

18 ECONOMY

AT 453.4 BILLION — ALL-TIME HIGH — AS OF WEEK ENDED DECEMBER 6

Forex reserves surge \$24.8 billion since corporate tax cut in September

ENS ECONOMIC BUREAU
NEW DELHI, DECEMBER 14

RIDING ON the increased flow of funds by foreign portfolio investors (FPIs) and rise in foreign direct investment (FDI), foreign exchange reserves continued their surge for the 11th straight week, rising by \$2.3 billion in the week ended December 6, 2019 to hit an all-time high of \$453.4 billion.

According to the weekly forex data released by the Reserve Bank of India, while the forex reserves have grown by \$24.8 billion over the last 11 weeks since the Finance Minister announced a cut in the corporate tax rate on September 20, it has jumped by \$60 billion in the current calendar year.

The continued inflow of funds by foreign investors despite a slowdown in economic growth has fuelled the rise in forex reserves. While the FDI in the first half of the current financial year amounted to \$35 billion (as per data provided by the government on Friday), the FPIs have pumped

EXPLAINED

E. Govt's steps help bring in FPIs, FDI

DESPITE THE slowdown in economic growth, strong inflow of FPI and FDI money has pushed forex reserves by over \$41 billion in the current financial year. While FPI inflow since April 1 has amounted to \$10.7 billion, FDI in H1 stood at \$35 billion. The pace of inflow of funds accelerated since the government announced cut in corporate tax rates in September.

in a net of \$10.7 billion into the Indian equity and debt markets in the current financial year till date. In the current financial year the forex reserves have jumped by over \$41 billion.

In the reporting week ended December 6, the rise in reserves was mainly on account of an increase in foreign currency assets, a major component of the overall reserves, which surged by \$1.891 billion to \$421.258 billion. During the week, the gold reserves also increased by \$430 mil-

lion to \$27.08 billion.

Experts say that the government's decision to reverse its Budget decision relating to higher surcharge impact on FPIs along with a cut in the corporate tax rate last month has played a significant role in turning the investors mood and draw them to invest in the Indian economy and markets.

Between September and now, the FPIs have invested a net of Rs 43,435 crore (over \$6 billion) into Indian equity and debt market. By contrast, they pulled out a net of

ISING FOREX RESERVES

Week ended	Forex (\$ bn)
Sept 20	428.57
Sept 27	433.59
Oct 4	437.8
Oct 11	439.7
Oct 18	440.75
Oct 25	442.5
Nov 1	446.09
Nov 8	447.8
Nov 15	448.2
Nov 22	448.5
Nov 29	451.08
Dec 6	453.4

All figures in USD billion
Source: RBI

Rs 8,874 crore between July and August 2019 (aggregate of debt and equity markets).

On the other hand, a stability in global crude oil prices (between \$60 and \$65 per barrel) and currency (between 70-72 to a USD)

have also benefitted as it keeps the import bill stable. The inflow of funds has also been affected by US Federal Reserve's decision to cut interest rates in the US.

The rise in forex reserves alongside a softening of crude oil prices also comes as a breather for the country's rising external debt which has risen significantly over last couple of years from \$485 billion in June 2017 to \$557 billion in June 2019. Experts say that if external debts are higher than the forex reserves, it makes the economy vulnerable to any oil price shocks. However, as of now there is some relief on that account as forex reserves are also climbing and the crude oil prices continue to remain stable.

A rise in forex reserves will help improve the ratio of foreign exchange to external debt which has deteriorated from a high of 106 per cent in June 2010 to 76.7 per cent in June 2019. Assuming that the external debt stands at \$557 billion, then at the current forex reserves the ratio of forex to external debt would have improved to 81.3 per cent from 76.7 per cent in June.

MARKET WATCH

SHARES, OIL RISE BUT CAUTION LINGERS

New York: Global equity markets and oil prices rose after China and the United States agreed on an initial trade deal. But, investors are weary of the bantering rhetoric, said Jack Ablin, chief investment officer at Cresset Capital Management. **REUTERS**

PNB under-reported bad loans by ₹2,617 crore in FY19: RBI

ENS ECONOMIC BUREAU
MUMBAI, DECEMBER 14

AFTER STATE Bank of India (SBI), Central Bank of India, Union Bank and Indian Bank, public sector lender Punjab National Bank (PNB) on Saturday said it under-reported non-performing assets (NPAs) by Rs 2,617 crore for the fiscal year 2018-19, as per the risk assessment done by the Reserve Bank of India (RBI).

PNB said it reported gross NPAs of Rs 78,472.70 crore, while as per the RBI's assessment the figure was Rs 81,089.70 crore, showing a divergence of Rs 2,617 crore in FY19. The divergence assessed by the RBI in net NPAs was also Rs 2,617 crore for the fiscal, PNB said in a stock exchange filing.

Last week, SBI said its gross NPAs should have been higher by Rs 11,932 crore at Rs 184,682 crore as against Rs 172,750 crore reported by the bank for 2018-19. Central Bank of India had under-reported NPAs of Rs 2,565 crore. Indian Bank reported a di-

GROSS NPAs

₹81,089 cr

■ PNB said it reported gross NPAs of Rs 78,472.70 crore, while as per the RBI's assessment the figure was Rs 81,089.70 crore, showing a divergence of Rs 2,617 crore in FY19. Taking into account the divergence assessed by the RBI in provisioning for bad loans, PNB said it would have reported a net loss of Rs 11,335.90 crore for FY19 as against a net loss of Rs 9,975.49 crore it reported earlier

vergence of Rs 820 crore in its NPAs for 2018-19. Union Bank of India reported divergence of Rs 998.70 crore.

PNB said the divergence in provisioning for bad loans in FY19 was to the tune of Rs 2,091 crore. Taking into account the divergence assessed by the RBI in provisioning for bad loans, PNB said it would have reported

a net loss of Rs 11,335.90 crore for FY19 as against a net loss of Rs 9,975.49 crore it reported earlier.

Similarly, PNB reported net NPAs of Rs 30,037.66 crore, compared to RBI's assessment of Rs 32,654.66 crore. Provisions for NPAs made by the bank in FY19 stood at Rs 48151.15 crore but it needed to provide Rs 50,242.15 crore.

In November this year, market regulator Sebi had directed all listed banks to disclose any divergence in bad loan provisioning within 24 hours of receiving RBI's risk assessment report, rather than waiting to publish the details in their annual financial statements. In a circular, Sebi noted that disclosures in respect of divergence and provisioning are in the nature of material events and hence necessitate immediate disclosure.

There have been several instances of under-reporting of bad loans by banks, prompting regulatory action by the Reserve Bank of India.

REGULATOR SEES HOLES IN LENDERS' ARGUMENTS, REJECTS PLEA

Lenders didn't verify title of Karvy Stock Broking's pledged securities: Sebi

ENSE ECONOMIC BUREAU
MUMBAI, DECEMBER 14

IN A major setback to lenders, the Securities and Exchange Board of India (Sebi) has said lenders — ICICI Bank, HDFC Bank, IndusInd Bank and Bajaj Finance — did not verify the title of securities unauthorisedly pledged by Karvy Stock Broking (KSBL) and they merely relied on the representation of KSBL while giving loans to the broking firm.

Sebi had, in a late evening order on Friday, rejected the plea of lenders to return the clients' shares pledged by Karvy. The regulator also suggested that the remedy for lenders "lies against KSBL before civil court of competent jurisdiction".

"It cannot be said that representatives (lenders) acted in good faith as required under Section 178 of the Indian Contract Act, 1872," Sebi said. "The issue whether lenders have exercised proper due diligence or has complied with applicable laws pertaining to loans against shares, can be looked into by the concerned regulator, if so deemed fit. KSBL was not authorised to pledge securities," it said.

The big question is: why did lenders give funds to Karvy without checking the status of collateral (title of pledged securities)?

According to Sebi, such pledge did not pass any title as KSBL was not the owner of the securities. "Thus, KSBL did not pass any title or interest in these securities to the representatives as KSBL itself was not having any title to such securities. The principle that holder in due course gets good title applies in case of negotiable instruments like cheques, bills of exchange, promissory notes, etc. where the holder is for consideration and without notice of the defect in the title of transferor. The said principle is not applicable in respect of goods/shares i.e. other than negotiable instruments and reliance placed on the same for unauthorised pledge is

THE FINDINGS

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wholly misplaced," Sebi said while rejecting the plea of lenders. On November 22, Sebi barred Karvy from taking new brokerage clients and also prevented it from using the power of attorneys given by its clients after the brokerage was found to have allegedly misused clients' securities and pledged them with banks to raise funds.

Banks and finance companies have Rs 1,415-crore exposure to Karvy Stock Broking through the loan against securities funding route. ICICI Bank has the maximum exposure of Rs 875 crore which was created only on October 1, 2019. IndusInd Bank has an exposure of Rs 105 crore, HDFC Bank Rs 195 crore, DCB Bank Rs 55 crore and Axis Bank Rs 85 crore, according to RoC filings.

According to Sebi, the current investments mentioned in the balance sheet of KSBL for the FY2018-19 shows that KSBL was showing securities valuing Rs 27.79 lakh only. Similarly, KSBL was holding securities worth Rs 28.01 lakh, as on March 31, 2018 and securities worth Rs 35,143 as on March 31, 2017, whereas the lenders together have extended loans, against shares having value to the extent of Rs 2,873 crore as on September 16, 2019 which later reduced to Rs 2,319 crore as on November 19, 2019.

"In the absence of corresponding trade instruction, pledging of securities of such clients is also unauthorized and hence, in law not treated as valid pledge. Reliefs sought by the representatives are not tenable and the remedy for

the representatives lies against KSBL before civil court of competent jurisdiction," Sebi said.

Last week, the National Securities Depository said nearly 90 per cent — 82,559 — of duped investors got back their securities and the remaining ones would get their securities after clearing their dues, forcing Bajaj Finance to move the SAT. Private sector banks joined the Bajaj Finance petition against transfer of shares to investors later. SAT told them to move Sebi again for a suitable order. As most of the shares were kept as securities for loans given by banks to Karvy, any "unilateral" transfer of shares to investors will have a major impact on their lending business, banks said.

The NSE which submitted a report to the Sebi observed that KSBL has misused power of attorney given by its clients. "KSBL has sold client securities in the market in disguised manner through own controlled entities and used the funds for its own purposes. KSBL in order to hide its misdeed has not even reported the DP account (No. 11458979) in the submissions made by it to the NSE from January 2019 to August 2019. It is only during inspection by NSE, this account came to the notice," Sebi said. KSBL transferred a net amount Rs 1,096 crore to its group company Karvy Realty between April 2016 and October 2019.

On December 2, the NSE and the BSE suspended Karvy Stock Broking's trading licence for all segments due to "non-compliance of the regulatory provisions of the bourses".

BRIEFLY

'Renault offers CEO job to Luca De Meo'

Madrid: French carmaker Renault has offered the chairman of Volkswagen's SEAT brand, Luca de Meo, the job of chief executive, Spanish newspaper *La Vanguardia* reported on Saturday, citing anonymous sources. The report said De Meo would initially become CEO of Renault for two years before taking over responsibility for the group's alliance with Nissan and Mitsubishi.

US agency probes Tesla crash

Washington: The US auto safety agency said Friday it will investigate a 12th Tesla crash that may be tied to the vehicle's advanced Autopilot driver assistance system after a Tesla Model 3 rear-ended a parked police car in Connecticut on Saturday. The National Highway Traffic Safety Administration special crash investigation program will investigate the Dec. 7 crash of a 2018 Tesla Model 3 on Interstate 95 in Norwalk, Connecticut, the agency confirmed. **REUTERS**

Kant: Reforms to make India competitive

Washington: The series of pathbreaking and ambitious reforms unleashed by the Modi government in the last few years will make India a very competitive and productively-efficient economy in the long run, NITI Aayog CEO Amitabh Kant said on Friday. **PTI**

Road ahead for finance in UK after Johnson's re-election

UK Prime Minister Boris Johnson has said that on January 31 Britain will leave the European Union, the biggest export customer for its financial services sector. This fourth attempt at Brexit, if successful, will start the clock on a new countdown for bankers during a "business as usual" transition period that ends in December

MORE TRANSITION? Britain will have to ask the EU by June if it wants to extend the transition period beyond December. Johnson has said he won't submit such a request

JUNE ASSESSMENTS Britain has yet to secure new trading terms with the bloc to follow transition. The UK financial sector is likely to get restricted access at best under the EU's financial market access system known as equivalence

WHO WANTS WHAT? ■ The European



Commission decides which, if any, requests are granted. Simply having aligned rules, which Britain will have on Day One of Brexit, does not mean automatic approval, EU officials have said

WHAT HAPPENS IF NO EQUIVALENCE?

Banks, asset managers and insurers based in Britain have opened over 300 hubs in the EU to cope with any form of Brexit

■ Big banks in Britain are seeking a basic, narrow form of access, but the insurance sector is divided ■ Asset managers who pick stocks for funds based in Luxembourg and Ireland

also need an equivalence-type determination ■ Johnson has said he does not want to stay aligned to EU rules, which could make equivalence harder to obtain

WHY BOTHER? Some UK lawmakers question why Britain should bother with equivalence given that it offers limited access and ties Britain to EU rules. This, they say, would make it harder to tweak regulation in Britain to keep London competitive as a global financial centre

Source: Reuters

CBIC NOTIFIES PORTALS, CATEGORIES OF BUSINESSES

GST e-invoice system to be rolled out from April 1 next year

ENS ECONOMIC BUREAU
NEW DELHI, DECEMBER 14

IN A move that will involve data integration and keep a check on tax evasion under the Goods and Services Tax (GST) regime, the electronic invoice, or e-invoice system, of uploading invoices on government portal will be mandatorily rolled out for all B2B transactions by businesses with turnover over Rs 100 crore from April 1 next year.

Also, for B2C invoicing issued by businesses with annual turnover over Rs 500 crore, an electronically scannable quick response (QR) code will be

mandatory from April 1, the Central Board of Indirect Taxes and Customs (CBIC) said in a set of notifications.

The e-invoice system will be first rolled out on a voluntary basis beginning January 1 for businesses having turnover over Rs 500 crore, then for businesses with an annual turnover over Rs 100 crore from February 1. The decision to roll out the e-invoice system comes six months after the GST Council gave its approval for the system in June.

The CBIC has notified details of portals for uploading of the electronic invoices and specific categories of businesses, which would have to adopt the system

The e-invoice system would be first rolled out on a voluntary basis beginning January 1 for businesses having turnover over Rs 500 crore, then for businesses with an annual turnover over Rs 100 crore from February 1

next year.

Abhishek Jain, tax partner at EY said, "An official notification for effectuating e-invoicing for a specified class of businesses further fosters the government's intent of mandatorily implementing this by April next year. Businesses would need to on priority execute an 'as is' mapping in their current invoicing system vis-a-vis the

new requirement and commence executing the requisite changes in IT processes to be ready for this new change."

The e-invoice will help streamline the indirect tax system and ensure better compliance by keeping a check on tax evasion. The system is also proposed to be expanded to lower thresholds and subsume e-way bill in the future.

Leakage and evasion have been a big concern in the GST regime and with slowing GST revenue collection over the last few months, with the exception of November, a renewed focus is on the usage of data streamlining and analysis to catch tax evasion. A total of 9,385 cases of tax fraud involving amount of Rs 45,682.83 crore has been detected by the tax authorities under the GST regime since its roll-out from July 1, 2017, the government data placed in Parliament in July showed. Till October 2019-20, 999 cases were registered for GST evasion and Rs 8,134.39 crore has been recovered, the government data showed.