



Pillar#1B-2: Bad loans & other Burning issues in Banking sector

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14 BAD LOANS & OTHER BURNING ISSUES IN BANKING

14.11 TYPES OF LOANS: BASED ON INTEREST RATE

Table 1: Type of Loans based on Lending Rates

Fixed Interest Loan (निश्चित व्याजदर का ऋण)	Floating Interest Loan (चलायमान)
e.g. Short-term crop loans upto ₹3 lakh for farmers at fixed Interest 7%. This interest rate will not be changed throughout the loan tenure.	e.g. (External Benchmark) + spread + risk premium. (Ref#1A2-MonPolicy). But benchmark is regularly updated. So resultant interest rate may increase or decrease throughout the tenure of loan.
टीजर लोन यानी कि ऐसे लुभावने लोन जहाँ शुरुआती वर्षों में व्याज दर बहुत कम रहे लेकिन बाद के वर्षों में ग्राहक पर बड़ा व्याज दर थोप दिया जाए. अमेरिका में सबप्राइम संकट के पीछे इसे कारण माना जाता था	Teaser Loan: A sub-type of Floating interest rate loan, wherein initial years have low interest, but afterwards- higher interest rate. While RBI has not banned Teaser loans but has put stricter regulations on them from 2011.

14.12 TYPES OF LOANS: BASED ON BORROWERS

Table 2: Type of Borrowers

Prime Borrower	He has the capacity to repay loans. (वो कर्जा वापस चुकाने की क्षमता रखता है)
Subprime Borrower (Individual)	Such person doesn't have the capacity to repay loan. Giving teaser rate home loans to them caused Sub-prime Crisis in USA (2007-08), ultimately led to Global Financial Crisis (GFC). (More in Pillar#3).
Overleveraged Borrower (Company)	Such company has borrowed too much money than its ability to pay it back. An Overleveraged company has high ratio of Debt (Bonds/loans) to Equity (Shares). वापस करने की क्षमता से भी अधिक कर्ज ले लिया है
Zombie Lending	When a weak bank keeps giving new loans to a subprime / overleveraged borrower. कमजोर बैंक, कमजोर कर्जदार को लोन देता रहे हैं

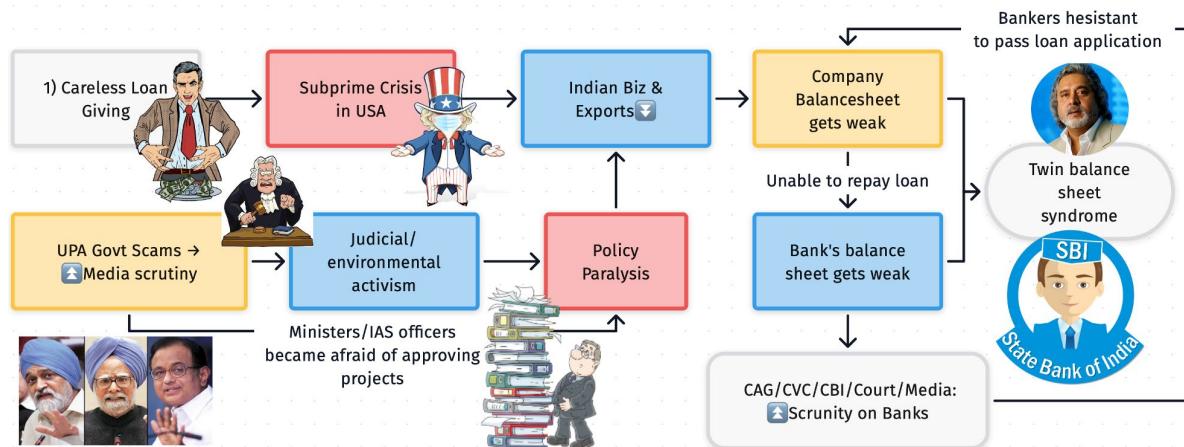
? Why is the offering of "teaser loans" by commercial banks a cause of economic concern? (Pre-2011)

1. The teaser loans are considered to be an aspect of sub-prime lending and banks may be exposed to the risk of defaulters in future.
2. In India, the teaser loans are mostly given to inexperienced entrepreneurs to set up manufacturing or export units. (बिनअनुभवी नौसीखिए उद्यमियों को विनिर्माण और निर्यात इकाइयों बनाने के लिए टीजर लोन दिए जाते हैं)

Answer Codes: (a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 or 2



14.13 ↗ NON-PERFORMING ASSETS (अनर्जक परिसंपत्तियां)



14.13.1 ↗ NPA / TBS Problem: Three Stages of

1. ⚡ Till mid-2000s: Boom period in global economy. Indian Corporates were taking large amount of loans & became overleveraged. (भुगतान की क्षमता से बड़ा लोन लेना)
2. 😕 From 2007-08: Subprime & Global Financial Crisis (GFC: वैश्विक आर्थिक संकट): Indian exports ↓. UPA govt's policy paralysis & judicial activism, environment activism (नीतिगत पक्षाधात और न्यायिक सक्रियता, पर्यावरण सक्रियता) ⇒ projects delayed. Companies began facing difficulties finishing projects & repaying loans.
3. 😕 By 2013: ~1/3rd of the bank loans were owned by “IC1 companies” i.e. companies with interest coverage ratio less than 1, meaning they were not generating enough revenue even to repay the loan interest. (IC>1 is good and IC <1 is bad.)

Thus, balance-sheets of (1) some Large Corporates Companies & (2) Public Sector Banks (PSB) became weak. It is called “Twin balance sheet syndrome (TBS)” [दोहरे तुलनपत्र की समस्या] by Economic Survey 2015-16.

שאלת ? What is the importance of “Interest Coverage Ratio” of a firm in India? (Prelims-2020)

1. It helps in understanding the present risk of a firm that a bank is going to give a loan to.
2. It helps in evaluating the emerging risk of a firm that a bank is going to give a loan to.
3. The higher a borrowing firm’s level of ICR, the worse is its ability to service its debt.

Answer Code: (a) 1 and 2 only (b) 2 only (c) 1 and 3 only (d) 1, 2 and 3

14.14 NPA – MEANING AND DATA

- If loan principal or interest is not paid for more than 90 days from its due date, then such loan account is classified as Non-Performing Asset (NPA). किश्त जमा करने की नियत तिथि/तारीख के ऊपर भी 90 दिनों से अधिक हो चुके हो किन्तु किश्त जमा नहीं की गयी तो....
- For farm loans, NPA is not counted on number of days but on number of cropping seasons. कृषि क्रत्र में महीनों के हिसाब से नहीं फसल की मौसम/ऋतु के हिसाब से होता है
- NPA as a % of total loans given by SCB = 11% (2017), 7% (2021), 5% (2022)

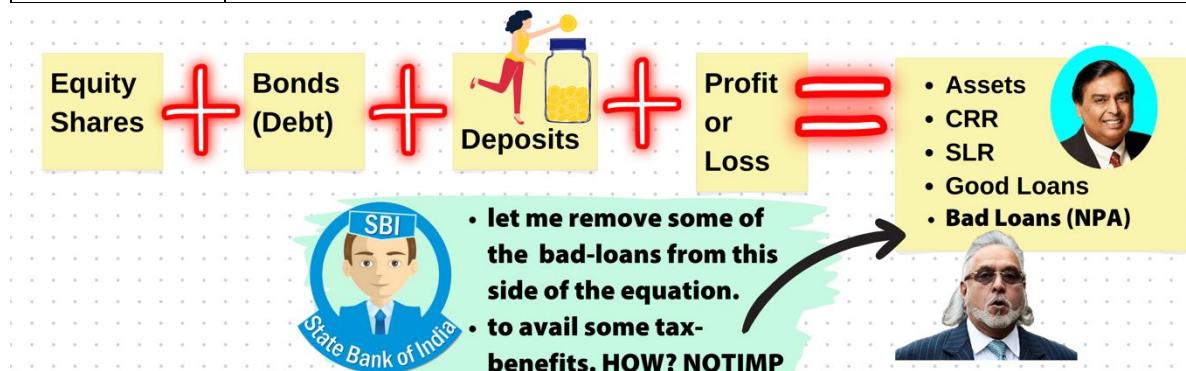
Year	2020-Mar	2021-Mar	2022-Mar
Total NPA in SCBs**	Rs. 8.8 lakh cr	Rs. 8.3 lakh cr	Rs. 7.4 lakh cr



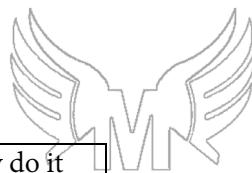
**SCBs = scheduled commercial banks. (अनुसूचित वाणिज्यिक बैंक)

14.14.1 NPA related definitions in Banking Sector

Std. Assets	Loan account where borrower is repaying the principal and interest in timely fashion. (आदर्श परीसंपत्तिया= नियमित ब्याज मुद्रल/ मूलधन मिला)
SMA-0	If loan principal or interest unpaid for 1-30 days from its due date, then such loan account is classified as Special Mention Account-0 .
SMA-1	31-60 days
SMA-2	61-90 days
Provisioning प्रावधानीकरण	As per RBI norms, banks must set aside funds to cover losses against their NPA. Such 'provisioning of funds' decrease profitability of the Bank.
Gross NPA (GNPA: सकल एनपीए)	- Gross non-performing assets = grand total of all NPA loans(कुल योग)
NET NPA	NET NPA (शुद्ध एनपीए) = GNPA Minus Provisioning WHATITMEANSNOTIMP
Substandard asset	When loan account remains in the NPA classification for 12 months or more/> (रद्दी/घटिया परीसंपत्तिया- जब कोई लोन खाता 12 महीना या उससे ज्यादा एनपीए श्रेणी में रहे)
Doubtful Asset	When loan account in substandard classification for 12 months or more />
Loss Asset	When a bank, its auditor or RBI declares that given doubtful asset has little / no salvageable value. (नीलामी करके भी नुकसान भरपाई असंभव)



Loan write-off	<ul style="list-style-type: none"> - Loan write off= banker removes a loan amount from the 'asset-side' of the bank balance sheet, to save corporation tax (How? = we-are-not-here-for-CA-exam). - Loan write-off doesn't waive bank's right to recover that bad loan, it's merely an accounting exercise for tax-benefits. (कराधान में कुछ रियायतों के लिए हिसाबी प्रक्रिया की जाती है। हालांकि ऐसा करने के बावजूद भी बैंकर कर्जदार से पैसा वापस तो मांग ही सकता है) - Loan write-off reduces the NPA% of the Bank (Because amount is written-off/cancelled from balance sheet) - 2022-Dec: Government replied in Parliament that Banks write off loans worth Rs 11.17 lakh crore in last six years
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Restructured loan	When principal / interest rate / tenure of the loan is modified. Banks may do it when borrower facing difficulty in repaying loans. (पुनर्गठित कर्ज / ऋण)
Stressed Asset	NPA + Loans Written-Off + Restructured Loans = Stressed Assets (तनावपूर्ण संपत्ति)
OTS with Haircut	For example, If bank allows the borrower to pay 60% of dues & forgoes 40% as loss, then bank has offered “One time Settlement (OTS) with 40% haircut” कर्ज का कुछ हिस्सा बैंक खुद ही नुकसानी समझकर माफ कर दे।
Evergreening of loans	When a borrower taking a new loan to pay off his old loan. पुराना कर्ज चुकाने के लिए नया कर्ज दिया जाए।

14.15 ATM NIRABHAR → LOAN/EMI/NPA RELIEF / MORATORIUM

- ⇒ IF a loan is outstanding as of THEN 2020-March: RBI allowed (optional) moratorium/suspension of loan repayment for 6 months for March, April, May, June, July, Aug.
- ⇒ So, If a borrower’s income due to Corona, he gets relief from Equated Monthly Instalments (EMIs) for “X” months. (ऋण अदायगी पर 6 महीने के लिए अस्थायी रूप से मुक्ति/रोक)
- ⇒ It WAS NOT compulsory to skip EMI. Borrower MAY repay loan regularly, if his financial situation was strong. (इन महीनों में किसी भरना वैकल्पिक होगा. वो आर्थिक रूप से सशक्त हो तो भर सकता है)
- ⇒ Loan was not ‘removed/waived’. It was only temporarily suspended. (ये कर्ज़ा माफ़ी नहीं था. केवल कुछ महीने के लिए किस्तें भरने में छुट्टी दी गई थी- कि बाद में धीरे धीरे पूरा भर देना। उसने जितना उधार लिए, वो सारा अंत में तो पूरा चुकाना ही होगा।)

⌚ Note: In last handout, I had kept a very big short note here discussing how some banks demanded compound interest rate for 6 months / matter went to SC / Govt gave subsidy to those banks. But for 2023-24 exam-cycle all that microscopic details are outdated / faded/not grabbing headlines anymore. so I am deleting.

14.16 RBI “3R” FRAMEWORK FOR REVITALIZING STRESSED ASSETS (2015-19)

Shifted to Mains-QEP handout.

? ‘Scheme for Sustainable Structuring of Stressed Assets (S4A)’ is related to: (Prelim-2017)

- a) procedure for ecological costs of developmental schemes.
- b) scheme of RBI for reworking the financial structure of big corporates with genuine difficulties.
- c) disinvestment plan for Central Public Sector Undertakings.
- d) Provision in ‘The Insolvency and Bankruptcy Code’.

Answer is B. But we’ll not study topic, scheme is discontinued, and topic outdated for 2023.

14.16.1 RBI’s Prudential Framework for stressed assets (2019)

This is outdated topic so removed from Handout.



14.16.2 📈 🔎 RBI's KV Kamath Report Resolution Framework for Corona-related Stress

- ⇒ 2020: RBI had setup this Committee to look into **loan restructuring for large companies**, who are hit by Corona pandemic.
- ⇒ KV Kamath identified 26 vulnerable sectors (e.g. power, construction, steel, road, cement etc..) He and gave various technical guidelines for loan restructuring.

14.16.3 📈 🔎 Resolution Framework 1.0 and 2.0 (2020-21)

Based on the recommendations of the aforementioned KV Kamath committee, RBI issued a set of guidelines for Bank/NBFCs for dealing with the bad loans:

Resolution Framework	Applicable to borrowers who are
1.0	Large companies
2.0	Individual persons and small companies

What exactly is written in above frameworks? Ans. 1) Giving extra loans to genuine cases 2)

Extending the loan tenure 3) reducing loan interest rate etc.. We'll NOT PHD. # 🕒 થોડા-પઢો-આગે-બઢો

14.17 🏛️ 🔎 SARFAESI ACT 2002: ORIGIN, OBJECTIVE & LIMITATIONS

कर्ज नहीं चुकाया तो संपत्ति की जब्ती और नीलामी करने के लिए कानून

- ⇒ 1991: Narsimham-I Committee on banking sector reforms observed that borrowers obtain stay orders from ordinary courts = banks have difficulty recovering NPA. So, Debt Recovery Tribunals (DRT: ઋણ વસૂલી ન્યાયાધિકરણ) were set up (1993)= ordinary courts can't interfere in the loan recovery process.
- ⇒ 1998: Narsimhan-II Committee observed that DRTs need to be strengthened with a law, so, Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act enacted in 2002. [પ્રતિભૂતીકરણ ઔર વિત્તીય આસ્તિયોં કા પુનર્ગર્ઠન ઔર પ્રતિભૂતિ હિત કો પ્રભાવી કરને કા અધિનિયમ 2002]
- ⇒ Under SARFAESI act, lenders can attach the mortgaged assets when loan is not repaid. They can change board of directors in such companies, can auction such assets, can also sell such assets to **Asset Reconstruction Companies (ARC, NBFC: પરિસંપત્તિ પુનર્નિર્માણ કંપની)**. [2021: RBI setup Sudarshan Sen Committee to suggest reforms for ARCs]
- ⇒ SARFAESI not applicable on farm loans. (કૃषિ ઋણ પર યે કાનૂન લાગુ નહીં હોતા)
- ⇒ If loan-defaulter wants to obtain a stay order, he cannot go to ordinary courts. He will have to approach for DRT. If DRT doesn't help then ⇒ higher appeal to Debt Recovery Appellate Tribunal (DRAT: ઋણ વસૂલી અપીલીય ન્યાયાધિકરણ), but DRAT will require him to deposit minimum 50% of the loan dues (to discourage frivolous appeals). ⇒ higher appeal to high court.

14.17.1 🏛️ 🔎 🏛️ Which lenders have SARFAESI powers?

- ✓ All types of Banks- commercial and cooperative (સખી પ્રકાર કે બૈંકો કો ઇસ કાનૂન કે અંતર્ગત મિલકત જબ્તી કરને કી સત્તાએँ હૈ)
- ✓ Housing Finance Companies (HFCs) e.g. DHFL.
- ✓ if an NBFC fulfills two conditions SIMULTANEOUSLY: (ગૈર બૈંક વિત્તીય કંપનિયોં કો ભી યહ સત્તા હૈ યદિ)
 - 1) The NBFC having asset size of ₹100 cr or more, AND



- 2) loan given is at least ₹20 lakhs.
- ✓ For example Bajaj Finserv, Reliance Capital, Muthoot Finance, IL&FS.

14.17.2 Limitations of SARFAESI Act (मर्यादाएं)

- ⇒ 😞 The DRTs & DRATs are **understaffed**. 1 lakh+ **cases pending** (2016), so, case will go on for years, borrower remained in possession of asset. (जजों की कमी के चलते केस निपटान की प्रक्रिया बहुत धीमी है)
- ⇒ 😞 This leads to erosion of asset-value (machinery, vehicles) even when DRT allows auction at a later time. (गाड़ी/ मशीन की जल्दी नीलामी नहीं होगी तो उसके मूल्य में गिरावट आती है- जितनी पुरानी गाड़ी, उतना कम दाम।)
- ⇒ In some businesses, auction or liquidation may not yield the best returns for the banks e.g. hotel resort in remote area, where no other hoteliers are keen to invest. (हर प्रकार की संपत्ति की नीलामी में अच्छी बोली लगाने वाली मिल जाए यह जरूरी नहीं। कुछ बार मध्यम मार्गी समाधान बेहतर होता है)
- ⇒ In such cases, if the loans were restructured (i.e. reducing % interest rate, extending tenure, finding new partners), then banks could salvage more value. (इसलिए नीलामी की जगह अगर कुछ आपसी समझौता / बीच का रास्ता/ मांडवाली किया जाए तो बेहतर)
- ⇒ But, SARFAESI act **doesn't facilitate such arbitration** So, Govt. came up with a new law: IBC.

14.18 INSOLVENCY AND BANKRUPTCY (I&B) CODE 2016

शोधन-अक्षमता एवं दिवालियापन संहिता 2016: कर्जदार का लेनदार के साथ समझौता/मांडवली करवाने के लिए

IBC code classifies creditors into two categories

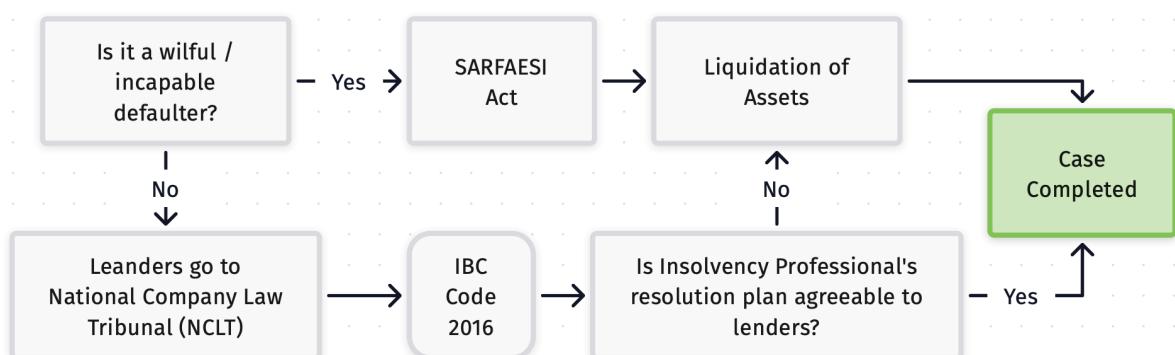
A) Financial Creditors (FC) =	B) Operational Creditors (OC) =
banks, NBFC, bond & other debt security holders, + Home buyers. (वित्तीय लेनदार).	Suppliers, contractors, salaried employees etc. (कार्यसंबंधी लेनदार : जिन्होंने कंपनी को कुछ वस्तु/सेवा मुहैया कराई थी लेकिन उस पर पैसा बकाया है)
They can complaint under IBC code for recovery of due amount.	They can complaint under IBC code for recovery of due amount.
They can sit in the committee of creditors (CoC) for IBC proceedings.	They can't sit.

- ⇒ IF an Individual or Partnership firm or Company defaults on a **business loan** of ₹ “X” lakh or more, then, above types of creditor(s) approach National Company Law Tribunal (NCLT: राष्ट्रीय कंपनी कानून अधिकरण), to initiate proceedings under the I&B Code.
 - NCLT has over 10 benches across India. Also has facility for e-filing of applications.
 - NCLT must accept/reject application within 14 days.

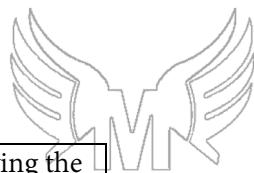


- ⇒ Within that period, an Insolvency Professional (IP: शोधन-अक्षमता संबंधी पेशेवर) will make a resolution plan e.g. loan interest, extend loan tenure, or IP could even find another investor to finance the pending project etc. (वो पेशेवर लोन-पुनर्गठन की कोशीश करेगा कि जैसे ब्याज दर कमी, समयावधि में बढ़ोतरी, नया भागीदार ढूँढ़ना)
- ⇒ IP will present the plan to Committee of Creditors (CoC: लेनदारों की समिति) made up of the Financial Creditors (FC). In this Committee, FCs' voting power is based on amt of loans given by lender.
- ⇒ If x% of the FCs agree with such resolution plan, then it will be set in motion, otherwise, IP will liquidate the assets to recover the loan. (यदि वित्तीय कर्जदाताओं की समिति बहुमत से पुनर्गठन प्रस्ताव पारित न करे तो नीलामी/ परिसमापन)
- ⇒ Appeal Structure? (इस प्रक्रिया के खिलाफ कर्जदार अपील में किधर जा सकता है?)
 A. If Borrower is individual / partnership firm: @DRT → DRAT of SAFAESI Act. OR
 B. If Borrower is a Company: @ National Company Law Appellate Tribunal (NCLAT: राष्ट्रीय कंपनी कानून अपीलीय न्यायाधिकरण) of the Companies Act.

14.18.1 IBC Not applicable on following borrowers



(निम्न किसम के कर्जदारों को IBC कानून में समाधान का लाभ नहीं मिलेगा)



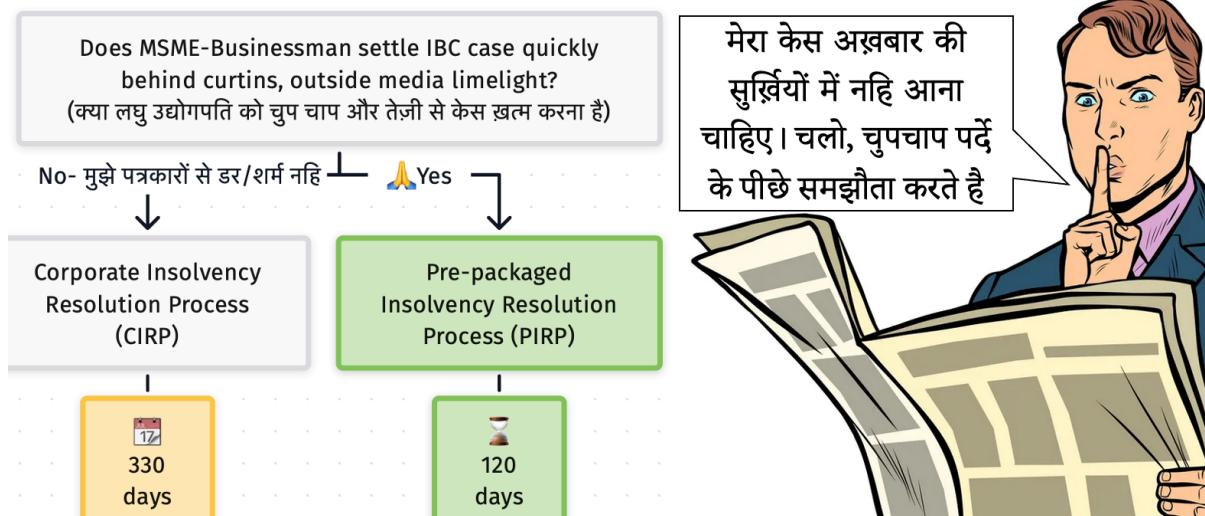
Wilful Defaulter (जान-बूझकर बकाएदार) :	A borrower who has the capacity to repay, but he's not repaying the loan. E.g. Vijay Mallya was declared wilful defaulter by SBI (2017). Total number of wilful defaulters 2,017 (Year 2019), 2,208 (Year 2020), 2,494 (2021).
Incapable Defaulter (असमर्थ बकाएदार):	A borrower whose loan account is in NPA for more than a year, and he has no capacity to repay even partial loan amount. (जिसकी ओकात ही नहीं लोन चुकाने की, उसके साथ क्या समझौता करोगे?)

Above two categories of borrowers are not eligible for I&B resolution process. Their assets will be directly liquidated under SARFAESI Act. (उनकी तो बस संपत्ति जप्त करके नीलामी होगी, इनके साथ कोई समझौता किया नहीं जाएगा)

14.18.2 Insolvency and Bankruptcy Code Amendments in 2018-2019

Outdated for exam. so removed.

14.18.3 IBC Pre-Packs (पर्दे के पीछे जल्दी से केस सुलटा लेते हैं!)



⇒ Pre-Pack System is found in United Kingdom and the United States

⇒ IBC 2021 Ordinance (and later Amendment Bill) aim to enable this in India for MSMEs.

Corporate Insolvency Resolution Process (CIRP)	Pre-packaged Insolvency Resolution Process (PIRP)
<p>IBC's Formal process: lenders file complaint to NCLT → Insolvency professional appointed → Loan restructuring proposal → If NOT approved by lenders → Auctioning. (औपचारिक प्रक्रिया कुछ इस तरह से होती है)</p>	<ul style="list-style-type: none"> - Pre-packaging = Borrower company informally (discreetly) negotiates a resolution plan with its lenders / buyer-parties who may be interested in its action, before approaching IBC/NCLT process. (प्री पैकिंग = विधिवत रूप से कोर्ट/कानूनी प्रक्रिया शुरू होने से पहले ही अनौपचारिक रूप से कर्जदार कंपनी अपने कर्जदाता तथा भविष्य की नीलामी में रुचि रखने वाले खरीदारों से पर्दे के पीछे/बंद दरवाजे में चुपचाप समझौता कर कर ले.)



Corporate Insolvency Resolution Process (CIRP)	Pre-packaged Insolvency Resolution Process (PIRP)
	<ul style="list-style-type: none"> - e.g. Anil proposes, "I'm unable to repay loan but I'm getting new partner/investor Mahindra. Together we'll revive the biz & repay 80% loan." - If this is agreeable to lenders, they'll send letter to NCLT, "We've internally agreed for this plan. Plz give judicial approval to it."
Time limit: upto 330 days	Time limit = 120 days = faster than CIRP (जल्द निपटान)
More number of days = more negative headlines in newspaper = 🔞 confidence of customers & investors (e.g. Customer may not buy Videocon refrigerator, if he continuously sees negative news & starts to fear that company will shut down, he'll not get warranty/repair service after 3-5 years)	<ul style="list-style-type: none"> - 🎯 Benefit? a quick (speedy) and discreet (confidential) way of completing the insolvency resolution process. त्वरित और गुप्त रूप से मसले को समेट लिया जाए - 🎯 Prevents the stigma/bad publicity/damage to brand image associated with formal IBC proceedings. else in future difficult to get investors/customers/clients. मामला औपचारिक रूप से कोर्ट तक नहीं पहुंचेगा= अखबारों में/जनमानस में कंपनी बदनाम/कलंकित ना हो वरना भविष्य में निवेशकों/ग्राहकों को आकर्षित करना मुश्किल हो जाता है. - least disruptive to the businesses. Cost-effective. Helps in workers' job preservation (compared to a scenario where company is shut down)
CIRP applicable to all small and big enterprises.	Only available to micro, small and medium enterprises (MSMEs) as per 2021's IBC Ordinance / Amendment Bill. (केवल चुनिंदा श्रेणी के लिए है)

14.18.4 🏛️ ↩️ 💳 : 🎯 IBBI directive on Avoidance Transaction and 500 other technical things

👉 Such technical topics not important for the scope of the exam. If any teacher teaching it / private quizmaster is asking MCQ on it then please ask them to first go through previous years official papers and ask him to prove where's the pattern of such questions being asked in real exam ?# 🎯 थोड़ा-पढ़ो-आगे-बढ़ो

14.18.5 📊 🖐️ (🏛️ ↩️ 💳) ATMANIRBHAR → IBC Ordinance/Act 2020 to suspend new cases

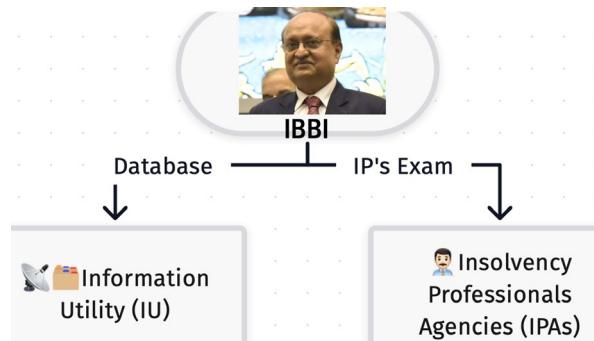
- ⇒ 2020: Govt issues ordinance to amend IBC Code. (अध्यादेश)
- ⇒ Corona = business is down, difficult to work out any resolution plan. So, No fresh case will be registered in IBC code for next "X" months Because Corona (नए केसों के दाखिले को स्थगित किया गया.)
- ⇒ "X" = 24 March 2021 📅 Exact dates notIMP

IBC Ordinance / Act 2020	Case can start if loan default of minimum __ amount
BEFORE	Minimum ₹1 lakh/>.
AFTER	Minimum ₹1 crore/>**

** So even after suspension is lifted, most of the small businessmen will be spared from IBC proceedings. (रोक हटाने के बाद भी नए केस दर्ज किए जाएंगे, तो सिर्फ बड़े लोन के लिए केस दर्ज किए जाएंगे)



14.18.6 📜 (⚖️ 💵 💼) Insolvency and Bankruptcy Board of India (IBBI)



- ⇒ भारतीय शोधन-अक्षमता एवं दिवालियापन बोर्ड - वैधानिक संस्था
- ⇒ IBBI is the statutory body that monitors and implements I&B Code 2016.
- ⇒ IBBI's administrative control rests with Ministry of Corporate Affairs (कॉर्पोरेट मामलों का मंत्रालय).
- ⇒ It has 1 Chairman, 1 nominated member from RBI, 8 from Govt's side = total 10 people.
- ⇒ **1st chairman of IBBI:** M.S.Sahoo. Present Chairman: Ravi Mittal (2022). (अध्यक्ष)
- ⇒ Chairman has 5 years / 65 age tenure. Also eligible for reappointment (पुनःनियुक्ति संभव).
- ⇒ IBBI selects **Insolvency Professionals Agencies (IPAs)**. These IPAs enroll and supervise the members practicing as Insolvency Professionals (IPs). Presently, 3 organizations given "IPA" status viz. 1) ICAI (Chartered Accounts) 2) ICSI (Company Secretaries) and 3) Institute of Cost Accountants.

14.18.7 📜 💵 Information Utility

IBBI also selects **Information Utility (IU: सूचना उपयोगिता संस्था)** organization to maintain **database of borrowers**. In 2017, NeSL: National E-Governance Services Ltd (owned by consortium of SBI, LIC etc.) was the first to get the IU status from IBBI. It is compulsory for lenders to share data with IU.

💡 IU helps lenders in two ways:

1. 💡 by looking @borrowers' credit history, lenders can make informed decisions about whether to give loan or not, and how much interest to charge? कर्जदाता को जानकारी उपलब्ध कराता है कि लोन-अर्जीकर्ता विजय माल्या का इतिहास/वित्तीय चरित्र केसा है, क्या वो लोन देने लायक भरोसेमंद व्यक्ति है की नहि?
2. 💡 This database helps establishing documentary proofs during NCLT / DRT / judicial / liquidation proceedings. कानूनी प्रक्रिया में दस्तावेजी सबूत मुहैया/उपलब्ध कराता है

14.18.8 📜 (⚖️ 💵 💼) Insolvency → Misc. Org: Indian Institute of Corporate Affairs

- IICA an autonomous body under Ministry of Corporate Affairs. (स्वायत्त संस्था)
- It has launched a two-year Graduate Insolvency Programme (GIP). स्नातक कार्यक्रम शुरू किया
- The student passing this program can register as IP, without the mandatory 10 years' experience.



14.18.9 Project Sashakt by Finance Ministry (2018)



2018-Jul: Finmin's Project Sashakt for PSB-NPA on report by Sunil Mehta (PNB CEO).

Gave guidelines to resolve the NPA problem in a timebound manner in Public Sector Banks.
What were those guidelines? Too outdated. So, I'm removing it from latest handout.

? What was the purpose of the Inter-Creditor Agreement signed by Indian banks and financial institutions under Project Shashakt? (UPSC-Prelims-2019)

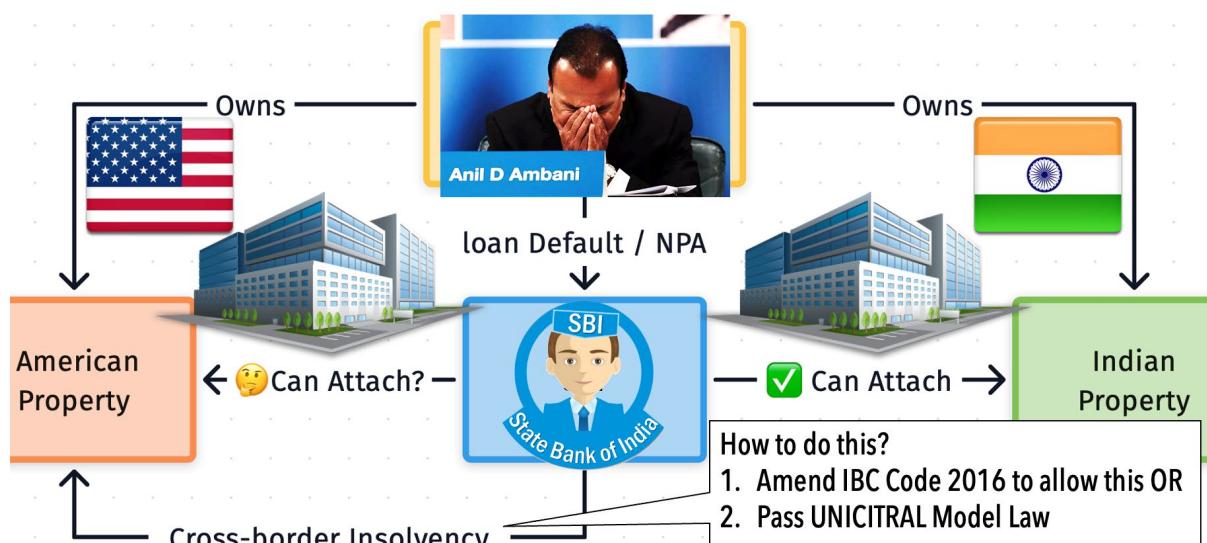
- a) To lessen the Government of India's perennial burden of fiscal deficit and current account deficit
- b) To support the infrastructure projects of Central and State Governments
- c) To act as independent regulator in case of applications for loans of ₹ 50 crore or more
- d) To aim at faster resolution of stressed assets of ₹ 50 cr or more which are under consortium lending.

Answer to Above MCQ is Option D. but now it is outdated current affairs so we will not study the exact matter.

14.18.10 ATMA-NIRBHAR → Insolvency → Micro,Small,Medium Enterprises

- Ref Pillar#1D: Financial Inclusion → Mudra and other loans schemes

14.18.11 Cross-border Insolvency (सीमा-पार का दिवालियापन)



- Cross-border insolvency has two facets: [1] foreign creditors should be able to recover money lent to Indian corporates & VICE VERSA. [2] During Indian company's insolvency in India, the



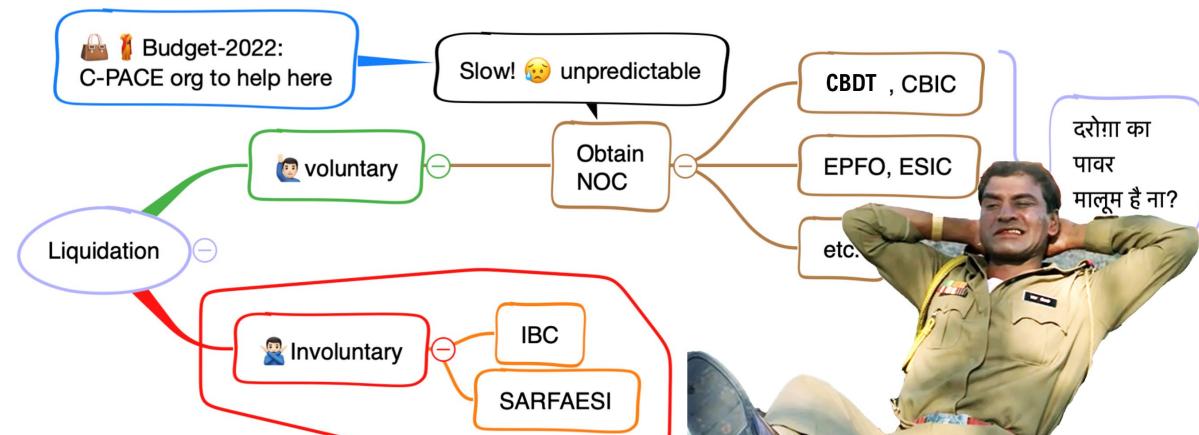
Indian lenders should be able to recover money from Indian company's foreign assets easily, AND VICE VERSA.

- IBC sections 234 & 235 have provisions for it, BUT they are not notified yet, so they are not enforced.
- This leads to uncertainty of outcomes for creditors and debtors.

2018: Corporate Affairs Ministry's Insolvency Law (reforms) Committee under Injeti Srinivas recommended

- We should create a separate law for Cross-border Insolvency. अलग से कानून बने
- More than 40 nations use United Nations Commission on International Trade Law (UNCITRAL)'s Model Law of Cross Border Insolvency (1997) So, we can use it as a template while making our own law → ES22 also recommended the same.
- Budget-2022: - We will amend IBC Code to facilitate cross border insolvency resolution.

14.19 (⚖️ 🗞️ 🤝) 🤝 VOLUNTARY LIQUIDATION OF COMPANIES



Liquidation is the process of shutting down a company. Two type of liquidations (परिसमाप्ति दो क्रिस्म) →

- ✓ 1) 🚧 Involuntary Liquidation: Due to loan default → it can be conducted either through I) IBC code or II) SARFAESI Act depending on the case. (अनैच्छिक परिसमाप्ति- जब कंपनी कर्ज में दिवालियापन दिखा दे)
- ✓ 2) 🤝 Voluntary Liquidation: when the owner has not committed any loan default but wants to shut down the business. Voluntary liquidation can be done through
 - ✓ A) sending application to the registrar of companies under Companies Act, 2013
 - ✓ B) sending application under the insolvency bankruptcy code.
- ✓ However Method-A is more popular than B at present. (स्वैच्छिक परिसमाप्ति. कंपनी ने अभी तक कर्ज में दिवालियापन नहीं दिखाया लेकिन उसके धंधे/व्यापार में अच्छा भविष्य नहिं दिख रहा इसलिए कंपनी का मालिक खुद की कंपनी स्वयं बंद करना चाहता है.)
- ✓ 💳 Budget-2022: we'll setup a Centre for Processing Accelerated Corporate Exit (C-PACE)- to faster voluntary liquidation / winding-up of the companies.

14.20 (⚖️ 🗞️ 🤝) 🗞️ 🤝 ECONOMIC SURVEY ON IBC/NPA: REFORMS (आर्थिक सर्वेक्षण)

Shifted to Mains Handout.



14.21 CREDIT RATING / MONITORING- VARIOUS ORG/INITIATIVES

Following portals are meant to collect the information related to borrowers

Portal	Description
CIC and CRA	Learned in the previous section the previous session.
Information Utility (IU).	Created by Insolvency and bankruptcy board of India (IBBI) with help of National e-governance services Ltd (NeSL)
CRILC	RBI has setup “Central Repository of Information on Large Credits (CRILC)” for Loans above Rs 5 cr. Banks & NBFCs have to submit weekly updates in this portal.
Public Credit Registry (PCR)	Proposed by RBI's Yeshwant M. Deosthalee Committee. RBI yet to set it up. (ऋण की सार्वजनिक रजिस्ट्री)
NFIR	Proposed in the Budget 2023. <Next section>

14.21.1 National Financial Information Registry (NFIR) in Budget-2023

- ⇒ NFIR will be designed with help of RBI.
- ⇒ NFIR will contain info on both individual borrower and company borrowers.
- ⇒ NFIR will contain info on all the loans taken by them through banks,NBFCs,bonds, etc.
- ⇒ Thus, NFIR Will provide 360 degree information about a loan applicant's creditworthiness.
- ⇒ will help the lenders process the loan application in a more faster and accurate manner

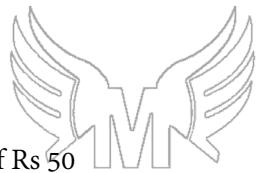
राष्ट्रीय वित्तीय सूचना रजिस्ट्री बनाएंगे जिसमें व्यक्तियों और कंपनियों द्वारा विभिन्न संस्थानों से लिए गए कर्जे की संपूर्ण जानकारी होगी। ताकि भविष्य में जब वह वापस लोन के लिए अर्जी डाले, तो वित्तीय संस्थान आसानी से और ज्यादा सटीकता से उनकी अर्जियों का निपटान कर सकें - ऐसा बजट 2023 ने कहा

14.21.2 Legal Entity Identifier (LEI) Number: (कानूनी इकाई पहचान संख्यांक)



Figure 2: विदेश मे नयी कंपनी बनाकर विदेशी की बैंकों को चुना लगाएंगे तो क्या उखाड़ लोगे?

- **Objective?** Even if a company is blacklisted by Indian banks, it could apply for loans overseas, and those overseas bankers may not be aware of company's history.
- So, there should be a global “Aadhar card” number for companies, and they must be forced to quote that number during every financial transaction.
- After USA's Sub-Prime Crisis and Global Financial Crisis (GFC), **the G20 and its Financial Stability Board (FSB: वित्तीय स्थिरता बोर्ड)** came up this LEI concept- a 20-digit alphanumeric code.
- LEI's Global Boss: Global Legal Entity Identifier Foundation (GLEIF), Frankfurt, Germany. LEI's Indian agent: Clearing Corporation of India.



- From 1/10/2022 RBI has ordered all companies undertaking crossborder transactions of Rs 50 crore or more to quote this number in financial transaction.
- RBI has power to issue such directives under: Payment and Settlement Systems Act, 2007 & Banking Regulation Act 1949. (वित्तीय लेन देन के दौरान कंपनी ने अनिवार्य रूप से ये नंबर लिखना होगा)

14.22 📈 ⚖️ - 🏛️ FUGITIVE ECONOMIC OFFENDERS ACT, 2018



Figure 3: देश छोड़ के भाग जाऊंगा, 9 लाख का लेधर जेकेट पहेनके लंडन की गलियों में घूमँगा, तो क्या उखाड़ लोगे मेरा?

भगोड़ा आर्थिक अपराधी अधिनियम: This act targets economic offenders accused of cheque dishonor, loan / investment / chit-fund scam, money laundering etc. worth ₹ 100 crores > & left India to avoid facing prosecution / arrest.

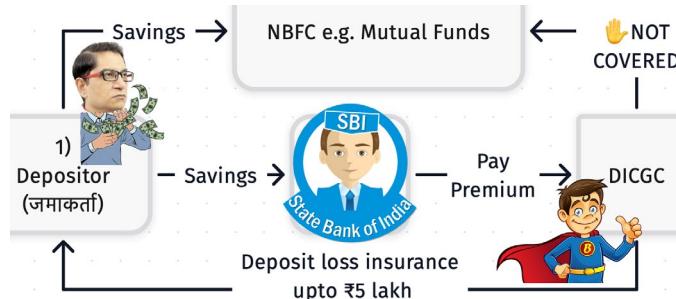
- Special courts under the PMLA (Prevention of Money-laundering Act, 2002) will order the villain to appear within 6 weeks, if not then he is declared “Fugitive Economic Offender”⇒ His Indian & Overseas & Benami properties will be attached (भगोड़े आर्थिक अपराधी की भारतीय तथा विदेशी संपत्तियों को जप्त किया जाएगा).
- Once property attached- the Union Govt will oversee its administration / liquidation (नीलामी/परिसमापन).
- No ordinary civil court / tribunal can give stay order. Villain can make appeal only in High Court and Supreme Court. (भगोड़ा आर्थिक अपराधी केवल उच्च न्यायालय और सर्वोच्च न्यायालय में जाकर मदद मांग सकता है).

If Borrowers don't repay, SARFAESI auctions give little recovery, CRR-SLR insufficient to repay deposits then bank collapse imminent. Then, how to protect the depositors? →

14.23 🏦 💰 💳 DICGC ACT: OBJECTIVE & LIMITATIONS



Figure 4: बैंक तो घोटाले में बंध हो गया। कोन करेगा हमारा पैसा वापस?



- 1961: Deposit Insurance and Credit Guarantee Corporation Act - mandates that all types of banks must buy insurance on their deposit accounts from DICGC. Banks have to pay premium for this insurance. (निक्षेप बीमा और प्रत्यय गारंटी निगम: प्रत्येक बैंक ने अनिवार्य रूप से अपनी जमाकर्ताओं की डिपोजित को बीमे द्वारा सुरक्षित करना होगा)
- DICGC is 100% owned by RBI. RBI Dy. Governor acts as chairman of DICGC. HQ: Mumbai.



- When a bank shuts down, DICGC will pay upto ₹ 1 lakh insurance to every deposit holder for his principal and interest. (यदि बैंक बंद हो गया तो जमाकर्ता के नुकसान की भरपाई यहां से होगी)
- **✉️ Budget-2020: announced** the insurance coverage to ₹ 5 lakhs (नुकसान भरपाई की राशि में बढ़ोतरी)
- 2021: Government introduces Deposit Insurance & Credit Guarantee Corporation (Amendment) Bill →

BEFORE (सुधार/संशोधन विधेयक से पहले)	AFTER REFORM (सुधार पश्चात्)
Upto ₹1 lakh deposit insured	Protection increased upto Rs 5 lakh
When will depositors get back above amount? No clear timelines. Often they had to wait for many years (पैसा/मुआवजा कब आएगा उसकी समय सीमा तय नहीं थी)	When RBI imposes (withdrawal) moratorium on a weak bank → within 90 days of that event, DICGC will pay depositors. (रिझर्व बैंक जब कमज़ोर बैंक में से ग्राहकों के पैसे उठाने पर रोक लगाए उसके 90 दिनों के भीतर ही मुआवजा मिल जाएगा)
Banks had to pay premium/fees to DICGC at the rate of ₹10 paise to insure every ₹100 worth of deposits. (बैंकों ने हर ₹100 के डिपॉजिट का बीमे के लिए 10 पैसे की बीमा किस्त/फीस देनी होती थी)	DICGC can increase the premium fees to ₹12-₹15 paise (i.e. 20%-50% more than the original fees) Exact figures NOTIMP. (बीमा किस्त में बढ़ोतरी की गई)
All types of Banks covered But NBFCs not covered.	Same as left cell. (सभी प्रकार के बैंक के ग्राहकों को सुरक्षित करता है, किंतु गैर बैंक वित्तीय संस्थान के ग्राहकों को सुरक्षित नहीं करता.)

- Previously, DICGC provided guarantee cover to bank on the loans granted to Priority Sector Borrowers.
- E.g. if Micro enterprise owner did not repay PSL-loans → DICGC would cover losses of the banks, hence its name contains the word 'Credit Guarantee Corporation'.
- But, with formation of SIDBI (1990), National Credit Guarantee Trustee Company Ltd. [NCGTC, 2016] etc, this credit guarantee work divided among many organizations (REF: Pillar#1D), but we need not PHD over it. # थोड़ा-पढ़ो-आगे-बढ़ो

14.23.1 Limitation of DICGC (मर्यादाएँ)

- If a customer deposited more than ₹5 lakh in a single commercial / cooperative bank, then he gets only ₹5 lakh from DICGC. And for the remaining amount he must wait till RBI / Cooperative Registrar liquidates the bank. (Ref 1B1: Banking Regulation Ordinance 2020)
- DICGC doesn't cover PACS and NBFCs. Those victims may have to approach courts.
- 2002: UTI (a Govt owned mutual fund company) made big losses. DICGC not liable to protect UTI-clients because it is NOT A BANK. So, Govt had to pay ₹14,500 crores (of tax payer's money) to customers of UTI-Mutual Fund.
- So, Financial Sector Legislative Reform Commission (FSLRC: वित्तीय क्षेत्र विधायी सुधार आयोग) under Justice B.N. Srikrishna (2011-13) recommended a new org called **Resolution Corporation (RC)** via -Financial Resolution and Deposit Insurance (FRDI) Bill/law. (DICGC को बंध कर एक नयी संस्था बनाने का सूझाव)



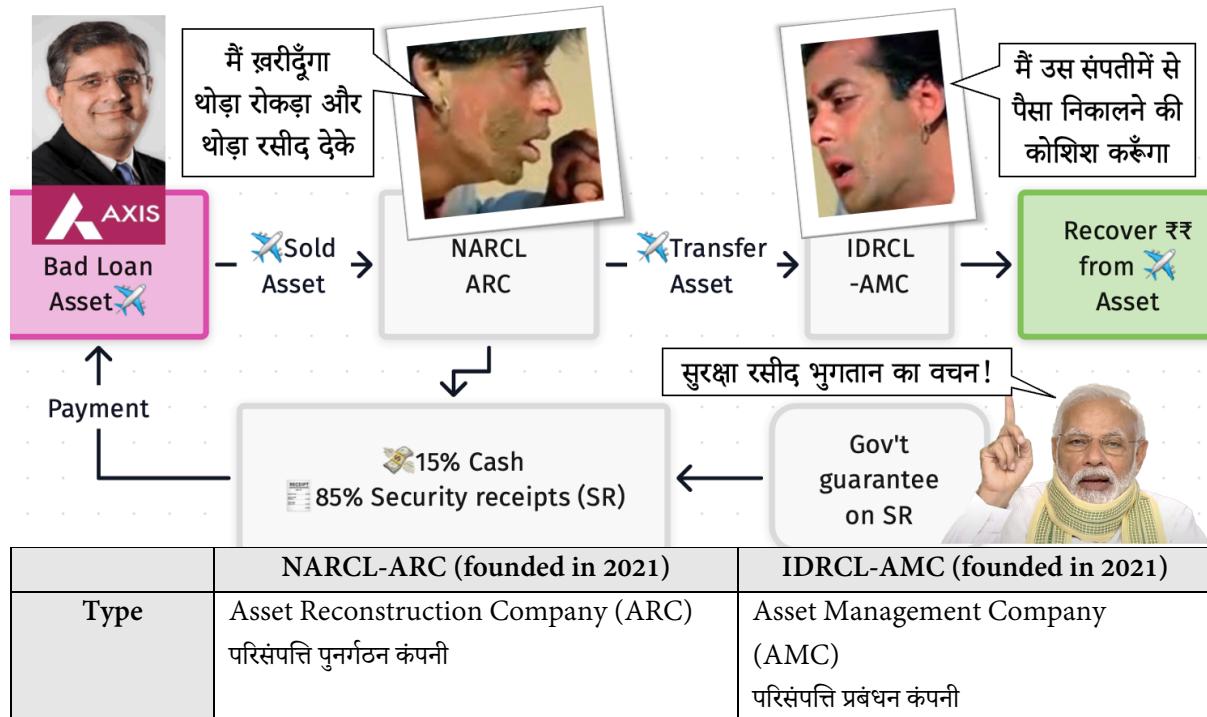
- Govt had proposed the FRDI bill in 2017, but too much opposition in media & public, so withdrew it in 2018. It's a defunct topic. We'll not WASTE TIME learning its salient features.

🕒 थोड़ा-पढ़ो-आगे-बढ़ो

14.24 🚧 (🏦 💯 💀) BAD BANK (NARCL, IDRCL-2021): INTRO

- ⇒ (DATA) 📊 ES2016-17 had found that total ₹ 2 lakh crore of bank money is stuck in large sized NPA-accounts. Each of this loan account having ₹500cr or more. (बैंकों का करीब 2,00,000 करोड़ रुपया ऐसे लोन खातों में अटका है जिनमें एक-एक की मात्रा 500 करोड़ या उससे अधिक है)
- ⇒ (Origin) Sometimes, the resolution of large sized NPA accounts is difficult under IBC Code (e.g. Vijay Mallya being a wilful defaulter so he is not eligible for IBC).
- ⇒ Under SARFAESI act such assets could be auctioned off but sometimes bidders and ARCs (e.g Anil Ambani's ARC) do not have enough financial capacity to purchase such big assets (worth ₹500-500 crores!). (इस प्रकार के बड़े लोन खातों का समाधान आईबीसी/सरफ़ाएसी क्रान्ति में करते वक्त समस्याएं आ रही हैं)
- ⇒ Therefore, Economic Survey 2016-17 had suggested to setup a BAD BANK named "Public Sector Asset Rehabilitation Agency" (PARA). To buy bad loans from, try to get the maximum value from loan-restructuring / liquidation-auction and absorb the losses. (इसलिए आर्थिक सर्वेक्षण ने सुझाव दिया एक बैड-बैंक बनाया जाए जो कि बैंकों के खराब लोन पेपर/ अनर्जक परिसंपत्तियों को खरीदेगा.)
- ⇒ Then, 📄 Budget-2021 announced set up an Asset Reconstruction Company (ARC) and Asset Management Company (AMC) to take over the bad loans from banks. (बजट 2021 ने अमल किया).
- ⇒ Govt will not have any shareholding in ARC/AMC. Banks will set these organization(s) up with their own funds. (सरकार इसमें शेयर धारक नहीं बनेंगी. बैंकवाले खुद से शेयर पूँजी देकर इसको बनाएंगे)
- ⇒ Examples of such bad banks in other countries- Danaharta in Malaysia, UKAR in UK.

14.24.1 🚧 (🏦 💯 💀): 💡 Bad Bank Structure





	NARCL-ARC (founded in 2021)	IDRCL-AMC (founded in 2021)
Full Form	National Asset Reconstruction Company Limited (NARCL)	India Debt Resolution Company Ltd. (IDRCL) =
Type	Registered company under companies act. (So not a statutory/constitutional body) Given license by RBI for ARC.	Registered company under companies Act. (कंपनी कानून में पंजीकृत कंपनियां हैं, ये कोई वैधानिक या संवैधानिक संस्थाएं नहीं हैं) ^^
Function	To purchase bad loan assets from banks. (यह बैंकों से अनर्जक परिसंपत्तियां खरीदेगा)	To manage/value addition/ auction those bad loan assets which were purchased by NARCL. (e.g. factory, airplanes, bulldozer). (खरीदी हुई संपत्तियों का प्रबंधन, मूल्य वर्धन, नीलामी करेगा)
Ownership/ Shareholding	⇒ 51% PSBs like SBI, BoB, PNB** ⇒ 49% by Pvt banks and NBFCs#	⇒ 49% (Public Sector Banks, NBFCs) ⇒ 51% (private sector bank, NBFCs).#
Tenure	This organization will exist for five years.	Same as left cell

** NARCL Ownership 51% shareholding/ownership among 8 public sector banks (PSB) viz. SBI (13.17%), Punjab National Bank (12%), Bank of Baroda, Canara Bank, Bank of Maharashtra, Union Bank of India, Indian Bank, Bank of India. (Note: Future Some of these PSBs may get merged so the % may change.)

► 🎙️ FAQs:

- ⇒ "what are their names? Ans. Not explicitly mentioned in Pressnote. # ⏰ थोड़ा-पढ़ो-आगे-बढ़ो
- ⇒ ^^ AMC got license from RBI or SEBI? Ans. Same as above
- ⇒ Bad Bank means “ONLY NARCL” or (NARCL+IDRCL) Ans. Same as above. But from how 📊 📊 ES17 had given the vision of Bad bank, it should be the combined work of (NARCL+IDRCL)= Bad Bank.

14.24.2 🏠 (₹) Bad Bank: ➡️ functioning

- बैंड बैंक नीलामी में बैंकों की अनर्जक परिसंपत्तियां खरीदेगा, और वह भुगतान की रकम: 15%मुद्रा और 85% सुरक्षा रसीदों के रूप में बेंकर को चुकाएगा। ऐसी Rs.30,600 cr करोड़ की सुरक्षा रसीदों के पीछे भारत सरकार ने अपनी संप्रभु गरंटी अगले पाँच वर्षों के लिए दी है।
- ⇒ Suppose Axis Bank has a bad loan account worth ₹200. Axis may conduct an (Swiss Challenge) Auction. Bad Bank offers ₹100, Anil Ambani's ARC offers ₹95, Mahindra offers ₹92.
 - ⇒ Then Axis will sell to Bad Bank for ₹100 (because its the highest bidder)
 - ⇒ BadBank will pay Axis ₹100= Partially in currency (₹15) + partially in Security receipts (SR worth ₹85).
 - ⇒ Security receipts (SR) is a piece of paper issued by BadBank promising to pay the remaining dues/amount (₹85) to banker in 5 years.
 - ⇒ Security receipts (SR) is a legally valid instrument under the Sarfaesi Act.
 - ⇒ If the Axis banker very urgently requiring money then he may resell the SR at discount (e.g. at ₹80) to another Bank, Insurance/Pension Company, AIFI (e.g. SIDBI, NABARD) etc.



- ⇒ Then those new SR-holders will receive the money (₹85) from Bad Bank in future.
- ⇒ IF Bad Bank faces problems in honoring the SR payment deadlines→ then, Union Govt has given sovereign guarantee of Rs.30,600 cr to Security Receipts (SR). This sovereign guarantee valid for 5 years.

14.24.3 🏛️ (🏠 💸 💀) Bad Bank: 😊 😬 Benefits & Challenges?

- ⇒ 😊 Faster resolution of large sized NPA. (तेज निपटान)
- ⇒ 😊 Individual Bank's Bad loan size ↓ = BASEL-III Capital requirement ↓ (बैंकों की अनर्जक परिसंपत्तियां कम होगी तो उन्होंने बासेल मानदंड के लिए कम पूँजी प्रावधान करना होगा)
- ⇒ Further benefits = RE-Paste the points given in Intro & Conclusion. (परिचय और निष्कर्ष में जो मुद्दे लिखे हैं उसकी वापस पीपूँड़ी बजाओ)
- ⇒ 😬 Ultimately the losses caused by Vijay Mallyas are paid by depositors/investors (of the Banks/NBFCs who own NARCL & IDRCL) and Taxpayers (using whose money Govt's is giving sovereign guarantee to Security receipts). (अंत में तो परोक्ष रूप से इस नुकसान की भरपाई जमाकर्ता निवेशक और करदाताओं द्वारा ही हो रही है)

14.24.4 🏛️ (🏠 💸 💀) Bad Bank: ✍️ Conclusion (निष्कर्ष)

NARCL aims to resolve stressed loan accounts above ₹500 crore each. Total about ₹ 2 lakh crore stuck in such loan accounts. Thus, individual banks will be relieved from not having to waste time haggling with NPA-borrower. Bankers will be able to focus energy on business expansion, financial inclusion. Thus, Govt taken an appreciable step, it will help in a long way in re-invigorating Indian banking sector. (दो लाख करोड़ की अनर्जक-परिसंपत्तियों का निपटान होगा। बैंकर अपनी समय और ऊर्जा पुराने बकायदारों से लोन पुनर्गठन की माथापच्ची करने की जगह, अपने बैंक के व्यापार विस्तारण तथा वित्तीय समावेशन में लगा पाएगा। सरकार ने प्रशंसनीय कदम उठाया है, जिससे भारतीय बैंकिंग क्षेत्र में नवऊर्जा का संचार होगा.)

14.25 🐾 💊 🎩 💴 💬 🙌 PROMPT CORRECTIVE ACTION (PCA) FRAMEWORK

Under PCA framework, RBI classifies the scheduled commercial banks (SCB) into **Risk threshold #1, #2, #3** based on its capital, loan-asset quality etc. Higher the number, higher the risk. Then, accordingly, RBI will take corrective actions such as: (जोखिम के हिसाब से बैंकों को वर्गीकृत करता है)

- ⇒ RBI giving strict warning, conducting deeper audit & supervision. (ज्यादा कड़ी निगरानी)
- ⇒ Restricting bank's directors' salaries and dividend distribution to its investors. (वेतन, लाभांश वितरण पर रोक)
- ⇒ Restricting bank's branch expansion & lending operations. (शाखा विस्तार और ऋण देने पर रोक लगाना)
- ⇒ Forcing merger / shutdown (under Banking regulation Act 1949). (कमज़ोर बैंक को बंध करना)

If a PCA-listed bank wants to get 'whitelisted', it'll have to **☒** its NPA, obtain additional capital, **⬆️** its profitability. (इस सूची से बाहर निकलना है तो अनर्जक संपत्तियों को कम करना होगा, ज्यादा पूँजी बटोरनी होगी, ज्यादा मुनाफा लाना होगा)

- ⇒ PCA is "Monetary Policy → Qualitative / Selective Tool → Direct Action". (मौद्रिक नीति → गुणात्मक → सीधी कार्यवाही का यह एक साधन है)



⇒ As of 2020-Feb: 4 PSBs in this list viz. Indian Overseas Bank (IOB), Central Bank of India, UCO Bank and United Bank of India. 🤝 Dynamically changing info so we need not remember / loose sleep for MCQs.

14.25.1 🐱 💸 🐱 💰 💬 🤚 RBI's Prompt Corrective Action (PCA) for NBFCs

(गैर बेंक वित्तीय कंपनीयों के लीए त्वरित सुधारात्मक कार्रवाई)

- ⇒ From 1/10/2022- RBI to monitor NBFCs using 3 indicators/parameters: - 1) Non-Performing Assets, - 2) BASEL-capital adequacy ratio - 3) BASEL- Tier 1 capital. (What do they mean? NOTIMP | इन पैमानों पर निगरानी)
- ⇒ Accordingly, RBI to classify the NBFCs in risk category#1-2-3. (जोखिम के हिसाब से वर्गीकरण)
- ⇒ Higher risk → higher restrictions e.g. 🤚 1) restriction on branch expansion 🤚 2) halt on dividend distribution, 🤚 3) NBFC owners will be asked to infuse capital in NBFC etc. etc (गैर बेंक वित्तीय कंपनी में जितना ज्यादा जोखिम → तो उतनी ज्यादा पाबंदिया रिझर्व बैंक उसपे डालेगी)
- ⇒ This NBFC-PCA-norms applicable on deposit-taking-NBFCs (e.g BajajFinServ).
- ⇒ But 🤚 Not Applicable on govt owned NBFCs (e.g UTI Mutual Fund), primary dealers, housing finance companies (HFC), non-deposit taking NBFCs (e.g. ILFS). However, in future, RBI may add more categories of NBFC in this list.

14.25.2 🐱 💸 🐱 💰 💬 🤚 RBI 's Supervisory Action Framework for Urban Co-operative Banks

Outdated for 2023-2024 exam cycle. Deleted from handout.

14.25.3 RBI's 4-tiered regulatory framework for urban cooperative banks (2022-Dec)



Tier	Deposit Range
1	Up to ₹100 crore
2	₹100 crore - ₹1000 crore
3	₹1000 crore - ₹10,000 crore
4	Above ₹10,000 crore

Higher the tier e.g. 3-> 4 = stricter RBI norms under BASEL-III. What/HOW exactly? NOT IMP.

(शहरी सहकारी बैंकों के लिए 4-स्तरीय नियामक ढांचा)

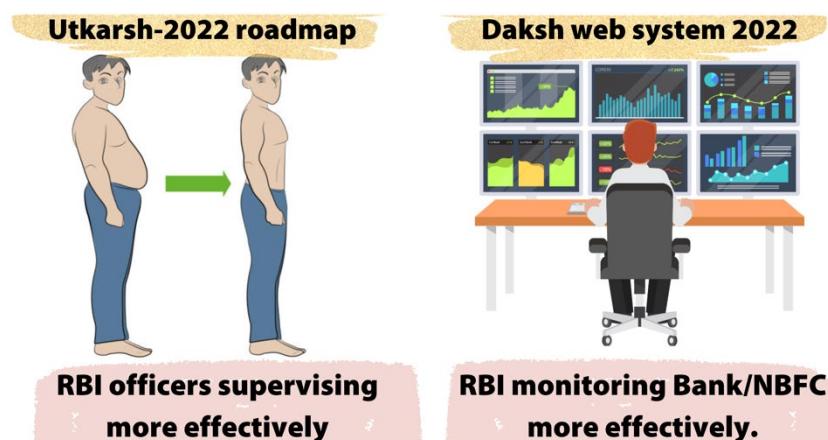
14.25.4 🐱: 🌳 Regulations Review Authority (RRA 2.0)- for Ease of implementing RBI rules

- RBI has setup RRA 1.0 (in 1999, for one year) and RRA 2.0 (in 2021, for one year)
- Chairman: RBI's Dy. Governor M Rajeshwar Rao. Who are other members? NOTIMP.

- Objective: To give suggestions to RBI to simplify its rules/regulations so Bank/NBFCs have ease of doing business. (नियंत्रण समीक्षा प्राधिकरण जो कि रिज़र्व बैंक को सुझाव देगा कि कैसे रिज़र्व बैंक के नियमों में सरलीकरण किया जाए ताकि उनके अनुपालन में बेंक और एनबीफसी को आसानी रहे।)

14.25.5 📈: 📈 RBI supervision: Utkarsh-2022" roadmap

- ⇒ 2019 July: Dy. Gov Viral Acharya Committee → RBI board approved 3 year medium term framework to improve RBI regulation & supervision, based on global best practices = “Utkarsh-2022” roadmap. (वैश्विक मानदंडों का अनुसरण करते हुए रिज़र्व बैंक की नियंत्रण और निगरानी करने की प्रणालियों में अगले 3 सालों में सुधार करने के लिए उत्कर्ष कार्यक्रम)



14.25.6 📈: 📈 RBI supervision: Daksh web system 2022

- Web system wherein Banks, NBFC send their compliance reports to RBI
- Then RBI can monitor them more effectively. E.g. how many credit card frauds this month, new guidelines to prevent it etc.

14.25.7 Digital lending norms by RBI (2022-Nov)



- ⇒ A lending/Loan Service Provider (LSP) is financial technology (Fintech) company that connects borrowers with lender (Banks & NBFCs). e.g. Lazypay, Bank Bazaar, Paisa Bazaar
- ⇒ LSP helps the customer get the loan digitally.
- ⇒ RBI has issued guidelines to regulate this ‘digital lending’ market.



Exact guidelines are not important. Sufficient to know that RBI requires

- ⇒ 1) exorbitant interest cannot be charged.
- ⇒ 2) Such organisations have to appoint grievance redressal officers & clear the complaint within stipulated time limit.

कुछ वित्तीय प्रौद्योगिकी (फिन-टेक) कंपनियां एक तरफ कर्ज लेने वालों को, और दूसरी तरफ बैंक- एनबीएफसी के साथ डिजिटल माध्यम से जोड़ती हैं। इस डिजिटल कर्ज प्रणाली पर रिजर्व बैंक कुछ सख्तिया कर रही है।

14.25.8 Digital lending → FIRST LOSS DEFAULT GUARANTEE (FLDG) norm by RBI



कर्जदार पैसा वापस ना करें तो फिनटेक कंपनी ने बैंक के नुकसान की कुछ भरपाई करनी होगी इस पर रिजर्व बैंक के कुछ दिशनिर्देश

What does above chart mean? Ans. Explained in the video lecture.

14.26 BASEL-III NORMS (बेसेल-3 मानदंड)

Bank for International Settlements (BIS) is an international institution made up of 60 countries' Central Banks. HQ @ BASEL, Switzerland. Its committee on banking supervision set norms in 1988 (I), 2004 (II), 2011(III) to ensure global financial stability. (वैश्विक वित्तीय स्थिरता के लिए मानदंड बनाए हैं इस समिति ने)

- From 1/4/2013, RBI began phased implementation of BASEL-III norms in India:
- First, a bank needs to calculate its Risk-Weighted Assets (RWA: जोखिमपूर्ण संपत्ति).
- Against these RWA, (Universal) Scheduled Commercial Banks (SCB) must keep:
 - o “Minimum Capital to Risk Weighted Assets Ratio” (CRAR) at 9% or higher from 31/3/2019.
 - o “a%” Capital Conversation Buffer (CCB) from XX date..
 - o “b%” Counter Cyclic Capital Buffer (CCCB): whenever RBI notifies.
- “c%” Leverage ratio (LR)
- “d%” Net Stable Funding Ratio (NSFR)
- “e%” High quality liquid assets (HQLA)
- “f%” Liquidity Coverage Ratio (LCR)
- and so on...many things.

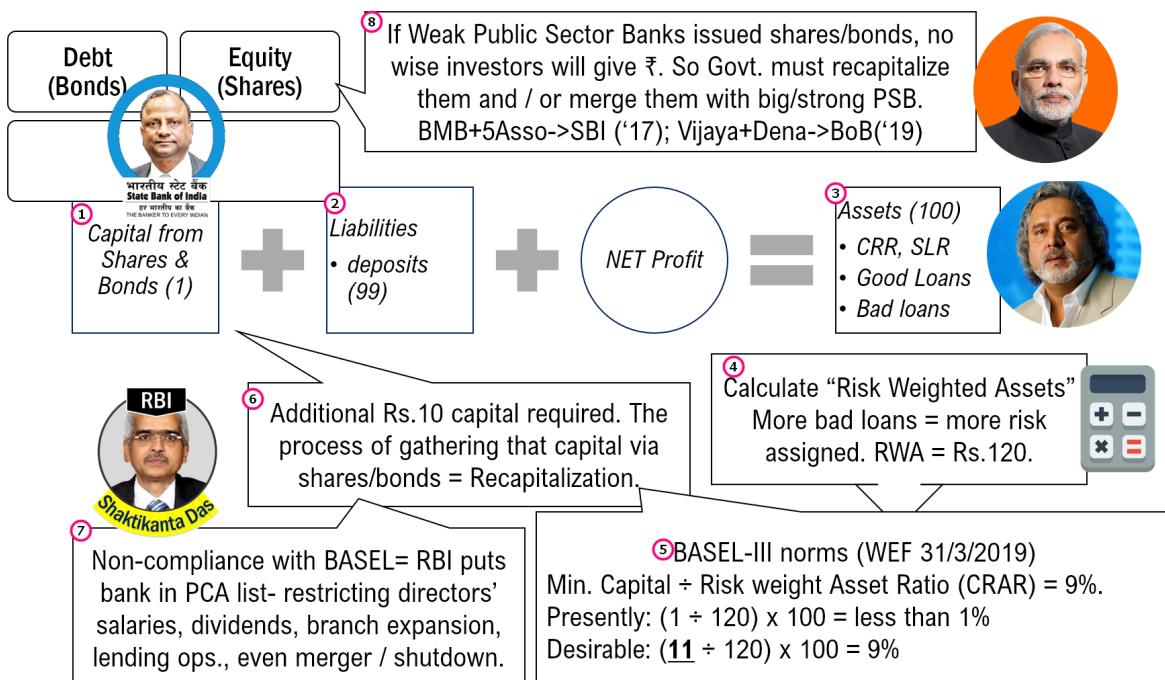


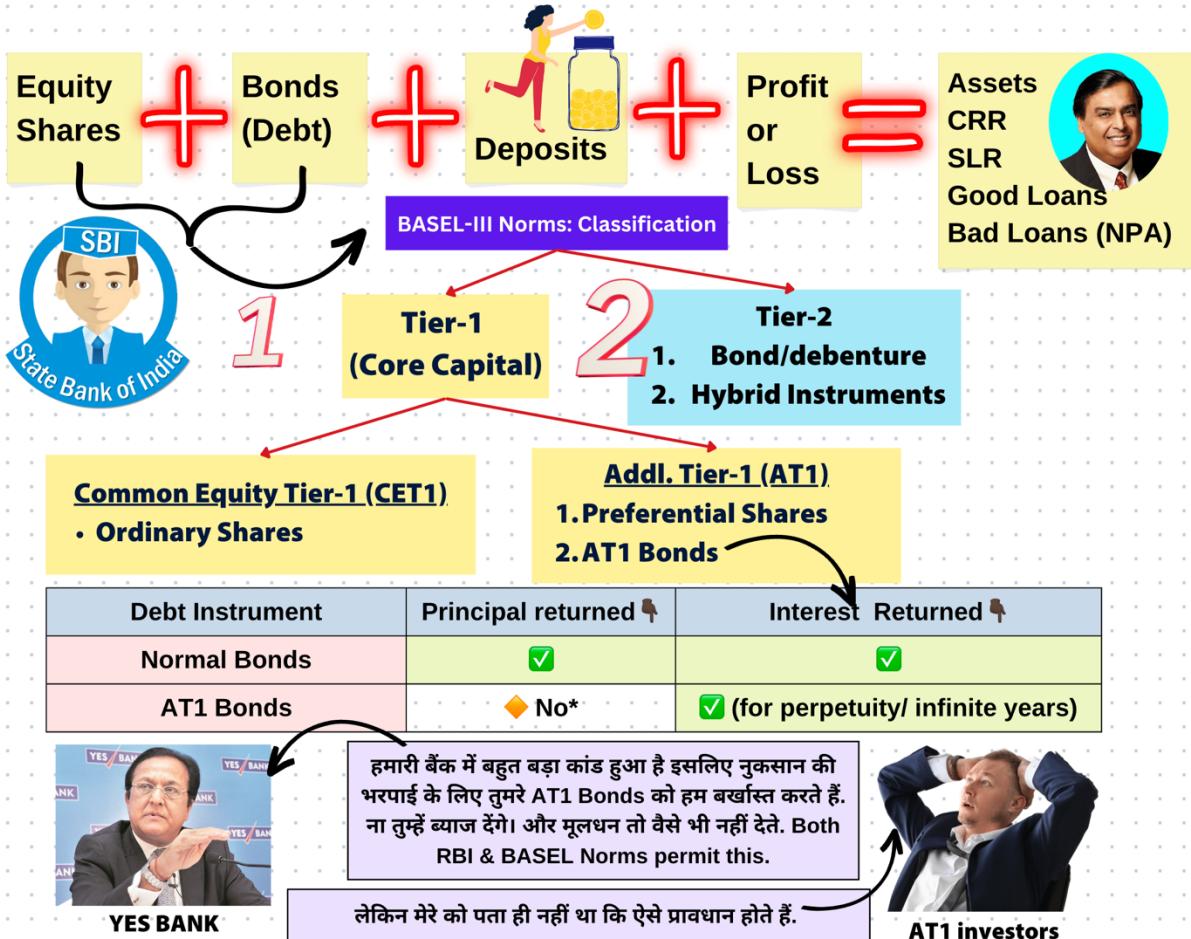
Figure 5: We need not bother with Tier-1 Tier-2 Capital etc, #थोड़ा-पढ़ो-आगे-बढ़ो

⌚ FAQ. How exactly do CCB, CCCB, LR, NSFR, HQLA, LCR etc work? Ans. Not important for exam, beyond the basic ‘word-association’ that they’re related to BASEL Norms. # ⌚ थोड़ा-पढ़ो-आगे-बढ़ो

- ⇒ Each member country’s Central Bank can prescribe different %, ratios depending on their country’s situation. (हर देश की केंद्रीय बैंक अलग-अलग दिशा निर्देश जारी कर सकती है)
- ⇒ As Bad loans (NPA) = bank’s asset quality degrades = its Risk-weighted assets (RWA) → bank must arrange more capital to comply with these ratios, norms and buffers.
- ⇒ If a bank can’t comply with BASEL norms → RBI puts it in PCA list. In worst case, bank will have to merge/ sell off its business to another bank or shut down. (इन मानदंडों को नहीं माना तो अंत में बैंक बंद हो सकता है)
- ⇒ BASEL Norms also apply on Differential Commercial Banks (LAB, RRB, SFB, PyB), Cooperative Banks, AIFI (EXIM, NABARD, NHB, SIDBI) and certain category of NBFCs, but RBI can prescribe separate norms / limits / deadlines for them. (विभिन्न प्रकार की वित्तीय मध्यस्थ ऊपर संस्थाओं पर इन मानदंडों की सीमा अलग-अलग है)

14.26.1 🏛️ 💰 BASEL-III norms: Capital Tiers

BASEL-III norms require banks to keep capital against their risk weighted asset ratio. This capital is subdivided into:



14.26.2 Additional Tier 1 (AT1) Bonds

They have no maturity date (i.e. bank has to pay interest for infinite time / perpetuity and principal will not be returned). However, bank may 'buyback' them after certain years.

If / when a bank makes huge losses → AT1 Bonds' liability may be

- written off (खारिज कर देना) OR
- converted into shares (process called 'Bail-In').

AT1 Bonds are in news due to loan-scam in Yes-Bank. What exactly is that scam? =NOT-IMP.

14.26.3 Zero Coupon Bonds

⇒ Ref: Pillar1C- Sharemarket.

Q ? What is the objective of BASEL-III norms? (UPSC-Prelim-2016)

- Develop national strategies for biological diversity.
- reduce the GHG emissions but places a heavier burden on developed countries.
- transfer technology from developed Countries to poor countries to replace chlorofluorocarbons in refrigeration.
- improve banking sector's ability to deal with financial and economic stress and improve risk management.

Q ? Basel Convention provides: (UPSC-IES-2020)



- (a) Indian standards for pollution measurement and prevention
- (b) International guidelines to control the transboundary movements of hazardous wastes between different countries
- (c) Indian standards for the disposal of municipal and industrial wastes
- (d) International standards to categorize pollution in air and wastewater

14.26.4 🌎 🐾 D-SIB: Domestic Systematic Important Banks



- ⇒ In 2010, G-20's brainchild **Financial Stability board (HQ: BASEL)** asked countries to identify Systematically Important Financial institutions and put framework to reduce risk in them. [Side note: Same parents responsible for birth of Legal Entity Identifier (LEI)]
- ⇒ Each year, RBI identifies banks that 'too big to fail' (=if they fail, it'll severely hurt the economy)' and labels them as **Domestic Systematic Important Banks (D-SIB)**, & orders them keep additional equity capital against their Risk Weight Assets (RWA) & other technical norms.
- ⇒ Presently, 3 D-SIBs in India: SBI, ICICI, HDFC (**Latest Entry**).

14.27 🐾 🎯 : BASEL NORMS DEFERRED / SUSPENDED IN CORONA

self-explanatory from the topic-title itself. (कुछ मानदंडों की अंतिम तिथि को टाल दिया गया।)

We need not loose sleep over new deadlines, as they may again get extended. So, dynamic information = dangers of answerkey becoming invalid, so, smart examiners usually avoid it. #▲ थोड़ा-पढ़ो-आगे-बढ़ो

14.28 📊 📈 BANKS' BALANCE SHEET / AUDIT NORMS (तुलन पत्र लेखा परीक्षण)

14.28.1 🐾 📊 📈 IndAS Accounting Norms deferred (लेखा मानदंड स्थगित/टाल दिये)

- ⇒ Ministry of Corporate Affairs (MCA) ordered all the companies to keep their balancesheet as per the format prescribed in the Indian Accounting Standards (IndAS).
- ⇒ 🎯 Benefit? IndAS accounting format makes it easier for the local and global investors and regulators to compare, analyze and understand a company's financial position from its balancesheet. (इस रिपोर्ट को देखकर निवेशक को आसानी से कंपनी की वित्तीय क्षमता का अंदाज़ा लग जाता है.)
- ⇒ IndAS is not part of BASEL norm. But, since commercial banks are basically 'companies doing banking activity', so they also have to comply to IndAS norms. But, only RBI has the power to notify its implementation deadline on banks. (बैंकों के ऊपर भी इन्हीं नियमों को लागू करना है.)



⇒ 2020- Critics demanded RBI should implement it. What is the deadline? NOTIMP.

14.29 RECAPITALIZATION OF PSBs: [सार्वजनिक क्षेत्र के बैंकों का पुनःपूँजीकरण]

If a bank doesn't have enough capital to comply with BASEL-III norms it can issue debt (bonds) and equities (shares) to gather new capital. (बासिल मानदंडों का अनुपालन करने के लिए बैंक ने पूँजी जमा करनी होती है)

- **2015:** Estimation that Public Sector Banks (PSBs) will require ₹ 1.8 lakh crore additional capital by 31/3/19 to comply with BASEL-III norms.
- So, Finance Ministry's Dept. of Financial Services up with **Indradhanush PLAN** for phased-recapitalization of PSBs with ₹ 70,000 crores from 2015 to 2018. Individual PSB will get funding based on outcomes / performance. (इंद्रधनुष प्लान के अंतर्गत वित्त मंत्रालय सरकारी बैंकों में पूँजी दे रहा था-बासिल मानदंड के अनुपालन के लिए)
- **2017:** It became clear ₹70,000 crores was insufficient for BASEL-III compliance. So, Modi Govt. announced more amount. (हालांकि बाद में पता चला की वो रकम पर्याप्त नहीं थी और ज्यादा रकम चाहिए होगा)
- To arrange ₹₹ for this, Govt began to issue Bank Recapitalization Bonds (RcB) in the market with following features: These bonds will have interest rate of ~7%, mature@ 2028-2033. Non-transferable to third party, Non-convertible into shares. (तो ज्यादा रकम बटोरने के लिए सरकार ने बाजार में बॉन्ड जारी किये)
- Govt instructed PSBs to mobilize equity (share) capital from private investors. However, investors shy away from smaller banks with weak balancesheets, so BMB & 5 Associated Banks merged with SBI (2017). Vijaya & Dena to be merged with BoB (2019, 1st April) etc. (More in Pillar#1B1)
- Budget-2020: FM said we've given ₹3.50 lakh cr in the last years years.
- Budget-2021: ₹20,000 crores for PSB recapitalization in Financial Year 2021-22.
- Budget-2022: No money given for this. Govt's rationale is that PSBs profitability improving so PSBs can take care of their capitalization problems by themselves by issuing shares/bonds in market. (सरकार ने नए बजट में पुनःपूँजीकरण के लिए कोई पैसा नहीं दिया. सरकारी बैंकों अब तुम खुद अपना देख लो !)

? MCQ. Find Correct Statement(s) abt Governance in PSBs:(UPSC-Pre-2018)

1. Capital infusion into PSBs by the Govt of India has steadily increased in the last decade.
2. To put the public sector banks in order, the merger of associate banks with the parent State Bank of India has been affected.

Answer Codes: (a) 1 only (b) 2 only (c) Both 1 and 2(d) Neither 1 nor 2.

14.30 BANKING SECTOR: GOVERNANCE / ADMINISTRATIVE REFORMS

14.30.1 Gyan-Sangam-I, 2015, Pune

FinMin's Dept of Financial Services (वित्तीय सेवा विभाग) organized a workshop of financial regulators, Public Sector Bank, Insurance Companies etc. It resulted in 3 outcomes:

- 1) PSBs' CMD post bifurcated into 1) separate chairman and 2) separate MD&CEO so that banks can function in more professional and accountable manner.
- 2) **Indradhanush** plan for bank recapitalization (₹ 70,000 crores)
- 3) Finance Ministry setting up an autonomous body- Bank Board Bureau (BBB). →



14.30.2 Personnel Selection → Bank Board Bureau (BBB), 2016



Figure 6: यूपीएससी की तरह हम लेगे नोकरी का इंटरव्यू

- It is non-constitutional, non-statutory body (यह संस्थान न तो संवैधानिक है न तो वैधानिक)
- It interviews & selects top officials (MD, CEO, Chairman and full-time Directors) for PSBs, public sector insurance companies, and other public sector financial institutions (e.g. NABARD, SIDBI etc.).
- Actual appointment done by FinMin's Department of Financial Services. (Just like UPSC selects candidates suitable for IAS but DoPT notifies appointment.)
- BBB also helps the banks in governance reforms, raising capital for BASEL-III etc.
- BBB has 1 Chairman (usually a retired IAS) and some members.

 ? MCQ. Chairman of public sector banks are selected by the ___? (Prelims-2019)

- (a) Banks Board Bureau (b) RBI (c) Ministry of Finance (d) Management of concerned bank

 ? MCQ. Find Correct about 'Banks Board Bureau (BBB)' (Prelims-2022)

1. The Governor of RBI is the Chairman of BBB.
 2. BBB recommends for the selection of heads for Public Sector Banks.
 3. BBB helps the Public Sector Banks in developing strategies and capital raising plans.
- Codes: (a) 1 and 2 only (b) 2 and 3 only (c) 1 and 3 only (d) 1, 2 and 3

14.30.3 Personnel Selection → FSIB replaces BBB (2022)

- ⇒ 2022: Delhi High Court ruled, "BBB cannot select public sector (govt owned) insurance companies because of conflict with the other laws related to public sector insurance companies."⇒ 2022: Then Govt replaced BBB with new body named "**Financial Services Institutions Bureau (FSIB)**" to comply with court order.
⇒ Every thing else (function, feature etc) about FSIB is same as BBB.

►  FAQ: is this not unethical / big-joke to subvert court order?

Ans. Court has not banned FSIB yet. Govt did not bother to justify loudly in news headlines.

Columnist did not bother to loudly criticise. So, I did not bother to PHD. # थोड़ा-पढ़ो-आगे-बढ़ो

14.30.4 PSB Banking Personnel Reforms → ES20 suggestions

Shifted to Mains.

14.30.5 Enhanced Access and Service Excellence (EASE) Agenda 2018

- 2018: FinMin's Dept of Financial Services released EASE framework (बढ़ी पहुंच और सेवा उत्कृष्टता) with 6 pillars to make PSBs more Responsive and Responsible viz.
 1. Customer Responsiveness. (ग्राहकों के प्रति जवाबदेही)



2. Responsible Banking: Reduce NPA, prevent frauds. (धोखाधड़ी पर अंकुश)
3. Credit Off Take: Try to reach out to potential borrowers for home, auto, education, loans. (स्वयम बैंक ही उधारकर्ताओं को खोज निकाले)
4. Help MSME entrepreneurs via SIDBI's Udyamimitra.com portal. Approve/reject loans in not more than 15 days. (लघुउद्योगों की मदद)
5. Deepening Financial Inclusion & Digitalization. (वित्तीय समोवेशन)
6. Employees' Human Resource Management (HRM: मानव संसाधन प्रबंधन): improve with training, performance linked promotion-salaries-posting-transfers etc.

Implementation? Each whole-time director of a PSB will be entrusted with one pillar of the EASE-framework. Their performance will be checked by the PSB's board of directors. An independent agency will be tasked to check public perception. Finally PSB banks will be ranked: E.g. 2018: PNB#1.

Year	Framework	Theme/focus area
2020-21	Ease 3.0	Tech-Enabled Banking
2021-22	Ease 4.0	clean and smart banking.
2022-23	Ease 5.0	Common reforms agenda e.g. digital customer experience, supporting small businesses and agriculture etc.

14.30.6 🚩 🚮 : Staff Accountability Framework for PSB-NPA

- ⇒ Finance Ministry's issued this for NPA accounts up to Rs 50 crore in PSBs from 1/4/2022.
- ⇒ If PSB Banker took bonafide business decisions to approve loan application but it turned NPA then banker will be protected from undue inquiries/harassment by 3Cs — CBI (Central Bureau of Investigation), CVC (Central Vigilance Commission) and CAG (Comptroller and Auditor General).
- ⇒ Previously the fear of 3C was discouraging the public sector bank managers from sanctioning big loans (in the aftermath of TBS, Mallya, Nirav Modi).

(सरकारी बैंक और लोन पास करने से डरते हैं क्योंकि उन्हें तो CBI, CVC, CAG की कार्रवाई का डर लगता है तो अब वित् मंत्रालय ने कुछ नए “सार्वजनिक बैंक कर्मी जवाबदेही ढांचा” दिशानिर्देश जारी किए हैं ताकि ईमानदारी से लिए गए फैसलों में अगर लोन का पैसा वापस न आए तो सरकारी बैंक के ईमानदार बैंकर पर अनावश्यक रूप से कोई कार्रवाई न हो)

14.31 ✎ 🚩: 🚮 (🚫 🏛️) NEGATIVE NEWS: ILFS & SHADOW BANKING



14.31.1 🚩 (🚫 🏛️) NBFC: Shadow Banking (आभासी / प्रतिष्ठाया बैंकिंग प्रणाली)

- ➡️ ES20 Vo1 Chapter 08 on 'NBFC's Financial Fragility' (वित्तीय भंगुरता) observed
- ⇒ Shadow banking is a set of activities and institutions. They operate partially (or fully) outside the traditional commercial banking sector. They are not fully regulated by the RBI. ये संस्थाएं पारंपरिक बैंकिंग नियमों के दायरे से बाहर काम करती हैं.



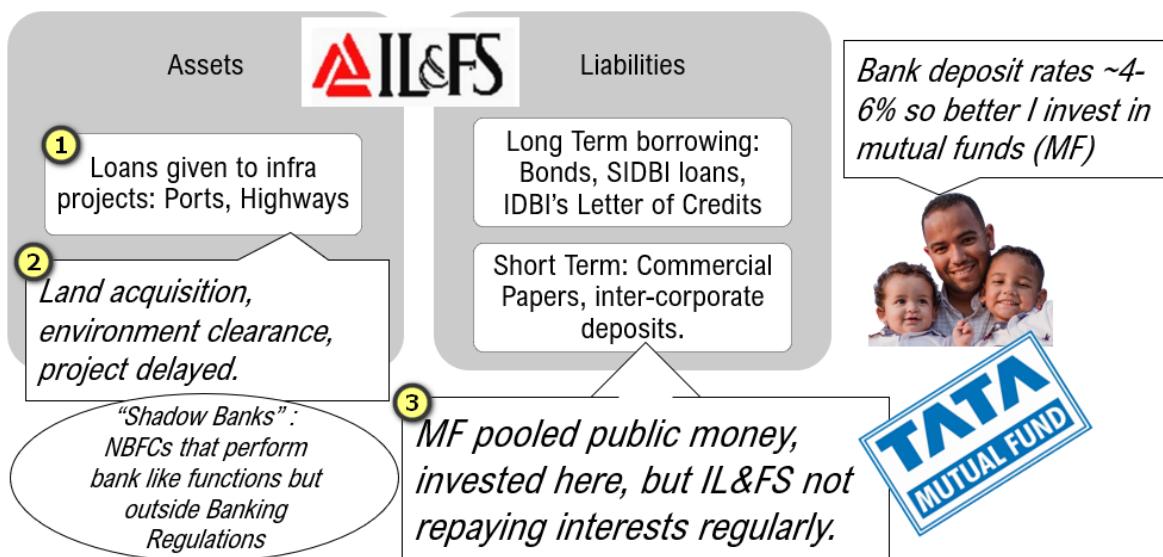
- ⇒ They mobilize funds by borrowing from banks, issuing Commercial Papers (CP) and Bonds (Non-convertible debentures)

Table 3: Three important segments of the shadow banking system in India

HFCs	Housing Finance Companies. E.g. Dewan Housing Finance Limited (DHFL)
LDMFs	<ul style="list-style-type: none"> - Liquid Debt Mutual Funds invest clients money into short term debt instruments such as T-bill (of Govt) and Commercial Papers (of companies). - e.g. certain schemes by UTI, Kotak, L&T, Tata mutual funds - 2019: Some of these LDMFs had invested clients money in IL&FS and DHFL, but failed to get the money back. Nearly ₹4000 crore of investors' money is stuck, triggering the NBFC crisis in India.
Retail-NBFCs	Retail Non-Banking Financial Companies such as Gold loan companies, asset finance companies etc.

Shadow banking system's assets are risky and illiquid. If there is a 'bank run' like situation (depositors / investors demanding the money bank) these shadow banks can't honour the obligations. As seen in the ILFS crisis (2019) →

14.31.2 🚨 (🚫 🏠) Shadow Banks → IL&FS & NBFC Liquidity Crisis



- Infrastructure Leasing & Financial Services (IL&FS) is a Systemically Important Non Deposit Taking Non - Banking Finance Company (NBFC - ND - SI: प्रणालीगत रूप से महत्वपूर्ण- डिपॉज़िट न लेनेवाली - गैर-बैंकिंग वित्त कंपनी) Setup in 1987 HQ@Mumbai.
- **Shareholders:** LIC > Japan's Orix group > Abu Dhabi's group > Central Bank of India > SBI.
- **Challenge?** 1-2-3 of above diagram. + loans given to unworthy borrowers with forged documents, bribes were paid to IL&FS board directors & auditors.

14.31.3 📈 ATMANIRBHAR → 🚨 (🚫 🏠) RBI Helping NBFCs/ Shadow Banks

- RBI has launched 1) TLTRO and 2) special liquidity window. (Ref 1A2 Monetary Policy)
- Govt has announced following 1) Partial credit guarantee 2) Sp. Liquidity scheme 3) Credit Guarantee Enhancement Corporation



14.31.4 📈 ATMANIRBHAR → 💰 ↘️ 💵 Partial Credit Guarantee Scheme (PCGS) 2.0

- Budget 2019: If NBFCs/ MFCs/Micro Finance Institutions (MFIs) borrowed money by issuing debt securities (Bonds or Commercial Papers) → Public sector banks (PSB) invested in it → but borrower default then the government paid 10% of loss to PSB.
- Corona= total 20% loss cover guaranteed to PSB. (सार्वजनिक बैंकों को आंशिक क्रेडिट गारंटी)

14.31.5 📈 ATMANIRBHAR → 💰 ↘️ 💵 Special Liquidity Scheme for NBFC/HFC

Outdated Current. Deleted from Handout. Sufficient to know it helps NBFCs.

14.31.6 📈 (🚫 💵) ⚡️ 📈 Shadow Banking → Remedies by RBI

- ⇒ RBI tightened norms of Asset-Liability Management (ALM) norms for NBFCs.
- ⇒ 2021: RBI proposes 4-tier structure for tighter regulation of NBFCs: NBFCs to be classified into four categories BASE, MIDDLE, UPPER & TOP LAYER (most risky companies). Accordingly tighter regulation on them. ⚡️ Exact details notIMP, Until they actually implemented. (चार श्रेणियों में जोखिम के हिसाब से बांटा जाएगा सबसे उच्च श्रेणी में सबसे ज्यादा जोखिम पूर्ण कंपनियों को रखा जाएगा और उन पर रिजर्व बैंक की निगरानी सबसे ज्यादा सख्त होगी.)

14.31.7 Shadow Banking: More reform points by Government and SEBI

Shifted to Mains Handout.

QUESTION ? In September 2019, which one of the following travel giants declared itself bankrupt? (CDS-i-2020) (a) Expedia (b) Cox & Kings (c) SOTC (d) **ANS: Thomas Cook**

14.32 ⚡️ 💰 ⚡️ NEGATIVE NEWS: PNB, LoU, SWIFT, & NIRAV MODI

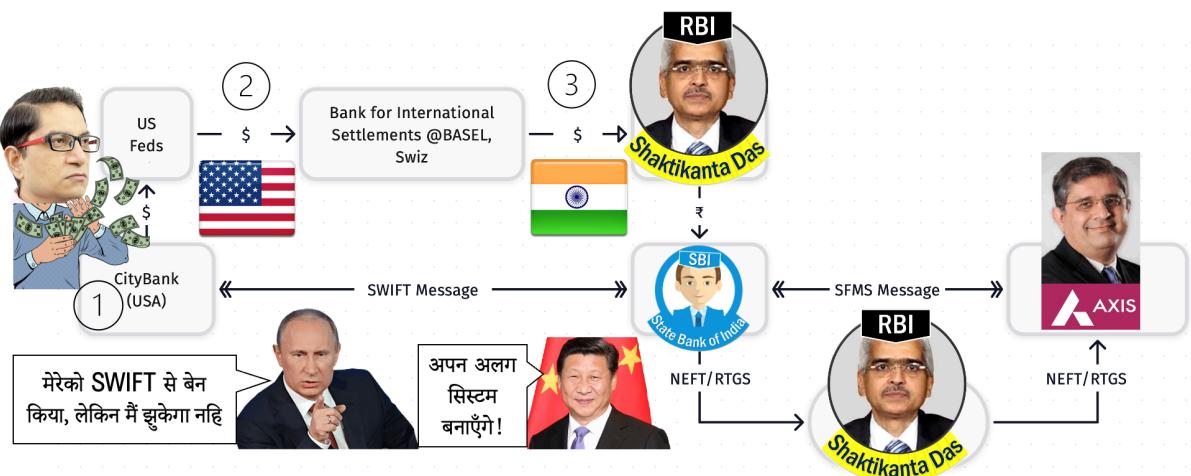


PNB (Mumbai Branch): Give foreign currency loan to our client Nirav Modi for purchase of goods (diamonds, airplanes, whatever), if he doesn't pay, we'll pay.

- If such bank guarantee given to another bank in a foreign country, it's called **Letter of Undertaking/ Letter of Credit/ Letter of Comfort**: ~~internal difference not important~~.
- Bank earns commission / fees from client for issuing such letters / guarantees.
- Thus, Nirav got loans in dollars currency from foreign banks, to buy diamonds in HongKong.
- **PNB Scam:** PNB-Mumbai's corrupt manager kept issuing LoUs to diamond merchants Nirav Modi & Mehul Chowkasi without due-diligence or collaterals for 7 years, worth ~₹12,000 crores. And 2018-January: Nirav & Mehul left India.
- PNB officials couldn't detect scam because LoUs were generated through SWIFT platform, which was not integrated with their Core Banking Solution (CBS) server.



14.32.1 💵📞 Financial Messaging Systems: SWIFT- Russia gets banned

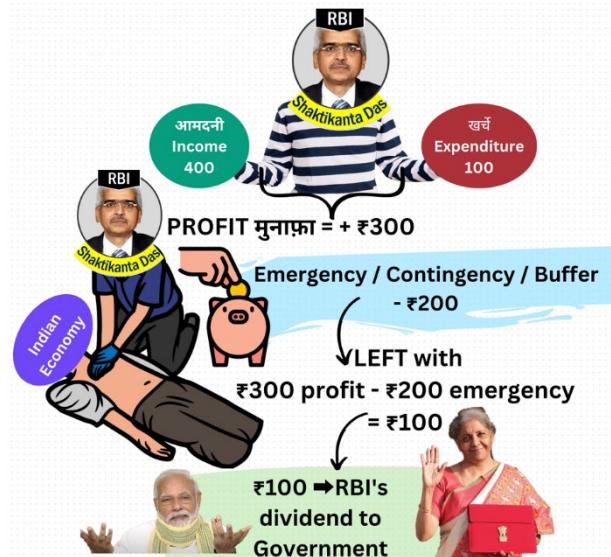


Globally (वैश्विक स्तर पे पैसा भेजना हो)	Within India (भारत के भीतर ही पैसा भेजना हो!)
Society for Worldwide Interbank financial telecommunication (SWIFT)	Structured Financial Messaging System (SFMS)
By a Cooperative organization in Belgium's La Hulpe city (1973).	designed by Tata Consultancy Services (TCS) for IDRBT (=Research arm of RBI)
To serve the messaging function for Banks, NBFCs & brokers who may / may not have direct bank relations / settlement systems with each other due to international borders.	to serve the messaging function in NEFT, RTGS, and other inter-bank, intra-bank e-transactions platforms <u>within India</u> .

⌚ Nations banned from SWIFT: 1) Iran (Capital Tehran) 2) 2022: Russia got ban, after invading Ukraine. This will make it very difficult for the Russian banks/ NBFCs /businessmen to send and receive money internationally (यूक्रेन-आक्रमण के खिलाफ रूस को स्विफ्ट-वित्तीय संदेश प्रणाली से प्रतिबंधित किया गया है जिसके चलते रूसी बैंक वित्तीय संस्थान और उद्योगपतियों को अंतरराष्ट्रीय स्तर पर पैसों के लेन में दिक्कतें आएंगी।)

Afterwards, 💵📖⌚👉 ball by ball commentary on Nirav Modi case =NOTIMP

14.33 💵₹₹₹ RBI DIVIDEND, RESERVES, ECONOMIC CAPITAL FRAMEWORK





RBI's income sources include	From its income, RBI allocates funds to
<ol style="list-style-type: none"> 1. Interest on G-Sec that are not sold in Open Market Ops. 2. Interest on Foreign G-Sec / Sovereign Bonds. 3. Interest on Loans given to other Banks / NBFCs. कर्ज पर मिलने वाला ब्याज 4. Revaluation of foreign currency and gold in RBI reserves. विदेशी मुद्रा और स्वर्ण भंडारों के मूल्य में बढ़तरी 5. Seigniorage: profits from printing money- because face value > intrinsic value. HOW? NOTIMP 6. Penalties imposed on errant banks. 	<ol style="list-style-type: none"> 1. Staff retirement fund, provisions for bad loans, depreciation in assets... 2. Reserves for contingency (emergency): ~₹ 2.5 Lcr. आपातकाल के लिए आरक्षित भंडार 3. Reserves for Exchange Rate Stability (Technically called “Currency & Gold” Revaluation Reserve: ~₹7 lakh cr विनिमय दर में स्थिरता के लिए आरक्षित भंडार) <p>After making these allocations, profit is shared with Union Govt. in form of ‘Dividend’ (RBI Act Section 47). रिजर्व बैंक के मुनाफे में से ये भंडार/ निधि में पैसा रखने के बाद यदि कोई राशि बची तो वह सरकार को लाभांश के रूप में देनी होगी</p>

14.33.1 📈 ₹ ₹ ₹ RBI's Bimal Jalan panel (2018)

- 2017: RBI Governor Urjit Patel gave ₹50,000 crore dividend to Govt but Govt wanted ₹3.6 lakh crore dividend. Then, (गवर्नर उर्जित पटेल जितना दे रहा था उससे कई गुना ज्यादा डिविडेंड सरकार चाहती थी)
- RBI setup Bimal Jalan panel to decide the principles for dividend transfer to Govt. (आर्थिक पूँजी संरचना तथा लाभांश वितरण के सिद्धांत)
- 2019- August: RBI board approved Bimal Jalan report.
- It updated norms in such manner that RBI will be able to transfer more dividend / surplus to the Government. (तकनीकी मानदंडों में सुधार ताकि रिजर्व बैंक अपने मुनाफे में से भारत सरकार को अधिक लाभांश दे सकें।)

14.33.2 📈 📈 RBI's Financial / Accounting Year (वित्तीय वर्ष में बदलाव)

2019: Bimal Jalan panel recommended ₹ reform → RBI's central board accepted it

BEFORE	AFTER
RBI's financial year - 1934 onwards: January to December - 1940 onwards: July to June	- From 1 st April, 2021, RBI will switch to annual April-March format.
But Govt's financial year is April-March so, RBI had to give interim dividend to govt until RBI's final balancesheet was prepared, then another (full) dividend was given.	After this reform, no need for interim dividend (अंतरिम लाभांश वितरण नहीं देना होगा।)

14.33.3 📈 🖊 Section-7 Directive & Urjit Patel's Resignation (इस्तीफा)

- ⇒ Section 7(1) of the RBI Act empowers the Government to consult with RBI Governor in Public Interest. (जनहित के लिए, रिजर्व बैंक का नून की धारा नंबर 7 के अंतर्गत सरकार गवर्नर के साथ विमर्श कर सकती है)
- ⇒ In, 2018-October, for the first time in the history of Independent India, Govt began a Section-7(1) consultation with RBI Governor Urjit Patel, on the issues of PCA norms, BASEL-III deadline, higher dividend to Govt., Cheap Monetary Policy etc.



RBI Central Board	
	(Non-Official Directors) = 16
- 2 Government officials - 10 directors nominated by Government. - 4 directors from RBI's local boards	(Official Directors) = 5
<p><i>Bolo, Urjitbhai not even giving Bluetick to our Whatsapp messages. I must give him command under RBI Act's Section-7 in PUBLIC INTEREST to talk with me, and even after that problem persists then I'll order RBI central board to implement my directives.</i></p>    <ul style="list-style-type: none"> ➤ Will not give higher dividend ➤ Will not extend BASEL-deadline. ➤ Will not relax PCA framework. ➤ Will not do easy money policy... 	

- ⇒ If RBI Governor doesn't positively respond in such Section-7(1) consultation, then Section 7(2): Government can issue binding direction / orders to RBI Central Board to implement its wishes. (यदि गवर्नर, एसे विमर्श में, सरकार की बात नहीं सुनते तो, केंद्रीय बोर्ड द्वारा सरकार अपनी बात को लागू करवा सकती है)
- ⇒ Although, fearing backlash from media & opposition parties, Govt did not issue any specific directions to the RBI Board. But, 2018-Dec: Urjit Patel resigned before completing 3-year term.

MCQ. Find Correct statements about RBI: (UPSC Prelims-2021)

1. The Governor appointed by the Central Govt. (रिजर्व बैंक के गवर्नर की नियुक्ति केंद्र सरकार करती है)
 2. Certain provisions in the Constitution of India give the Central Government the right to issue directions to the RBI in public interest. (कुछ संवैधानिक प्रावधानों के अंतर्गत केंद्र सरकार जनहित में रिजर्व बैंक को दिशा निर्देश दे सकती है)
 3. The Governor draws his power from the RBI Act. (गवर्नर को आरबीआई कानून से शक्तियां मिलती है)
- Code: a) 1 and 2 only b) 2 and 3 only c) 1 and 3 only d) 1, 2 and 3

14.33.4 Mains Answer Writing

problems of bad loan-origin, present reforms, future reforms suggestion, IBC code success and limitations, how to use technology to prevent / solve NPA, etc. This handout deals only with PRELIMS#RAFTAAR

Next Handout Pillar#1C: SEBI SHAREMARKET