QUICKLY

Andhra Bank cuts MCLR for 5 tenors

Hyderabad, October 15

Andhra Bank has reduced the marginal cost of funds-based lending rates (MCLR) with effect from October 15 across all five tenors – overnight, one month, three months, six months and one year. MCLR for these tenors are 7.80 per cent for overnight, 7.85 per cent for one month, 8.05 per cent for three months, 8.20 per cent for six months, and 8.30 per cent for one year, according to a release. OUR BUREAU

FD Health with critical illness cover

Mumbai, October 14

ICICI Bank announced a new fixed deposit product where customers will be offered insurance cover free of cost for the first year, which can be renewed thereafter. Called FD Health, it provides the customer a complimentary critical illness cover of ₹1 lakh from ICICI Lombard General Insurance on opening an FD of ₹2 lakh to ₹3 lakh for a tenure of at least two years. OUR BUREAU

Saraswat Bank app for a/c opening

Mumbai, October 15

To facilitate the government's direct benefit transfer, Saraswat Co-operative Bank has launched an account-opening application, Saraswat Bank 100+. The smart savings account app, with a user-friendly interface, instantly opens an account in just a few minutes, and users have the added advantage to choose their account number. The multilingual mobile app allows the opening of a new savings account through Aadhaar OTP authentication. OUR BUREAU

Will the end of LIBOR in 2021 have an impact on Indian banks, companies?

IBA sets up working group to study transition and assess impact

SURABHI

Mumbai, October 15

Banks have begun to assess the impact the end of London Inter-bank Offered Rate (LIBOR) in 2021 will have on their operations, and are also working out transition plans.

Scan & Share

The Indian Banks' Association (IBA) has set up a working group to assess the impact of LIBOR.

"It is essential that banks are prepared to study the impact, the alternatives to LIBOR, the issues that will be facing banks and corporates, accounting issues, and how to take it forward. IBA has formed a working group," said VG Kannan, Chief Executive, IBA. The findings of the group will be used to educate banks that may not be fully familiar as to what is to be expected and how to educate customers.

The working group is understood to include private, foreign and public sector banks, as well as experts.

Two sub-committees have been set up to study the rates and methodology and the transition, said another member of the committee. An assessment in terms of the exact exposure of domestic banks and companies to LIBOR is difficult in monetary terms. But companies and banks may require to review their accounting, tax, and IT and legal provisions for the transition.

The move is in sync with global trends, where a number of countries have already started preparations for their financial institutes and banks on how to transition from LIBOR.

The RBI may issue guidelines on the issue if it has some impact on MIFOR, or the Mumbai Interbank Forward Offer Rate, which is derived from LIBOR

Impact on MIFOR

As of now, the Reserve Bank of India is not expected to step in on the issue, as it is not concerned with the borrowing rates of LIBOR. But if it has some impact on MIFOR, or the Mumbai Interbank Forward Offer Rate, which is derived partly from the LIBOR, the central bank could potentially issue some guidelines, according to analysts.

Globally, LIBOR is a global benchmark rate used by banks for short-term interest rates, and is based on a poll of quotes submitted by banks.

Experts say the end of LIBOR will not impact retail loans in India. But it will have an impact on overseas corporate and syndicated loans, trading and derivatives activities that continue beyond 2021.

"These impacted portfolios need to have a transition plan to new rates and require fall back options for new contracts. For trading and derivative, the new ISDA agreement expected by the beginning of 2020, will assist to a great extent; however, foreign currency loans that are bilateral in nature require negotiations between two parties," said Kuntal Sur, partner, Financial Risk and Regulation Leader, PwC, adding that leading banks need to work with their top corporate clients and help them in their journey of transition.

Sectors that depend on overseas borrowings, such as oil and gas, infrastructure, housing finance and capital intensive industries, as well as those with long-term hedging such as IT, will be impacted by the end of LIBOR.

Keep off companies under the IBC, go after promoters: SBI chief to ED, CBI

PRESS TRUST OF INDIA

Mumbai, October 15

State Bank of India's Chairman Rajnish Kumar, on Tuesday, said the Enforcement Directorate and other central law enforcement agencies should restrict to attaching personal assets while investigating a promoter and keep off the company that is under the insolvency process.

Speaking a day after the NCLAT asked the ED to release the attached properties of Bhushan Power & Steel, which is being taken over by JSW Steel, Kumar asserted the lenders' first right of taking charge of an asset financed by them, and said no one should dispute the same.

"Any action which ED or any other central authority has to take, they can take with the existing promoters and attach their personal assets leaving their companies away," he said.

Kumar said the agencies should follow this rule, especially in case of companies that are undergoing bankruptcy process, as new suitors are "not fools" to risk their money. "The person acquiring a company cannot be subjected to any harassment by any agencies, and I am sure that will be guaranteed now," said Kumar, adding that as per the spirit of the bankruptcy code, an acquirer needs a "clean asset".

He said there will not be any more consolidations once the number of state-run lenders gets down to 12, and private sector lenders should also acquire smaller rivals.

Meanwhile, Kumar also said that since the public-private partnership model has not succeeded, a new model needs to emerge and the government cannot continue to take the financial burden on projects.

If required, we bankers should be willing to take pains in the short-term as a new model emerges, he added.

On-tap authorisation: RBI issues guidelines for BBPOU and WLAs

OUR BUREAU

Mumbai, October 15

As part of its on-tap authorisation criteria for non-bank payment system operators (PSOs), the RBI, on Tuesday, said entities desirous to operate Bharat Bill Payment Operating Unit (BBPOU) and White Label ATMs (WLAs) will need to have a networth of ₹100 crore.

Further, entities desirous to operate platforms for Trade Receivables Discounting System (TReDS), will need to have a minimum paid up equity capital of ₹25 crore.

Non-promoters will have shareholding up to 10 per cent of equity capital. According to the RBI, BBPOUs will be authorised operational entities, adhering to the standards set by the BBPCU (Bharat Bill Payment Central Unit) for facilitating bill payments online, as well as through a network of agents on the ground.

TReDS is an online platform for facilitating the financing of trade receivables of MSMEs from corporate buyers through multiple financiers. As per the eligibility criteria specific to BBPOUs, an applicant must have domain experience in the field of bill collection for a minimum period of one year.

The RBI did not refer to any criteria specific to TReDS.

IBC amendment mandatory to ring-fence stressed assets from investigating agencies

ANALYSIS

SURESH P IYENGAR

Mumbai, October 15

Though the recent NCLAT order staying the Enforcement Directorate attachment of Bhushan Power and Steel asset would provide some comfort for winning bidders of other stressed companies, much would depend on the amendment to the Insolvency and Bankruptcy Code ring-fencing the assets under insolvency from other investigating agencies. The outcome of this case may also have an impact on the insolvency process of Jet Airways.

Naresh Goyal, the former chairman of the now grounded Jet Airways, is being investigated by the ED for diverting a ₹9,000-crore loan availed of by the Indian company to its foreign subsidiaries, thus causing a huge loss to the exchequer. However, the ED has not yet attached any asset of Jet Airways.

Advocate Zoheb Hossain, appearing on behalf of the ED, had said that in the Bhushan Power and Steel case, the proceeds of crime involved property that have been attached by the Deputy Director of the Directorate of Enforcement. He has sought time till October 17 to file the reply-affidavit.

Reply affidavit

The CBI will also file its reply affidavit by October 17. Both investigating agencies can also file a rejoinder before the next hearing in the case on October 23. In its response, the Ministry of Corporate Affairs said that before approving the resolution plan, the NCLT hears all the objections raised. Once approved, the resolution plan is binding on all stakeholders, including government agencies. The provision of the Insolvency and Bankruptcy Code (Amendment) Act, 2019 by which Section 31(1) was amended, makes it amply clear that a resolution plan is binding on Central Government and all statutory authorities.

It is further submitted that the new management taking over the company after the IBC process cannot be held responsible for the acts of the previous management. In other words, no criminal liability can be fixed on the successful resolution applicant or its officials. After completion of insolvency process under the IBC, there cannot be any attachment or confiscation of the assets of the corporate debtor by any enforcement.

However, the government has to clarify its stand with proper amendment to the law. Ring-fencing a stressed asset involving crime proceeds would dilute the effectiveness of the Prevention of Money Laundering Act as the ill-gotten wealth is always ploughed back into the business to smoke-screen its traceability.

YES Bank bets big on API, blockchain tech

SURABHI

Mumbai, October 15

Private sector lender YES Bank is upbeat about its API banking platform and blockchain initiatives as part of its transaction banking services. "We have been very active on blockchain...Blockchain will happen when all participants agree to be on it. It is the technology of the future," said Asit Oberoi, Senior Group President and Global Head, Transaction Banking Group, and Chief Experience Officer, YES Bank.

For API banking, which was launched in 2015, YES Bank now has more than 1,000 clients, he added.

Some of the bank's API banking clients include Snapdeal and Ola. "As a bank, we have the largest commercial API, and we plan to grow it significantly further," said Oberoi. YES Bank Managing Director and CEO Ravneet Gill had recently said the bank hopes to grow all three parts of the business – retail, wholesale, and transaction banking. "We have a high-quality tech-enabled retail and transaction bank," he had noted.

The bank facilitated the first digital issuance of commercial paper issuance using blockchain technology in Asia in July this year. It acted as the issuing and paying agent (IPA) and facilitated issuance of commercial paper of ₹100 crore using blockchain technology for Vedanta Limited.

Oberoi said the bank has a "good pipeline" for such commercial paper issuance, but it will take it forward bit by bit.

In the next version of its blockchain model, YES Bank will try to get more participants such as credit agencies and NSDL on board, he further said.

Negative core WPI inflation and IIP de-growth are disturbing signs: SBI

OUR BUREAU

Mumbai, October 15

The negative core wholesale price index (WPI) inflation and de-growth in the index of industrial production (IIP) are disturbing signs, causing serious concerns about the decelerating economy, according to State Bank of India's 'Ecowrap' economic research report.

WPI core inflation, which plunged to negative territory in August 2019, has deteriorated further and declined to a 38-month low to (-) 1.07 per cent in September 2019. "We believe that core WPI will remain in the negative zone for the next couple of months, and this is bad news for the economy as negative core WPI is eventually conveying lack of purchasing power, which is a disturbing sign. Simultaneously, core consumer price index (CPI) is likely to decline to below 4 per cent, indicating weak demand conditions," said Soumya Kanti Ghosh, Group Chief Economic Adviser, SBI.

Referring to IIP de-growth (-1.1 per cent in July 2019), the report said this has again caused serious concerns about the decelerating economy. The electricity sector, which had been growing well, has shown a decline for the first time since the new IIP series were released.

"The impact of insisting on discoms' opening letters of credit from August 1 for power purchases is having its expected effect – power demand fell by 1.6 per cent in August and is now at 4.5 per cent in September. Load shedding is now back, reflecting discom inefficiencies," said Ghosh.

Meanwhile, according to the report, thermal coal imports climbed up to 61 million tonnes last fiscal and it may rise to 200 mt in 2019-20. "Thus, both the electricity and mining sector growth, will remain weak in the coming months. All this augurs for weak IIP prints, going forward," it said.

Referring to consumer prices that were up by 3.99 per cent in September from last year's level of 3.70 per cent and the month before level of 3.28 per cent, the report said this is the highest CPI figure since July 2018.

The spike, up from 3.28 per cent in August 2019, is driven by higher food prices. The rise in food and beverages inflation in rural and urban areas is primarily driven by the jump in vegetable and protein components.

"We believe such a jump is seasonal and, though headline inflation has ticked up, there is wide expectation that prices may soften in a few months once the kharif harvest arrives in the market. Going forward, we expect better supplies on the food front, which may ease the pressure on food prices."

Karnataka Bank Q2 net down 5%

OUR BUREAU

Mangaluru, October 15

Karnataka Bank has registered a net profit of ₹105.91 crore in the second quarter of 2019-20, against a profit of ₹111.86 crore in the corresponding period of the previous fiscal, recording a decline of 5.32 per cent.

Speaking to *BusinessLine* after a meeting of the board of directors of the bank to approve the financial results for Q2 of 2019-20, in Mangaluru, on Tuesday, Mahabaleshwara MS, Managing Director and CEO of the bank, said the decline in net profit during the quarter was mainly on account of increased provisioning.

Stating that there was an increase of 16.02 per cent in the operating profit during the second quarter of 2019-20, he said: "When operating profit was reasonably good we thought that we would focus more on provisioning. As a result, provisions increased from ₹168.69 crore about a year back to ₹291.45 crore in Q2 of FY20."

Mahabaleshwara MS, Karnataka Bank MD and CEO

Following this, the provision coverage ratio also increased to 59.19 per cent (57.49 per cent).

"We thought of further strengthening the balance sheet by improving the provision. Anyhow the provision has come from the operating profit," he said, adding that the net profit has been maintained at above ₹100 crore.

Net, gross NPAs

Gross NPAs (non-performing assets) of the bank stood at 4.78 per cent (4.66 per cent), and net NPA at 3.48 per cent (3 per cent) during the quarter.

Mahabaleshwara said eventhough there is an increase in the terminal amount of the NPA, this was mainly on account of one export account of ₹101 crore. Terming it as a temporary aberration, he said this is one of the existing and long-standing customers. "Most probably this is likely to be upgraded to the standard category during this month itself. But for that there is no big slippages.

"Eventhough NPA figure is slightly on the higher side, this is very much under control," he said.

Mahabaleshwara hoped that the gross NPA would be somewhere around 4 per cent and net NPA at around 3 per cent by March 2020.

The net interest income of the bank stood at ₹498.72 crore (₹467.71 crore), and other income at ₹308.76 crore (₹201.20 crore) during the second quarter.

How Deutsche Bank bribed its way to the top in China

NEW YORK TIMES

October 15

Foreign companies have long clamoured for access to China, the world's most populous country and second-biggest economy.

But when Germany's biggest lender, Deutsche Bank, set its sights on China nearly two decades ago, it was late to the game and faced fierce competition.

An investigation by *The New York Times* and the German newspaper *Süddeutsche Zeitung* found that, for Deutsche Bank, playing catch-up meant cutting corners and bending rules.

It paid millions of dollars to Chinese consultants with access to politicians, hired dozens of relatives of China's ruling Communist Party and showered some members of the political elite with lavish gifts, according to confidential bank documents that contain spreadsheets, emails, transcripts of interviews with top executives and internal investigative reports. A spokesman for the bank did not respond to specific questions about the documents.

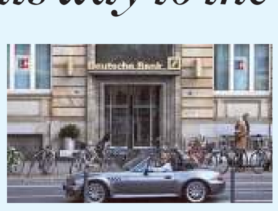
In a written statement, Deutsche Bank said it had "thoroughly investigated and reported to authorities certain past conduct", adding that the bank had "enhanced our policies and controls, and action has been taken where issues have been identified".

"These events date back as far as 2002 and have been dealt with," the statement said. Here are the key takeaways from the investigation.

Relationships crucial

Like other investment banks, Deutsche Bank learned early on that relationships were crucial to securing deals in China, particularly with the Communist Party elite that controlled most of the country's assets.

Joseph Ackermann, who led Deutsche Bank from 2002 to 2012, turned to Lee Zhang, who had been running the Beijing office of a rival, Goldman Sachs, to help play catch-up. When Zhang joined Deutsche Bank, he quickly moved to get the bank a seat at the table for some of the biggest public offerings of China's state-owned companies. Zhang led a fast turnaround. Two years after having had virtually no presence in China, Ackermann was meeting with China's president at the time, Jiang Zemin. The bank also footed the bill for golfing sojourns with high-profile guests, including the son of Wen Jiabao, then China's premier.



Lavish the elite with gifts

Deutsche Bank handed out gifts totalling more than $200,000 to Chinese officials, their relatives and the executives of top state-owned companies, the documents show. Jiang, the president at the time, received a Bang & Olufsen sound system.

The premier, Wen, was given a crystal horse, his Chinese zodiac animal. Other gifts included a bottle of 1945 Château Lafite Rothschild wine, cashmere coats, golf clubs and stays at luxury hotels. There was even a car seat, valued on internal documents as $3,977, that went to a top executive at the state-owned oil giant PetroChina.

Hire children of the elite

Deutsche Bank hired aggressively. Dozens of these new hires were young, inexperienced and very well connected, according to spreadsheets produced by lawyers for the bank. One was deemed "probably one of the worst candidates" by a senior bank executive. Nevertheless, he got the job. His parents were top executives at big state-owned companies.

Another applicant "cannot meet our standard", an employee wrote in an email to colleagues. The candidate, the son of Liu Yunshan, Chinese propaganda minister at the time, got an offer.

Group insolvency: Allow 'subordination of claims' in limited cases, suggests UK Sinha-led committee

KR SRIVATS

New Delhi, October 15

The UK Sinha-led working group on 'group insolvency' has made a case for allowing 'subordination of claims' of other companies in a group in exceptional situations. However, it has stipulated that 'subordination of claims' should be done only by the adjudicating authority (like NCLT) and, that, too, only in cases where there is any evidence of fraud and diversion of funds.

Simply put, the working group has rejected blanket 'subordination of claims' in a group for the proposed framework on 'group insolvency' that is under the contemplation of the government.

What is subordination?

A 'subordination' means a claim though payable at par will be ranked lower in priority and will be paid after settlement of another claim. In the case of subordination, a creditor is placed in a lower priority for the collection of its debt from its debtor's assets than the priority the creditor previously had. Although it is commonly said that the debt has been subordinated, it is actually the right of the creditor to collect the debt that has been, say experts.

In lay man terms, it will translate as a wrongful transaction and will not enable a group lender to get precedence over a bonafide creditor.

What the report says

In its report, submitted to the insolvency regulator IBBI recently, the working group noted that stakeholders consulted by it suggested that ordinarily the claims of other group members should not be 'subordinated', and that only in exceptional circumstances, when the adjudicating authority finds an intention to defraud the creditors of the debtor or to divert the funds of the debtor, should the claims of the group member be subordinated.

A 'subordination' means a claim though payable at par will be ranked lower in priority and will be paid after settlement of another claim

The working group is of the view that subordination of intra-group debts without evidence of wrongdoing is likely to have an adverse effect on the ability of individual group members to arrange for adequate finance, especially during a period of financial distress when external creditors may not be willing to provide additional finance to it.

The threat of subordination of claims may also deter the parent company from undertaking measures to rescue its subsidiaries by providing additional finance. However, the working group notes that it may be fit to statutorily empower the adjudicating authority to subordinate the claims of other companies in a group in exceptional circumstances, such as fraud and diversion of funds.

The working group noted that according to UNCITRAL guide, the claims of a related party should not be subordinated merely because it is related to the corporate debtor. Interestingly, the UNCITRAL guide does not recommend the subordination of any particular types of claims under the insolvency law, simply noting that subordinated claims would rank after claims of ordinary unsecured creditors.

Experts' take

Charanya Lakshmikumaran, partner, Lakshmikumaran and Sridharan, a law firm, said the working group has recommended that subordination of claims should only be done by the adjudicating authority in case there is evidence of fraud and diversion of funds.

"Adding this layer of scrutiny by the adjudicating authority may prolong the Corporate Insolvency Resolution Process. But this will definitely go a long way in instilling confidence in other creditors and various stakeholders involved in the process," she said.