

Roll No.....

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 6

Total number of printed pages : 8

NOTE : Answer ALL Questions.

1. Read the following case study and answer the questions that follow :

**Regulatory Framework and Compliance in Banks**

Regulation is a set of rules and guidelines on how to do banking business such that financial stability is attained and that stakeholders' interest are taken care of. In other words regulations are the contours within which the banks have to operate.

Compliance is essentially doing business as per regulations and as per well established ethical business practices and rules. To comply is to adhere with regulations which are beneficial to the Banking Institution.

Banks in India have a good track record in regard to regulation, governance, operations and compliance. However, post the global financial crisis and a plethora of new regulations and guidelines, both global and local; there is a pressure on banks for complete compliance.

Now-a-days there is renewed demand for governance and transparency. New regulations are indeed creating new compliance challenges and risks. Needless to say, the cost of compliance is on the increase.

**About the Case :**

The Global Bank Ltd. proposed to open their full fledged Branch in “Financial District” of Hyderabad. Based on the survey conducted by the Branch, Bank found lot of Business Potential i.e. Deposits, Advances and other Miscellaneous Business (Including Cross Selling of Third Party Products etc.) exist as Big IT Companies, IT Professionals are located.

Bank applied for license to Reserve Bank of India (RBI) and RBI has given approval to open their branch in Financial District.

Inauguration date is finalized and Bank proposed to inaugurate the Branch in the Hands of Country Head Mr. Gopal of M/s Indian Software Ltd. who is going to visit to Financial District, Hyderabad on that particular date on official work. Bank has given wide publicity for opening ceremony of the Branch particularly in TWIN Cities of Hyderabad in various newspapers. Good Media coverage was given and Bank is expecting ₹ 5 Crore of Deposits on the First day of opening of the Branch. Some of the IT Companies given assurance to Asst. General Manager (AGM) and Mr. Rohit Aggarwal, Branch Head that they wish to open their office Current Account with The Global Bank Ltd., Financial District Branch.

The Branch was inaugurated on the fixed date by Country Head Mr. Gopal of M/s Indian Software Ltd. Mr. Gopal was happy and he gave a promise to Mr. Rohit Aggarwal that he would instruct Finance Department of M/s Indian Software Ltd. to shift all staff members Salary Accounts with The Global Bank Ltd., Financial District Branch from other banks.

: 3 :

After one week of inauguration 20 officials of M/s Indian Software Ltd. met Mr. Rohit Aggarwal, Branch Manager and they wish to avail Home Loans, Car Loans, Education Loans and Personal Loans from Financial District Branch of The Global Bank Ltd. (Due to lower rate of interest, processing charges etc., and also branch is nearer to their office.) As Mr. Rohit Aggarwal is new to Credit Management i.e. processing and sanction of Loans and Advances and that too in bulk lot i.e. 20 officials with 4 products each, he requested 20 officials of M/s Indian Software Ltd. to visit again to the Branch on the next day evening.

Immediately, he visited to the Zonal Office of The Global Bank Ltd. and met Mr. Prasad, Asst. General Manager (AGM) and appraised the credit requirements of M/s Indian Software Ltd. officials i.e. Home Loans, Education Loans, Car Loans and Personal Loans for 20 officials.

Immediately, Mr. Prasad, AGM called Chief Manager (Advances) of Zonal Office and instructed him to provided full information on Credit Management process to Mr. Rohit Aggarwal as he is new in Credit Function of the bank.

Mr. Prasad, AGM also instructed the Chief Manager (Advances) to discuss in details with Mr. Rohit Aggarwal on important areas like Legal and Regulatory Compliance with regard to General Banking and Credit Management in particular of the Bank and also its importance in Banks to mitigate the Credit and Operational Risks.

He also informed that the following Acts are the important legal and regulatory guidelines which are relevant in Credit and General Banking Functions of the Bank which are to be discussed with Mr. Rohit Aggarwal to avoid the remarks/irregularities or mistakes pointed out earlier in Compliance Audit of the Bank.

- Banking Regulation Act, 1949.
- Reserve Bank of India Act, 1934.
- The Credit Information Companies (Regulation) Act, 2005.
- Power of Attorney Act, 1882.
- Indian Stamp Act, 1899.
- Transfer of Property Act, 1882.
- The Central Registry of Securitization Asset Reconstruction and Securities Interest of India (CERSAI Act) and its importance.
- The Recovery of Debts Due to Banks and Financial Institutions Act, 1993.
- The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act).

After meeting with Asst. General Manager is over, both Chief Manager (Advances) and Mr. Rohit Aggarwal sit in the discussion room of Zonal Office and Chief Manager (Advances) starts discussion on importance of Legal and Regulatory Compliance in Banks in processing of Advances of the Bank particularly the above mentioned Acts.

: 5 :

If you are appointed as a Compliance Officer of The Global Bank Ltd., how you will advise to Mr. Rohit Aggarwal, Branch Manager to remove the Knowledge Gaps on Legal and Regulatory Compliance in Banks with regard to processing advance products and general banking aspects of the Bank particularly on the following areas :

**Questions :**

(i) Briefly explain the objectives of Regulations in Banking Sector and why compliance function in Banks is important ?

(5 marks)

(ii) Discuss in brief the important aspects of the following acts in day to day banking activities and lending process of the Banks :

(a) Banking Regulation Act, 1949.

(b) Reserve Bank of India Act, 1934.

(c) The Credit Information Companies (Regulation) Act, 2005

(d) Power of Attorney Act, 1882.

(e) Indian Stamp Act, 1899

(f) Transfer of Property Act, 1882.

(g) The Central Registry of Securitization Asset Reconstruction and Securities Interest of India (CERSAI Act) and its importance

(h) The Recovery of Debts Due to Banks and Financial Institutions Act, 1993.

(i) The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act).

(5 marks each × 9 = 45 marks)

2. (a) What is the procedure that will be followed by a Bank in booking Forward Contracts for its customers ?

(10 marks)

- (b) Explain the reasoning in brief on the following statements :

(i) The fundamental objective behind Capital Adequacy Ratio (CAR) is to strengthen the soundness and stability of the banking system.

(ii) “Core Banking is the Nerve Centre of any Banking Operation”.

(iii) “Enforcement of Security Interest” is important for recovery of the bank’s bad loans.

(iv) Money Laundering is a process for conversion of money obtained illegally to appear to have originated from legitimate sources.

(v) Downstream investment and Indirect Foreign Investment are different as per FEMA Guidelines. Explain.

(2 marks each × 5 = 10 marks)

- (c) Explain Banking Codes and Standard Board of India (BCSBI) and their objectives.

(10 marks)

3. M/s Super Great & Company, a partnership firm is maintaining a satisfactory Current Account for last five years with PQR Bank branch. An accountant of M/s Super Great & Company, who is the regular visitor to the branch, presents two cheques of ₹ 25,000 each signed by a partner. The branch as a matter of routine paid the cheques. The firm, on reconciliation

: 7 :

of their accounts, informs the branch that the accountant was removed a month back and the cheques which were paid by the bank were not signed by the partners. As such the firm demands that the debit entries be removed from the account. Discuss the liability of the bank as well as the firm.

(5 marks)

4. “Obtaining proper Security Documents for the Loans and Advances sanctioned by the Banks reduces the Credit Risk”. Explain the precautions to be taken by the banker in this regard.

(5 marks)

5. Prepare an estimate of working capital requirement from the following information of a trading concern :

Projected Annual Sales :	₹ 6,50,000
Percentage of net Profit on Sales :	25%
Average Credit period allowed to debtors :	10 Weeks
Average Credit period allowed by Creditors :	4 Weeks
Average Stock holding in terms of sales requirement :	8 Weeks

**Calculate :**

- (i) Current Ratio and  
(ii) Working Capital Gap.

(5 marks)

6. XYZ Bank Branch had issued a Bank Guarantee of ₹ 50 lakh on behalf of a Construction Company in favour of Oil Authority of India. The period of bank guarantee was 3 years with an additional provision that the beneficiary could invoke the bank guarantee within 3 months after the expiry of 3 years period of the bank guarantee. After 3 years, the bank guarantee was invoked by Oil Authority of India. The customer of the bank has filed a claim in the court requesting for issue of injunction order on the ground that the contract was completed as per the terms of guarantee and the beneficiary has invoked the guarantee on flimsy grounds, and that in fact, the officials of Oil Authority were demanding money from the customer. The Court however did not accept the contention of the construction company and refused to issue stay orders restraining the banks from making payment of the bank guarantees on invocation by the beneficiary.

How will you handle the situation as a Branch head of XYZ bank ?

(5 marks)

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