on mobilising household savings into capital market assets, strengthen its supervisory functions and oversight of listed firms.

Besides, Sebi has also been asked to work for a reorganisation of its functional departments, increase its manpower, improve its IT strategy for organisational efficiency and strengthen its training and performance management system. "The Board accepted the recommendations and agreed on the implementation plan for the same," Sebi said in a statement after the meeting.

Companies are often suspected by the tax department of undervaluing the sale of goods and services to their foreign subsidiary to reduce profits and tax liability in India.

The rules are proposed to apply to six sectors-information technology, IT-enabled services, contract research & development in IT and pharmaceuticals, financial transactions-outbound loans, financial transactions-corporate guarantees, and automobile ancillaries-original equipment manufacturers. To be applicable for the two assessment years beginning 2013-14, the rules will not apply to international transactions carried out with an associated enterprise in a tax haven.

"A taxpayer opting for safe harbour rules would not be allowed to invoke the Mutual Agreement Procedure provided under double taxation avoidance agreements," said revenue secretary Sumit Bose. He said the rules were expected to bring down litigation by providing certainty to taxpayers.
Auditors red-flag Kingfisher's revival plans

Grounded carrier Kingfisher Airlines' decision to consider it a 'going concern' entity, despite having accumulated huge losses and defaulted on loans, has come for a sharp criticism by its own auditors, given a lack of clarity about its revival plans.

At the same time, the auditors of Kingfisher's parent entity, United Breweries (Holdings) Ltd, have also expressed their concern over the company's significant exposure to the airline, which has been grounded for about ten months now and its flying permit also lapsed long ago. Part of Vijay Mallya-led UB group, Kingfisher has never reported a full-year profit as yet, its accumulated losses have crossed Rs 17,000 crore, net worth has been completely eroded and lenders have recalled loans totalling more than Rs 6,000 crore after repeated defaults.

In their latest 'review report' presented to Kingfisher's board, the auditors said: "These events cast significant doubt on the ability of the company to continue as a going concern".

In accounting parlance, 'going concern' entities are generally those that function without any threat of liquidation in the foreseeable future.

The auditors said that Kingfisher continues to prepare financial results on a going concern basis "notwithstanding the fact that the company's net worth is completely eroded, the scheduled air operator's permit issued by the Director General of Civil Aviation has lapsed and the consortium of banks have called their debt to the company." They further said that the appropriateness of this 'going concern' basis is inter-alia dependent on the company's ability to obtain renewal of its flying permit, infuse requisite funds for meeting various obligations, rescheduling of debt and other liabilities and resuming normal operations.

The company on its part said that it has "detailed plans for renewal of its operations and has filed the necessary application to the DGCL to renew the permit and is exploring various options to recapitalise and resume operations". "The company will also request the banks at an appropriate time for debt restructuring.

SOURCE: PTI

Sebi's consent settlement proceeds rise 3-fold

Capitl markets regulator Sebi has collected nearly Rs 2 crore as charges and fees for settlement of various probes under its 'consent' mechanism in the first four months of current fiscal. This is over three times the amount garnered in the same period of the preceding fiscal, 2012-13. An analysis of consent orders passed by Securities and Exchange Board of India (Sebi) shows that it collected Rs 1.92 crore by approving 16 consent applications between April and July of 2013. In comparison, the market watchdog had garnered about Rs 61 lakh by settling 10 cases in the same period last year.

Sebi has also rejected 19 consent pleas for settlement of ongoing proceedings against the concerned entities under its 'consent mechanism' between April 5 and July 23, 2013. The market regulator had introduced the consent mechanism in April 2007, with a view to cutting down on its costs, time and efforts in taking up the enforcement actions.

Under the mechanism, entities facing proceedings from Sebi, pay settlement charges, as also legal and administrative expenses, without admission or denial of guilt. These norms were tightened in May 2012, pursuant to which certain defaults such as insider trading, front running, failure to make an open offer, re-dress investor grievances.

SOURCE: PTI

Telcos owe govt over Rs 30,000 cr as spectrum charges

Telecom operators, including BSNL and Bharti Airtel, owe the government Rs 30,158.05 crore as outstanding spectrum charges, including the one-time fee and usage charges.

As per official data, GSM players owe Rs 25,748.91 crore as spectrum charges while the outstanding dues of CDMA operators stood at Rs 4,409.14 crore. Demand notices have been issued to the operators to recover the amount. "The demand notices have been issued after the completion of assessment," Minister of State for Communications and IT Milind Deora said in Parliament.

GSM operators owe Rs 23,177.66 crore as one-time spectrum charges and Rs 2,571.25 crore as outstanding spectrum usage charges, including penalty and interest, Deora said.

In the case of CDMA players, the outstanding one-time spectrum charges are to the tune of Rs 2,970.29 crore and Rs 1438.85 crore as spectrum usage charges. State-run BSNL owes the maximum of Rs 6,979.59 crore as spectrum charges, followed by Bharti Airtel with Rs 6,075.28 crore. Vodafone has Rs 4,477.19 crore outstanding while Idea owes Rs 2,206.09 crore to the government. Reliance Communications owes Rs 2,004.35 crore and Tata Teleservices has dues of Rs 1,400.43 crore, Deora added.

SOURCE: PTI

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