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1.**RBI MULING OVER PAYMENT BANK AS RECOMMENDED BY NACHIKET MOR PANEL**

The Reserve Bank of India will soon come up with India's first payments bank, which will offer deposit and payment services but not provide loans.

This idea is in line with the recommendations made by the Nachiket Mor committee. The central bank sees huge potential for financial inclusion with focus on remittances by involving payment system product.

As per the RBI, while full-service banks require an entry capital of Rs.500 crore, payments banks can start operations with a capital of just Rs.50 crore since all their money will be invested in safe government securities.

They will be required to comply with all RBI guidelines for commercial banks.

According to the recommendations of Nachiket Mor committee:

Permission should be given to existing banks to create subsidiaries to operate payments banks.

Payments banks may be created by converting prepaid payment issuers (PPIs). These companies provide cards that customers can use to make payments with the money stored in them. There are 27 PPIs in the country, including Itz Cash Card Ltd, Oxigen Services (India) Pvt. Ltd and Airtel M Commerce Services Ltd.

Entry of payments banks made easier:

In order to expedite the process, the RBI will soon start its differentiated banking licence regime, where the central bank issues licences to new banks to undertake specific banking operations.The apex bank will also issue licences on a continuous basis to qualified aspirants instead of opening the licensing window after long intervals.The payments bank route is important for India Post, which failed to secure a banking licence. RBI Governor Raghuram Rajan said that India Post could begin as a payments bank. All these efforts are being made to promote financial inclusion in India, where more than half of the adult population still does not have access to banking services.

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The RBI first introduced a 3-year financial inclusion programme in April 2010 to promote financial inclusion that witnessed banks opening outlets in 200,000 villages. Subsequently, it launched the phase II of the programme for 2013-2016.

2

The government appointed Tax Administration Reform Commission (TARC), headed by Parthasarathi Shome, has recommended some radical reforms in tax administration which include:

Abolition of the post of Revenue Secretary

Amalgamation of CBDT and CBEC

Broaden the use of Permanent Account Number (PAN)

Avoid retrospective amendments to tax laws

Income Tax Return should also include wealth tax details

Separate budget allocation to ensure time bound tax refund and a passbook scheme for TDS (Tax Deduction at Source).

Tax Administration should be given greater functional and financial autonomy and independence from governmental structures, given their special needs.

As per report submitted by the panel to the Finance Ministry, the Revenue Secretary, an IAS, is "likely to have little experience or background in tax administration at the national level and little familiarity with tax."

3.India's HSBC services PMI expands for first time in nearly a year

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Motivated by a spurt in new business, India's giant services industry stretched for the first time in a year in May 2014. HSBC Services Purchasing Managers' Index (PMI), accumulated by Markit, climbed to 50.2 in May 2014 from 48.5 in April 2014, the first growth above the 50 mark that splits growth from contraction since June 2103. The rise was mainly reinforced by a bounce in fresh orders and development in client demand. Also a triumph for Narendra Modi has driven anticipations for key economic developments following years of policy paralysis.

Purchasing Managers' Indexes (PMI) are economic pointers ensuing from monthly surveys of private sector companies. The PMI index (which is based on 5 major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment), is a gauge of the economic wellbeing of the manufacturing sector. A PMI reading above 50 indicates that the sector is expanding, a reading under 50 shows that the output in the sector is contracting, whereas a reading at 50 indicates no change.

4.CSO releases provisional estimates of national income for the financial year 2013-14

The Central Statistics Office (CSO), Ministry of Statistics and Programme Implementation, released the provisional estimates of national income for the financial year 2013-14 and the quarterly estimates of Gross Domestic Product (GDP) for the fourth quarter (January-March) of 2013-14, both at constant (2004-05) and current prices.It also released corresponding annual and quarterly estimates of Expenditure components of the GDP in current and constant (2004-05) prices, namely the private final consumption expenditure, government final consumption expenditure, gross fixed capital formation, change in stocks, valuables, and net exports.

Provisional Estimates of the National Income 2013-14:

On February 7, 2014, the advance estimates of national income for the year 2013-14 were released . They have now been revised including now the latest estimates of agricultural production, index of industrial production and performance of key sectors like, railways, transport other than railways, communication, banking, insurance and government expenditure.

Estimates at constant (2004-05) prices:

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GDP at factor cost at constant (2004-05) prices in the year 2013-14 is now estimated at Rs 57.42 lakh crore (as against Rs 57.49 lakh crore estimated earlier on February 7, 2014), showing a growth rate of 4.7% (as against 4.9%t estimated earlier) over the First Revised Estimates of GDP for the year 2012-13 of Rs 54.82 lakh crore, released on January 31, 2014.

Gross National Income (GNI) at factor cost at 2004-05 prices is now estimated at Rs 56.74 lakh crore (as compared to Rs 56.81 lakh crore estimated on February 7, 2014), during 2013-14, as against the previous year's First Revised Estimate of Rs 54.17 lakh crore.

In terms of growth rates, the GNI is estimated to have risen by 4.7% during 2013-14, in comparison to the growth rate of 4.1 % in 2012-13.

Per capita net national income in real terms (at 2004-05 prices) during 2013-14 is estimated to have attained a level of Rs 39,904 (as against Rs 39,961 estimated on February 7, 2014), as compared to the First Revised Estimates for the year 2012-13 of Rs 38,856. The growth rate in per capita income is estimated at 2.7% during 2013-14 as against 2.1% during 2012-13.

Estimates at current prices:

GDP at factor cost at current prices in the year 2013-14 is estimated at Rs 104.73 lakh crore, showing a growth rate of 11.5% over the First Revised Estimates of GDP for the year 2012-13 of Rs 93.89 lakh crore, released on January 31, 2014.

Gross National Income (GNI) at factor cost at current prices is now estimated at Rs 103.45 lakh crore during 2013-14, as compared to Rs 92.72 lakh crore during 2012-13, showing a rise of 11.6%.

Per capita income at current prices during 2013-14 is estimated to have attained a level of Rs 74,380 as compared to the First Revised Estimates for the year 2012-13 of Rs 67,839 showing a rise of 9.6%.

5.India's Forex reserves up by $ 15.5 billion in FY'14: RBI

As per RBI, India's foreign exchange (Forex) reserves jumped by $15.5 billion in the Financial Year (FY) ended March 2014. The reserves stood at $303.67 billion.

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As per data released by the RBI on India's Forex status:

On Balance of Payments (BoP) basis (excluding valuation effects), the forex reserves surged by $15.5 billion during FY14 as compared to an increase of $3.8 billion during FY13.

If the valuation effects are included, the reserves rose by $12.2 billion in FY14 as against a decrease of $2.4 billion in the same period of the FY13.

The valuation loss, showing the cross currency movements and the reduction in gold prices, amounted to $3.3 billion in FY14 as compared to a valuation loss of $6.2 billion in FY13.

The current account balance in the FY 14 reduced to $32.4 billion compared to $ 88.2 billion last fiscal.

Capital account balance decreased by half to $47.9 billion in FY14 from $92 billion in FY13, mainly due to sharp drop in portfolio investment.

During FY14 portfolio investment dropped to $4.8 billion as compared to $26.9 billion in FY13.

Foreign Direct Investment (FDI) increased slightly by $21.6 billion in FY14 as compared to $19.8 billion in the FY13.

Foreign Institutional Investors (FII) investment declined to $5 billion as compared to $27.6 billion in 2012-13.

NRI deposits more than doubled to $38.9 billion as against $14.8 billion in the FY 13.

In FY14 External Commercial Borrowings jumped to $11.8 billion compared with 8.5 billion in FY13.

6.India Infrastructure Index launched by Asia Index

Anticipating investment boom in infrastructure sector as the government re-starts stalled projects, Asia Index, a joint venture of BSE and S&P Dow Jones Indices, launched India Infrastructure Index that comprises the top 30 companies based on market capitalisation from five sectors—Energy, Transportation, Non-Banking Financial Institutions, Telecommunications and Utilities. The 30 companies will be picked from the BSE 500 index.

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As per Asia Index, the 30-stock index is designed to serve as both a benchmark and an investable index. This is the third index launched by Asia Index after the Shariah Index and the S&P BSE India 10-year Sovereign Bond Index.

7.New government, capital inflow make Rupee best performing Asia-Pacific currency

Strengthened by capital inflows and excitement about the new incoming government, the Rupee reached 11-month high which has made it the best performing currency in Asia-Pacific region against the US dollar so far in 2014.

It has gained 5.3% since the start of 2014 and has leapt ahead of its other Asia-Pacific peers, including Indonesia's rupiah and New Zealand dollar, in terms of year-to-date increase.

The rupee, which was at 58.52 levels in recent days, has shown remarkable recovery since August 2013 when rupee fell to its life-time low of 68.80. Since the start of 2014 when rupee was at Rs.61.8 level per US dollar, it has recorded a gain of 327 paise in less than 6 months.

8.RBI permits foreign branches of banks to sell derivatives not allowed in India

Foreign branches and overseas subsidiaries of Indian banks have been allowed by the RBI to sell structured financial and derivative products in established financial centres even if these products are not permitted in India. However, these products like Exchange Traded Funds (ETFs) and Bond Derivatives are not allowed in the domestic market.

As per earlier norms, banks were not allowed to offer structured financial products through their branches or subsidiaries outside India that are not specifically permitted in the domestic market.

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This was the outcome of the review of an earlier December 2008 circular that made it mandatory for banks to get prior approval of the RBI by rendering details of the products, including their regulatory treatment prescribed by the host-country regulators.

9.RBI restricts companies from refinancing of rupee loans via External Commercial Borrowings (ECB) route

RBI has barred Indian companies from raising money from subsidiaries of Indian banks overseas via the External Commercial Borrowings (ECBs) to refinance their rupee loans. Thus, Indian companies will not be allowed to raise ECB from overseas branches or subsidiaries of Indian banks for the purpose of refinance/repayment of the rupee loans raised from the domestic banking system.

In April 2014, the RBI also restrained the banks from issuing guarantees to offshore joint ventures and subsidiaries of Indian companies to avail foreign currency loans to repay rupee credit.

Earlier, Indian companies in manufacturing, infrastructure and hotel industries were permitted to raise a maximum of $10 billion from this route. The maximum permissible ECB that could be availed of by an individual company was 75% of the average annual export earnings realized during the past 3 financial years.

Typically, an Indian company's overseas subsidiary approaches an Indian bank for a guarantee or letter of credit to use it for availing loans from another bank there. Banks were permitted to issue non-fund based credit to overseas subsidiaries of Indian companies up to 20% of unimpaired capital of the bank.

The step by RBI has come close on the heels of warning the banks against issuing letter of credit and guarantees to Indian companies' overseas subsidiaries. It said that such non-fund based credit was being used for purposes other than the business the company is involved.

The restrictions are applicable in cases like take-out financing, infrastructure financing and spectrum allocation and other repayments. The direction were issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999).

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10.RBI permitted NBFCs-ND to work as BCs for banks

The Reserve Bank of India (RBI) on 24 June 2014 permitted the non-deposit taking Non-Banking Finance Companies (NBFCs-ND) to act as Business Correspondents (BCs) for commercial banks. This was done with an aim of spread financial inclusion.

NBFCs-ND can be engaged as BCs subject to following conditions

• It should be ensured that there is no comingling of bank funds and those of the NBFC-ND appointed as BC.

• There should be a specific contractual arrangement between the bank and the NBFC-ND to ensure that all possible conflicts of interest are adequately taken care of.

• Banks should ensure that the NBFC-ND does not adopt any restrictive practice such as offering savings or remittance functions only to its own customers and forced bundling of services offered by the NBFC-ND and the bank does not take place.

Apart from this, the RBI also did away the rule that made it compulsory for banks to attach each outlet and sub-agent of a BC to a specific branch. Earlier, banks were allowed to assign BC outlets to a branch within 30 km in case of semi-urban and rural areas and five kilometer for metropolitan regions. This action has been taken with an aim to ensure adequate supervision for BCs.

This decision of RBI came following the recommendation of Nachiket Mor Committee on accelerating the flow of credit to those at the bottom of the pyramid and enlargement of catchment area of the Business Correspondents (BCs), including through possible inclusion of new entities as BCs.

11.RBI directed Banks and FIs to provide information to SIT

The Reserve Bank of India (RBI) on 23 June 2014 directed all banks and financial institutions to provide information and documents to the Special Investigation Team (SIT).

Background

The SIT under the chairmanship of former Justice M B Shah was constituted by the Union government on 27 May 2014. The panel was constituted in pursuance of the May 2014 judgement of the Supreme Court.

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The panel has jurisdiction in cases where investigations have commenced or are waiting to be initiated or have been completed.

India requested the Switzerland government to expeditious sharing of bank information, that is, the details of Indians having unaccounted money in Swiss banks.

According to central bank of Switzerland (SNB), Indian money in various Swiss banks rose by 43 percent during 2013 to close to 14000 crore rupees, including the money held directly by Indian clients and those through fiduciaries or wealth managers.

12.Union Finance Ministry accepted Marayam Committee recommendations on FDI and FPI

Union Finance Ministry on 21 June 2014 accepted the recommendations of Arvind Mayaram Committee on Rationalising the FDI/FPI definition. Arvind Mayaram is the Union Finance Secretary.

The panel suggested to remove the ambiguities over clear demarcation between Foreign Direct Investment (FDI) and Foreign Indirect Investment (FII) and defined them.

Recommendation on Foreign Direct Investment (FDI)

• Foreign investment of 10 percent or more in a listed company will be treated as foreign direct investment (FDI).

• An investor may be allowed to invest below 10 per cent and this can be treated as FDI subject to the condition that the FDI stake is raised to 10 per cent or beyond within one year from the date of the first purchase

• In case an existing FDI falls to a level below 10 percent, it can continue to be treated as FDI without an obligation to restore it to 10% or more, as the original investment was an FDI.

• In a particular company, an investor can hold the investments either under the FPI route or under the FDI route, but not both.

• Foreign Investment in an unlisted company irrespective of threshold limit may be treated as FDI.

Recommendation on Foreign Portfolio Investment (FPI)

• Any investment by way of equity shares, compulsorily convertible preference shares/debentures less than 10 percent of the post-issue paid up equity shall be treated as FPI.

• Any investment less than 10 percent of the post-issue paid up value of each series of convertible debentures of a listed / to be listed Indian investee company by eligible foreign investors shall also be treated as FPI.

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• Investments by foreign investors under private placement /arrangement less than 10 percent of post issue paid up capital shall be treated as FPI.

• Individual monitoring of FPI limit of less than 10 percent will be done by the Securities and Exchange Board of India (SEBI) and FPI aggregate limit will be done by the Reserve Bank of India (RBI) like earlier.

Other Recommendations

• On the exemption from pricing guidelines on exit of Foreign Venture Capital Investors (FVCI), the Committee has recommended to form a separate team of SEBI, RBI and DEA can look into all the aspects of FVCI investment and rationalise the same so as to avoid arbitrage arising from ambiguous pricing guidelines.

• On NRI Investors, the Committee recommended treating non-repatriable investment as domestic and exempting it from FDI related conditions.

• The Committee also recommended reviving the Overseas Corporate Bodies in different form with suitable safeguards and checks so as to enhance NRI investments.

13.RBI asked banks to disclose sector-wise advances in financial statements

Reserve Bank of India on 18 June 2014 asked banks to disclose sector-wise advances in the Notes to Accounts to the financial statements from financial year 2014-15 onwards.

RBI in its direction asked the banks for disclosure on priority sector such as agriculture and allied activities, advances to industries sector eligible as priority sector lending, services and personal loans and non-priority sector advances such as agriculture and allied activities, industry, services and personal loans.

It also said that the banks may also make disclosure on sub sectors where the outstanding advances exceed 10 percent of the outstanding total advances to that sector.

This step has been taken on the recommendations of the Committee on Comprehensive Financial Services for Small Businesses and Low Income Households headed by Nachiket Mor. It will encourage banks to actively manage their exposures to various sectors, including priority sector.

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14.SEBI issued new norms for public issuance of debt securities

Securities and Exchange Board of India (SEBI) on 17 June 2014 issued new norms for public issuance of debt securities. The new norms were issued with a view to tighten the norms governing the public issue of debt securities.

Guidelines

• The debt securities have to be of minimum of 100 crore rupees for both non-banking finance companies (NBFCs) and non-NBFC issuers.

• The issuer need to make additional disclosures and attain atleast 75 percent of the base issue size.

• If the issuer does not receive minimum subscription, the entire application money will have to be refunded within 12 days from the date of the closure of the issue along with interest at the rate of 15 per cent per annum for the delayed period.

• SEBI prescribes a minimum subscription limit of 90 percent in case of an initial public offering.

• In case of public issue of non-convertible debentures (NCDs), the issuer can decide the amount of minimum subscription and disclose the same in the offer document.

• Foreign Portfolio Investors (FIIs) investment in non-convertible shares or debentures will be included within the 51-billion US dollars limit meant for corporate debts.

• SEBI exempted the issuers of tax-free bonds from the minimum subscription limit as specified by the Central Board of Direct Taxes. It also sought to increase the transparency of utilisation of the proceeds.

Debt Securities

A debt security is an investment in bonds issued by the government or a corporation. At the time of purchasing a bond, the acquisition costs are recorded in an asset account, such as Debt Investments. Acquisition costs include the market price paid for the bond and any investment fees or broker's commissions.

Debenture is a bond which is not secured by any asset or collateral is known as a debenture. Debentures are mostly long term in nature and at times, the holder has an option of exchanging debentures for stocks of the issuing company. Debentures are of two types: Convertible debenture and Non Convertible debentures.

• Convertible debentures are those which can be converted into company stocks. These types of debentures generally command a lower interest rate when compared with non convertible debentures.

• Non convertible debentures are those which cannot be converted into company stocks. These types of debentures generally command a higher interest rate when compared with convertible debentures.

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15.NABARD reduced rates of refinance to boost investment credit

The National Bank for Agriculture and Rural Development (NABARD) on 9 June 2014 reduced the rate of interest by 20 basis points (bps) on long-term refinance facility to banks with an objective to promote farm sector investments. The decision was taken in response of growing demand by farmers and banks and the rates are applicable from 6 June 2014.

As per the notification the rates of refinance for five years and above will be 9.50 percent, whereas for three to five years period it will be 9.70 percent. For banks availing more than 500 crore rupees in a single drawl will further be incentivized by 10 bps.

Apart from this, further incentive of 50 bps would be available on financing for efficient agricultural technologies to combat food inflation. The list of efficient technologies includes 12 such innovative farm practices which will enhance fruit and vegetable production.

Chairman of NABARD: Harsh Kumar Bhanwala

16.RBI simplified KYC norms for opening bank account

Reserve Bank of India on 9 June 2014 eased the KYC norms for opening bank account. In its notification it said that only one documentary proof of address (either the current or permanent) can be used to open bank account or for periodic updation.

It also said that in case the address mentioned as per proof of address undergoes a change than fresh proof of address may be submitted to the branch within a period of six months.

In conditions, when the furnished address by customer is not the local address or address where he is residing then the bank may take a declaration of the local address on which the correspondence will be made by the bank with customer. Whereas, no proof of address of correspondence or local address will be required in such conditions. The address may be verified by the bank through positive confirmation such as acknowledgement of receipt of

• Letter, cheque books, ATM cards

• Telephonic conversation

• Visits and others

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The notification also said that due to any reason the customers address changes then he should intimate the new address for correspondence to the bank within two weeks of such a change.

About Know Your Customer Norm (KYC)

• KYC is a term used for customer identification process.

• The objective of the KYC guidelines is to prevent banks being used, intentionally or unintentionally by criminal elements for money laundering.

• KYC has two components - Identity and Address. While identity remains the same, the address may change and hence the banks are required to periodically update their records.

• RBI issued guidelines to banks under Section 35A of the Banking Regulation Act, 1949 and Rule 7 of Prevention of Money-Laundering Rules, 2005.

• These guidelines were issued on the recommendations made by the Financial Action Task Force (FATF) on Anti Money Laundering (AML) standards and on Combating Financing of Terrorism (CFT).

• RBI issued KYC guidelines in 2004 to which banks had to become compliant by 31 December 2005.

17.RBI announced second Bi-Monthly Monetary Policy Statement

The Reserve Bank of India (RBI) announced second Bi-Monthly Monetary Policy Statement on 3 June 2014. RBI in its second bi-monthly monetary policy statement has kept the policy rates unchanged.

Based on the assessment of the current and evolving macroeconomic situation the following changes has been taken

• The repo rate under the liquidity adjustment facility (LAF) unchanged at 8.0 percent.

• The cash reserve ratio (CRR) of scheduled banks unchanged at 4.0 percent of net demand and time liabilities (NDTL).

• Reduced the statutory liquidity ratio (SLR) of scheduled commercial banks by 50 basis points from 23.0 percent to 22.5 percent of their NDTL with effect from 14 June 2014

• Introduce a special term repo facility of 0.25 percent of NDTL to compensate fully for the reduction in access to liquidity under the ECR with immediate effect.

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• The policy is continued to provide liquidity under 7-day and 14-day term repos of up to 0.75 percent of NDTL of the banking system.

• The reverse repo rate under the LAF remained unchanged at 7.0 percent and the marginal standing facility (MSF) rate and the Bank Rate at 9.0 percent.

Assessment of the macroeconomic situation in India

Though inflation in India has slowed, the RBI still considers many factors that could inflame inflation such as weak rain during the June-September monsoon due to chance of the occurrence of El Nino.

India current account deficit (CAD) narrowed sharply to 1.7 percent of GDP for 2013-14 due to decline in gold imports, although other non-oil imports also contracted with the weakening of domestic demand.

In April 2014, the trade deficit narrowed sharply due to resumption of export growth after two consecutive months of decline, and the ongoing shrinking of import demand.

The foreign direct investment supported inflows of portfolio investment and external commercial borrowing, kept external financing conditions comfortable and helped add to reserves.

18.India signed loan agreement with World Bank for Sarva Shiksha Abhiyan III

Union Government of India and the World Bank on 29 May 2014 signed the Loan Agreement for World Bank (IDA) assistance of 1006.20 million US dollar for Sarva Shiksha Abhiyan III, the largest ongoing Education for All programme in the world. The assistance from the World Bank will be in form of Credit under IDA 16 at a concessional rate from the International Development Assistance (IDA).

The project is to be implemented in 3 years and the Union Ministry of Human Resource Development is the implementing agency.

On behalf of India the agreement was signed by Nilaya Mitash, the Joint Secretary, Department of Economic Affairs and Michael Haney, World Bank's Operation's Advisor in India signed it on behalf of the World Bank.

About Sarva Shiksha Abhiyan (SSA)

Sarva Shiksha Abhiyan (SSA) is a flagship programme of Government of India for achievement of Universalization of Elementary Education (UEE) in a time bound manner. It was mandated by 86th

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amendment to the Constitution of India in which free and compulsory Education to the Children of 6-14 years age group, a Fundamental Right was made compulsory.

SSA is being implemented in partnership with State Governments to cover the entire country and address the needs of 192 million children in 1.1 million habitations.

SSA seeks to provide quality elementary education including life skills. SSA has a special focus on girl's education and children with special needs and reduction of gender and social category gaps in elementary education. SSA also seeks to provide computer education to bridge the digital divide.

19.RBI tightened acquisition & merger rules for Non-Banking Financial Companies

The Reserve Bank of India (RBI,) tightened merger rules for non-bank finance companies (NBFCs) to ensure fit and proper character of the management of NBFC.

The RBI on 26 May 2014 notified the Non-Banking Financial Companies (Approval of Acquisition or Transfer of Control) Directions, 2014. The directions will come into force with immediate effect.

The direction includes the prior written permission of the Reserve Bank of India shall be required for any takeover or acquisition or control of an NBFC, whether by acquisition of shares or otherwise.

Previously, only deposit-taking NBFCs required approval of RBI for a takeover or merger.

Besides, any merger or amalgamation of an NBFC with another entity or any merger or amalgamation of an entity with an NBFC which will result in acquisition or transfer of shareholding in excess of 10 percent of the paid up capital of the NBFC will also need approval of RBI.

The written approval of RBI will be required before approaching the court or tribunal seeking order for mergers or amalgamations with other companies or NBFCs.

About Non-Banking Financial Companies

• Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 NBFCs perform similar activities of banks like deposits and make lends.

• But NBFC cannot accept demand deposits, cannot issue cheques drawn on itself, deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in case of banks.

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• NBFC does not include any institution whose principal business is that of agriculture activity, industrial activity.

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