Annual Report **2014-15**

Promoting Excellence in Learning and Research

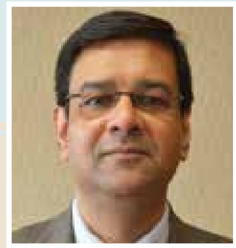
CAFRAL

CENTRE FOR ADVANCED FINANCIAL RESEARCH AND LEARNING

Promoted by Reserve Bank of India

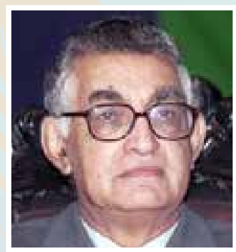
CAFRAL Governing Council

Raghuram G Rajan
(Chairman)
Governor,
Reserve Bank of India



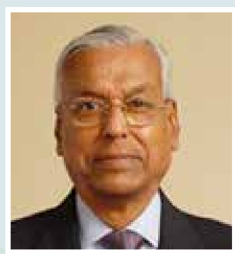
Urjit R Patel
Deputy Governor,
Reserve Bank of India

S S Mundra
Deputy Governor,
Reserve Bank of India



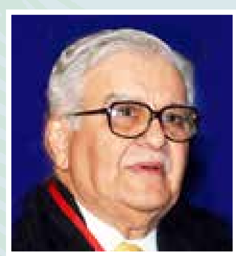
Y H Malegam
Fellow and Past President,
Institute of Chartered
Accountants of India

M D Mallya
Former Chairman and
Managing Director,
Bank of Baroda

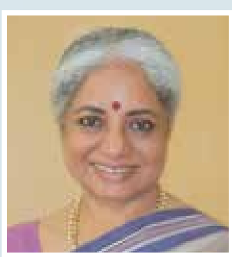


Ashok Ganguly
Chairman,
ABP Pvt. Ltd.

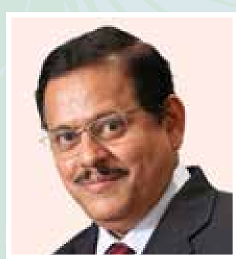
T V Mohandas Pai
Chairman of the Board,
Manipal Global
Education Services
Pvt. Ltd.



J J Irani
Ex-Director,
Tata Sons, Tata Steel
and Tata Motors



Usha Thorat
Former Director,
CAFRAL and
Former Deputy Governor,
Reserve Bank of India



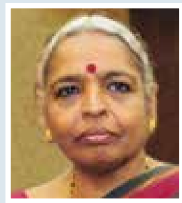
G Gopalakrishna
Director,
CAFRAL

Research Advisory Council

Raghuram G Rajan
(Chairman)
Governor,
Reserve Bank of India

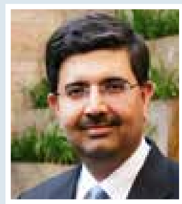
Viral Acharya
C V Starr Professor of Economics, Stern School of Business, New York University, New York City, USA

Jin-Chuan Duan
Cycle & Carriage Professor of Finance, NUS Business School, National University of Singapore, Singapore

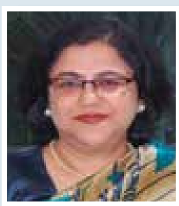


Shyamala Gopinath
Non-Executive Chairperson, Clearing Corporation of India Ltd. (CCIL) and Non-Executive Chairperson, HDFC Bank Ltd., India

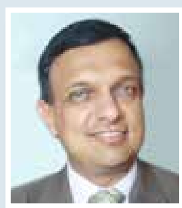
Chanda Kochhar
Managing Director and Chief Executive Officer, ICICI Bank, India



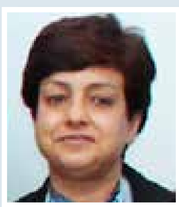
Uday Kotak
Executive Vice-President & Managing Director, Kotak Mahindra Bank, India



Roopa Kudva
Former Managing Director and Chief Executive Officer, CRISIL, India



Nachiket Mor
Chairman of Board, SughaVazhvu Healthcare, India and Member, Central Board of Directors, Reserve Bank of India



Manju Puri
J B Fuqua Professor of Finance, Fuqua School of Business, Duke University, Durham, USA

Ajit Ranade
Senior President & Chief Economist, Aditya Birla Group, India

Lemma W Senbet
Executive Director, African Economic Research Consortium (AERC), Kenya

Andrew Sheng
President, Fung Global Institute, Hong Kong

Anand Sinha
Former Deputy Governor, Reserve Bank of India

Philip Turner
Director of Policy, Coordination and Administration & Deputy Head of Department, Bank of International Settlements, Basel, Switzerland

Bernard Yeung
Stephen Riady Distinguished Professor and Dean, NUS Business School, National University of Singapore, Singapore

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About CAFRAL

The Centre for Advanced Financial Research And Learning (CAFRAL) has been set up by the Reserve Bank of India (RBI) in the backdrop of India's evolving role in the global economy, in the financial services sector and its position in various international fora and to develop into a world class global institution for research and learning in banking and finance. CAFRAL is a not-for-profit organisation established as a Society and a Trust; it is an independent body promoted by RBI. CAFRAL became operational in January 2011 and is now headed by G Gopalakrishna as its Director.

The Governor of RBI is the Chairman of the Governing Council of CAFRAL. CAFRAL's learning arm is engaged in conducting seminars, conferences and other learning programs that serve as a platform for exchange of high-level policy dialogues between the various stakeholders by bringing together regulators, policy makers, bankers, academicians, researchers and practitioners. It also conducts advanced programs for enhancing professional capabilities of senior executives in the financial sector.

CAFRAL's research focus is on the areas of banking and finance. Within these broad areas, our interests include financial institutions, financial markets, behavioural finance, corporate finance, household finance and related areas of macro-finance such as monetary economics or international finance. CAFRAL aims to build intellectual capacity in these areas through its own staff, by hosting researchers of international repute and facilitating collaborative research by building data resources and analytical capabilities.

Mission

To evolve as a global centre of excellence for policy research and advanced learning in banking and finance.

Objectives

- Enhance our understanding of how the financial sector contributes to real sector growth through in-house and collaborative research that is useful and relevant
- Enhance professional capabilities in the banks, financial sector, and among central banks regulators and policy makers through learning events and programs
- Provide a platform for dialogue between policy makers, regulators, financial sector, practitioners and academics on issues of topical relevance and systemic importance
- Communicate and disseminate the conclusions and results of the learning and research activities of CAFRAL to policy makers, central banks, regulators and public at large
- Collaborate and network with domestic and global institutions with similar mandate for mutually beneficial arrangements

Abbreviations

ARCs	Asset Reconstruction Companies
BC	Business Correspondent
BCSBI	Banking Codes and Standards Board of India
BIS	Bureau of Indian Standards
BSE	Bombay Stock Exchange
CAFRAL	Centre for Advanced Financial Research And Learning
CAG	Comptroller and Auditor General of India
CALP	CAFRAL Advanced Leadership Program
CAM	Capital Account Management
CAP	Corrective Action Plan
CBI	Central Bureau of Investigation
CCIL	Clearing Corporation of India Ltd.
CCO	Chief Compliance Officer
CCP	Central Counterparty Clearing House
CDR	Corporate Debt Restructuring
CDS	Credit Default Swap
CEO	Chief Executive Officer
CIO	Chief Information Officer
CISO	Chief Information Security Officer
CMD	Chairman & Managing Director
CMM	Chief Metropolitan Magistrate
CRILC	Central Repository of Information on Large Credits
CSO	Chief Strategy Officer
CVC	Chief Vigilance Commission
CVO	Chief Vigilance Officer
D-SIBs	Domestic Systemically Important Banks
DBS	Department of Banking Supervision
DM	District Magistrate
DRAT	Debts Recovery Appellate Tribunal
DRT	Debts Recovery Tribunal
EBID	ECOWAS Bank for Investment and Development
ECOWAS	Economic Community Of West African States
ED	Executive Director
EOW	Economic Offences Wing
FCE	Foreign Currency Exposure
FCY	Foreign Currency
FEDAI	Foreign Exchange Dealers' Association of India
FII	Foreign Institutional Investor
FIMMDA	Fixed Income Money Market and Derivatives Association of India
FSLRC	Financial Sector Legislative Reforms Commission
FMC	Forward Markets Commission
FMD	Financial Markets Department
FSA	Financial Stability Authority
GSec	Government Securities
GDP	Gross Domestic Product
HNI	High Net Worth Individual
HR	Human Resource
HTM	Held To Maturity
IBA	Indian Banks' Association
ICAAP	Internal Capital Adequacy Assessment Process
ICAI	Institute of Chartered Accountants of India
IEC	Independent Evaluation Committee
IES	Indian Economic Services
IFMR	Institute for Financial Management and Research
IIM	Indian Institute of Management
IMAGE	Indian bank Management Academy for Growth and Excellence
IPA	Innovations for Poverty Action
IRB	Internal Ratings-Based
IRDA	Insurance Regulatory and Development Authority
IRF	Interest Rate Futures
IRS	Interest Rate Swap
IT	Information Technology
JLF	Joint Lenders' Forum
LGD	Loss Given Default
LIBOR	London Inter-Bank Offer Rate
MF	Mutual Fund
MIBOR	Mumbai Inter-Bank Offer Rate
MNC	Multinational Company/Corporation
MSME	Micro Small & Medium Enterprise
NABARD	National Bank for Agriculture & Rural Development
NAV	Net Asset Value
NBFC	Non Banking Financial Company
NIBM	National Institute of Bank Management
NII	Net Interest Income
NPA	Non-Performing Asset
NSE	National Stock Exchange
OIS	Overnight Indexed Swap
OMCs	Oil Marketing Companies
P&L	Profit & Loss
PAT	Profit After Tax
PD	Probability of Default
PF	Provident Fund
PFRDA	Pension Fund Regulatory and Development Authority
PNG	Petroleum and Natural Gas
PO	Presiding Officer
PSB	Public Sector Bank
PSU	Public Sector Undertaking/Unit
RAC	Research Advisory Committee
ROI	Return On Investment
RBI	Reserve Bank of India
SA	Securitisation Application
SARFAESI	Securitisation And Reconstruction of Financial Assets and Enforcement of Security Interests
SEBI	Securities & Exchange Board of India
SLR	Statutory Liquidity Ratio
SMA	Special Mention Accounts
SME	Small & Medium Enterprise
SPARC	Society for Promotion of Area Resource Centres
SPV	Special Purpose Vehicle
SRs	Security Receipts
SREP	Supervisory Review and Evaluation Process
TRAI	Telecom Regulatory Authority of India
UFCE	Unhedged Foreign Currency Exposure
VP	Vice President

Chairman's Message

"In my view, CAFRAL, an institution set up by the RBI, is in a unique position to promote excellence in learning and research and meet the growing learning needs of the financial sector"

The Indian economy is growing in size and complexity and becoming more closely integrated with global markets. The Indian banking system also needs to grow so that it is able to support the real sector. The banks should build up strong risk management systems so that even as their balance sheet size increases, stressed assets are at low levels. International regulatory standards are also increasingly focusing on appropriate governance of the risk culture, risk appetite and risk governance in banks, and in particular, "systemically important banks". India being a member of the Basel Committee on Banking Supervision is committed to implementing these international standards. Given this background, there is a need to enhance the risk governance capabilities at all levels in the banks, including at the Board level.

The Committee to Review Governance of Boards of Banks in India (Nayak Committee) recommended that the quality of Board deliberations in public sector banks should be enriched so as to provide greater strategic focus. The Financial Sector Legislative Reforms Commission (FSLRC) made several recommendations pertaining to capacity building in banks and non-banks, streamlining training intervention and other related measures.

CAFRAL's Governing Council

Consequently, the Reserve Bank of India (RBI) set up a Committee on Capacity Building in Banks and Non-bank Institutions, which emphasised the process of skill development, particularly the training needs and training strategies. Implementing these recommendations would go a long way in addressing the skill gap levels in banks and other financial sector entities.

In my view, CAFRAL, an institution set up by the RBI, is in a unique position to promote excellence in learning and research and meet the growing learning needs of the financial sector, thereby preparing them for the challenges that lie ahead. I am happy that CAFRAL is engaging in this process with full vigour. However, we have a long way to go and even while commending CAFRAL on its work so far, would urge redoubled effort in the years to come. India cannot settle for anything less.

Raghuram G Rajan

Chairman, Governing Council, CAFRAL and Governor, RBI

DIRECTOR'S REPORT

Activities 2014-15

Director's Report

The Centre for Advanced Financial Research And Learning (CAFRAL) continues to evolve as a centre of excellence for policy research and learning in the field of banking and finance over the past four years. During the year under reporting, more variety has been added to the learning programs of CAFRAL with a view to meeting the ever-changing needs of the financial sector players. The programs addressed emerging concerns such as Capital Planning and Management in the wake of implementation of BASEL capital accords, Basel III and Risk Management, IRB Approach for Credit Risk under BASEL II, Market Risk, Operational Risk, Forensic Audit, etc. There was also emphasis on conducting Roundtables in areas such as Treasury, Asset Reconstruction Companies, development of Corporate Bond Market and Unhedged Forex Exposure of Corporates, which led to lot of brainstorming and resulted in providing valuable policy inputs to the regulators. The highlight during the year was the *Gyan Sangam – Bankers' Retreat* in January 2015, which was jointly organised by CAFRAL along with the Department of Financial Services, Ministry of Finance, Government of India.

G Gopalakrishna
Director, CAFRAL

CAFRAL Learning

During the financial year 2014-15, CAFRAL held **30 programs** which involved **64 days of innovative learning** through tailored programs for the top management of commercial banks to equip them to be effective frontrunners. The programs provided **1,197 senior executives** a unique opportunity to expand their strategic thinking, get exposure to global best practices and interact with peers through a shared learning experience. The details of the programs are given in **Annex I.**

CAFRAL programs are tailored for CMDs/CEOs and other top management team members of the banks, viz., EDs, CGMs, GMs, Presidents, Senior Executive VPs, etc., and are unique in nature as they provide an ideal blend of conceptual learning with practitioner insights. The sessions are designed to address the current financial sector issues and challenges and provide tools and cutting-edge inputs to shape the way forward. CAFRAL learning programs serve as a platform for exchange of high-level policy dialogues between the various stakeholders by bringing together regulators, policy makers, bankers, academicians, researchers and practitioners.

This year, CAFRAL jointly with the Department of Financial Services, Ministry of Finance, Government of India, organised **Gyan Sangam – Bankers' Retreat** with an objective to discuss the restructuring and reforms required for strengthening the Indian public sector banks. Chairmen and EDs of public sector banks, top officials from the Ministry of Finance, Government of India

Speaker Sound Bytes

"It is not still fully understood by lot of market participants like investors and how all of these changes under Basel III will interact and come together on both, the capital and liquidity side, so forum like the *Seminar on Imperatives of Basel III Capital Requirements* with senior management of the banks attending is helpful to get people focused on what other Regulators are doing internationally, the diversions and differences in terms of implementation of Basel III globally is useful for the Regulators and the banks to put it in some context."

Sean McNelis
Head of Financing Solutions Group, Asia-Pacific, HSBC, Hong Kong

CMDs/CEOs and other top management team members of banks at CAFRAL seminar

Hon'ble Prime Minister, Shri Narendra Modi, Finance Minister, RBI Governor, Director, CAFRAL and Head of Research, CAFRAL and other dignitaries at Gyan Sangam - Bankers' Retreat

and Reserve Bank of India and other financial sector regulators participated in this first-of-its-kind two-day summit. The program was addressed by the **Hon'ble Prime Minister Shri Narendra Modi**, who laid out a broad agenda for change. **Finance Minister Shri Arun Jaitley, Shri Jayant Sinha, Minister of State for Finance, RBI Governor Dr. Raghuram G Rajan** and **Chief Economic Advisor Shri Arvind Subramanian** also addressed the event.

Speaker Sound Bytes

"We had a good mix of bankers both from PSBs and PvSBs, participants from Crime Branch of Police, FIU, and CVOs of all banks which contributed to the session of irregularities, nature of activities that the borrowers and customers are indulging in to siphon away funds from the banks, and the frauds that take place. It was highly invigorating and an interesting participation during these sessions and I am sure after going back from this *Conference on Financial Frauds,* people will be enlightened to do their jobs in much better way, much smarter way and keeping the essence of better quality."

Ajay Kumar
Former CMD, Corporation Bank

Speaker Sound Bytes

"The topics set out for the *Seminar on Imperatives of Basel III Capital Requirements* covers them in entirety, something that has taken literally years to evolve, compressing that into a day packed with fairly crisp powerful presentations, is very useful, especially for the bank CMDs. This will go a long way, in making people aware of key issues which will arise once Basel III is implemented and the action steps they need to take."

Venkat Ananthraman
Managing Director & Regional Head,
Corporate & Institutional Clients,
Standard Chartered Bank South Asia

The implementation of Basel III norms is an important regulatory priority for the Indian banking sector. **Dr. Raghuram G Rajan, Governor, RBI** addressed CMDs/CEOs of commercial banks at the CAFRAL *Seminar on Imperatives of Basel III Capital Requirements.* Dr. Rajan emphasised that the banks need to implement the Basel III framework and plan their capital requirements considering the fact that their balance sheets were likely to grow in order to support the growth of the real sector. The seminar

Participant Sound Bytes

"The topic is like an Indian epic both in content and complexity. During the *Seminar on Imperatives of Basel III Capital Requirements*, the session around liquidity coverage ratio which seems to be foremost on most of our minds, with some global examples given was quite relevant and maybe instructive to RBI to give it a revisit in the months ahead otherwise it is going to be an onerous responsibility on the banks."

Shyam Srinivasan
CMD, Federal Bank

1. Dr. Raghuram G Rajan
2. Timothy Rees
3. Chanda Kochhar,
4. Udaibir Saran Das
5. Peter Jurdjevic

1. *Seminar Participants*
2. *G J Prasad*
3. *P R Ramesh*
4. *Ananda Bhoumik*
5. *G Gopalakrishna*
6. *Vidyasagar Pulavarti*
7. *Sean McNelis*

Speaker Sound Bytes

"I think it's a necessity for the banking sector particularly when the sector is really reeling with the stress of the NPAs because of various reasons, maybe internal or external but some of the frauds which have happened could be on account of various compulsions and thus what has been deliberated in the *Conference on Financial Frauds* to really ensure to have a good preventive mechanism, move from compliance to mitigation, are the great takeaways."

M V Tanksale
Chief Executive, IBA

focused on helping senior bank officials to strategise with their core teams in sequencing and prioritising plans for implementing Basel III. During the year, CAFRAL organised four *Program on Advanced BASEL III* to assist banks in their implementation work. Speakers from the BIS addressed the seminars. CAFRAL also organised a *Program on Implementation of Advanced Internal Ratings Based Approach (IRB) of Basel II* in order to assist banks in implementation.

CAFRAL organised a *Conference on Financial Frauds* which focused on strengthening the operational risk controls and mechanisms to deal with financial crimes and frauds in the banking system. Vigilance Commissioner, CVC, Shri J M Garg, addressed and interacted with the participants. A *Workshop on Forensic Audit* was organised for CVOs, heads of risk, inspection, audit and compliance of banks, representatives from enforcement and police department. The workshop focused on balance sheet manipulations, understanding the use of forensic tools in NPAs, life cycle, data security and cyber forensic issues, fraud management, digital forensics and investigative skills.

1. L-R: Jagvinder Singh Brar, Sharath Kumar, Sanjay Rai, G Gopalakrishna, D Narang, Sunder Krishnan, Sanjay Chougule
2. J M Garg and G Gopalakrishna
3. L-R Sadanand Date, Manoj Sharma, M V Tanksale

Participant Sound Bytes

"As it is upcoming field and exposure among the bankers is less, hence more such programs like the *Workshop on Forensic Audit* should be conducted at all levels to create awareness and develop the people across the banking industry."

Shrawan Kumar Srivastava
CGM, Allahabad Bank

Participant Sound Bytes

"Dr. Nachiket Mor has taken personal interest to make the *Program on Risk Management for Leaders* very illustrative and useful. Individual attention was given during his teaching."

Manikandan P
CGM, Dhanalaxmi Bank

Cyber and data security for malware and digital forensics remains a priority issue for banks. A *Roundtable on Strategy for Malware, Digital Forensics and Cybercrime Investigation for Banks* was organised for CISOs, CIOs, IT heads, EDs and GMs of commercial banks with a focus on topics such as digital forensics, payment systems and cybercrime threat, role of banks in homeland security, cyber jurisprudence and e-commerce. Continuing with our emphasis this year on risk management in banks, a unique *Program on Risk Management for Leaders* was designed and delivered by Dr. Nachiket Mor in order to equip the top leadership of banks with necessary building blocks of the risk assessment and management process. Top management of banks attended this hands-on program.

1. *Ravi Sangvai and G Gopalakrishna*
2. *Dr. Nachiket Mor with the Participants*
3. *Conference Participants*

CAFRAL Advanced Leadership Program 2015 was the third annual flagship program of CAFRAL targeted at existing and soon to be Board level executives of the banks. The program was remodelled with focus on equipping top management with advanced risk management techniques, derivatives market, and technology as part of capacity building of the senior executives. The program included a ten-day domestic module comprising inputs on banking environment, governance and strategy, risk management, capital planning, financial inclusion and digital banking. Advanced case studies and role plays were extensively used and helped in internalising the learning process.


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Participant Sound Bytes

"*CALP* is one of the best training programs I have ever gone through in my life. It is not just about the training, I think it is the whole ecosystem, the way the whole program has been put together, and the kind of people who are attending this program along with me from other banks including the public sector banks and private sector banks. I think that is a huge learning experience, both inside the classroom and outside the classroom."

Pralay Mondal
Senior Group President,
Yes Bank

1. *Meena Hemchandra*
2. *G Mahalingam*
3. *Shyam Srinivasan*
4. *C VR Rajendran*
5. *S S Mundra*
6. *G Gopalakrishna with CALP Participants during a Group Exercise*
7. *Role Play session on Analyst and Press Meet*

1. *CALP Participants with Macquarie University and CAFRAL teams*
2. *CEOs of global banks and telecom companies at the Roundtable*

The five-day overseas module in Sydney for *CALP* included visits to Australian banks and focused studies in the areas of operational and strategic risk management, digital innovations in the area of banking, infrastructure finance, consumer protection and bond markets in Australia.

Mobile banking is emerging as a major force across the world, especially in the context of a much larger proportion of the population having access to mobile phones than to bank accounts. Similarly, banking through agents or BCs is rapidly growing as a critical mode of reaching unbanked areas. At the international *Roundtable on Mobile and Agency Banking*, **Prof. Njuguna Ndung'u, Governor, Central Bank of Kenya,** shared the Kenyan experience of becoming the country with the highest mobile money penetration. The two-day roundtable gave an opportunity to CEOs of banks and telecom companies from across the world to share, discuss and ideate on the opportunities and challenges of mobile and agency banking through

Participant Sound Bytes

"*Program on Use of Social Media by Banks* underlined the need for concentration of publicity department in social media/digital by PSU banks."

S Bharatkumar
GM, Bank of Maharashtra

"*Seminar on Hedging Oil Requirements of Indian Oil Companies* was very well organised and provoked thoughts for the professionals."

Sharmila Chavaly
Jt. Secy., Ministry of Finance

"…an excellent interaction forum the *Roundtable on Mobile and Agency Banking* provided to Industry and Banking community to deliberate on this important issue engaging attention of policy makers and business community."

Pramod Saxena
CMD, Oxigen

closed group discussions. Shri S S Mundra, DG, RBI and Shri Manish Sinha, Advisor, TRAI, provided regulatory insights on the emerging trends in India. Given the surge of digital and social media usage by customers, a first-of-its-kind *Program on Use of Social Media by Banks* was conducted with the objective of highlighting innovative methods for customer engagement, brand building and online reputation management by banks.

3. L-R: S S Mundra, Prof. Njuguna Ndungu, Manish Sinha
4. L-R: S K Mishra, Smita Aggarwal, Karthi Marshan, Karen Ngui, Manisha Lath Gupta

3

4

1. *L- R: Sudarshan Sen, G S Hegde, M R Umarji, G Gopalakrishna, D Narang, Rakesh Sethi, P K Malhotra*
2. *R Gandhi, Dr. Hasmukh Adhia, A Arumughaswamy*
3. *M P Baliga*
4. *L-R: Birendra Kumar, G Gopalakrishna, Usha Thorat, Ashok Garg, M P Baliga*

In the context of deterioration in the asset quality of banks in recent years and the urgent need to restructure and address this issue, RBI had come out with final guidelines on the 'Framework for Revitalising Distressed Assets in the Economy'. A *Workshop on Revitalising Distressed Assets* was organised, in which senior executives from the financial sector participated and discussed at length on the implementation of RBI's latest guidelines. Based on the discussions and deliberations at the workshop, specific recommendations were presented to RBI by CAFRAL. A *Seminar on Enhancing the Effectiveness of Asset Reconstruction Companies* was held that focused on roles and responsibilities of ARCs, efficiency of their supportive role in stressed asset management and also analysed the system of valuation of SRs. CAFRAL organised a two-day *Workshop for Judges of Debts Recovery Appellate*

Tribunals and Debts Recovery Tribunals to facilitate interaction between the judges of DRATs and the Presiding Officers (POs) of DRTs, with an objective to understand issues faced by them in settling cases and to update them about the regulations and nuances of NPA management. **Dr. Hasmukh Adhia, Secretary, Department of Financial Services, Ministry of Finance**, was the keynote speaker. The workshop covered recent developments in regulations with focus on NPA management, introduction to derivatives and securitisation, prudential norms on classification of derivative transactions and the role of ARCs, provisions and legal issues.

The other programs held during the year covered contemporary topics like current issues in project finance, derivatives market in India, roundtable discussion on unhedged forex exposure by corporates, development of corporate bond market. We also conducted programs for non-executive directors/Independent directors on bank Boards.

Two tailor-made programs at the request of Ministry of Finance were organised for Indian Economic Service (IES) officials and for the senior officials of Central Bureau of Investigation (CBI).

Participant Sound Bytes

"*Seminar on Hedging Oil Requirements of Indian Oil Marketing Companies* gave insight of hedging fundamentals and types of hedge, etc., which would certainly be useful while auditing International Trade/ Swap Transactions of PSU OMCs."

S D Kelkar
Senior Audit Manager, CAG

"*Program on Transfer Pricing in Banks* has been able to highlight the issues in the fund transfer mechanisms which require immediate focus of the banks, in the environment in which all the banks aspire to maximise their profits."

D K Jain
GM, Punjab National Bank

"*Program for Non-Executive Directors on the Boards of Public Sector Banks* was very insightful and a well-conducted program. It provided and enlightened the directors with thorough understanding of significance of governance in bank and other related issues."

Sanjiv Kumar Arora,
Non-Executive Director,
Bank of India

CAFRAL's learnings and summary of the programs are shared with the RBI which helps in policy decision making. A separate box item(s) highlighting the major suggestions/action points emanating from a few workshops/seminars/roundtables is given in **Annex II**. CAFRAL also published papers for wider dissemination of its learnings and its outcomes. Some of the papers/speeches published during the year were:

- Implementation of Advanced Approach (IRB) in Basel II
- Developments in International Banking Regulations
- Use of Technology in Banks
- Monetary Policy and Role of Banks
- Funds Transfer Pricing in Banks

As part of dissemination of knowledge contributed by the various speakers, their speeches, session discussions, papers and presentations are posted on CAFRAL's official website (www.cafral.org.in).

CAFRAL Survey

CAFRAL conducted a survey amongst bankers and finance professionals on identifying the five most important issues that they perceive as affecting the banking sector in the next five years. The results indicating the top issues served as the reference to formation of the discussion and workshop agenda at the *Gyan Sangam – Bankers' Retreat*.

Participant Sound Bytes

"A lot of attention has been paid to every single aspect of *CALP*, including sequencing and structuring of the sessions. We got tremendous insights into emerging regulatory areas, where risks emanate from, how they are to be handled, etc. CAFRAL has really put its mind to selection of speakers, nailing it in every case. There was personal interaction with people who have put technology to use, and also a lab kind of environment, where at the end of the session we felt empowered to address our own needs as an organisation. All the case studies too were similarly structured, where they dealt with real life situations, but the sessions had prepared us with very potent tools we could use to address the issues being raised. The program has been designed and executed with wonderful insight."

Anuradha Rao
CGM, State Bank of India

"*Advanced Program on Basel III* was quite wonderful initiative taken by CAFRAL about widening the insight about the implementation of Basel III guidelines by the banks and it provided the clarity about the Basel III implementation requirements and banks' preparedness to work that. I think, this program has provided clarity on how to implement the Basel III in the banks and how to prepare the banks for the Basel III implementations. As regards the conduct and course content of the program, as usual, it was flawless."

Sanjay Kumar
GM, United Bank of India

CAFRAL Research

A. Research Strategy

2014-2015 marked a transition year in CAFRAL's research. Dr. Prabhala joined as CAFRAL's Chief Mentor and Head of Research in 2014. CAFRAL has, during the year, developed a strategic vision for the research output, defined the infrastructure needed to support the vision, and set in motion specific projects that would develop and then define the nature of CAFRAL's institutional capabilities.

CAFRAL has built a team of researchers as well as research partnerships, has acquired datasets and is developing long-term capabilities in analysing them.

B. Research Projects

The focus areas are banking and finance besides other relevant areas in economics, particularly on issues of short-term or long-term policy interests of the RBI.

CAFRAL conducts two types of research projects. One is short-term, policy-oriented work and the other is longer-term and more reflective research with longer production cycles. We aim to post the results as part of a working paper series during the first half of 2015-2016.

C. CAFRAL Research Conference

CAFRAL's research conference this year was on the financing challenges faced by young firms. It was held on March 16, 2015 at Mumbai. Topics discussed included seed capital, the securitisation of MSME loans, role of non-banking financial intermediaries, financing across the value chain in agriculture and exports, enabling export financing, receivables financing and TREDS, and the role of credit bureaus and ratings system.

The keynote address was by **Dr. Raghuram Rajan, RBI Governor,** who spoke on the financing and organisational challenges faced by entrepreneurs in young firms in the growth life cycle.

The conference discussions centered on the types of financial ecosystems that aid the formation and growth of young firms. A particular emphasis of the conference was the role played by data-driven research. While research is traditionally seen as an esoteric activity conducted in ivory towers, the conference discussed research as a practical and effective tool for better

Conference Presentations

- Building an Automated Credit Platform for SME Lending: Indian Perspective. *V Vaidyanathan, CEO Capital First.*
- The Value of Soft Information and Relationships in Credit Decisions in Automated Credit Systems. *Manju Puri, J B Fuqua Professor of Finance, Duke University.*
- How Modern Behavioral Economics Can Aid Effective Credit Practices. *Antoinette Schoar, Michael Koerner (1949) Professor of Entrepreneurial Finance, Sloan School of Management, MIT*
- On the value of mobile phone based advice. *Shawn Cole, Professor of Business Administration, Harvard Business School*
- Building Human Capital in Young Firms: An Indian Perspective. *Manish Sabharwal, CEO Teamlease*
- What types of interventions work (or don't) in promoting SME growth? *Chris Woodruff, Professor of Economics (Warwick), Fellow (CEPR, NBER, CAGE, BREAD, and IZA, and Scientific Coordinator, PEDL*

Other academic partners:

- Prof. Rajkamal Iyer (*MIT Sloan School of Management, MIT*)
- Prof. Mudit Kapoor (*Indian School of Business*)
- Dr. V Anantha Nageswaran (*Takshashila Institution*)
- Prof. Krishnamurthy Subramanian (*Indian School of Business*)

As a result of the conference and presentations, CAFRAL is in discussion to launch related SME research initiatives during the coming year.

Conference Panel Discussion

A panel discussion was led by Prof. Reena Aggarwal, McDonough Professor of Business Administration, Georgetown University. Panelists included:

- Shri Apurva Chandra (*Principal Secretary, Industry, Government of Maharashtra*)
- Shri Ashish Chauhan (*MD & CEO, BSE*)
- Shri N K Maini (*former DMD, SIDBI*)
- Shri Sushil Muhnot (*CMD, Bank of Maharashtra*)
- Shri V Srinivasan (*CSO & Business Head, CRISIL Ratings, SME*)
- Shri Y Mathur (*CMD, Exim Bank*)

business decision-making and policy. Well-defined research is likely to become more important as businesses and policy makers embrace big data and data driven decision-making.

CAFRAL's program was put together with IPA-SME initiative, one of the world's top platforms hosting 60 top researchers with emphasis on data driven policy initiatives in small firm growth. The conference brought together academics, practitioners, and policy makers in a single platform with active participation from the audience. The Bombay Chamber of Commerce and Industry (BCCI) supported the event. Besides the speakers and panelists, the audience comprised over 93 participants from 53 banking and non-banking financial institutions.

Left: Dr. Raghuram Rajan, G Gopalakrishna and Dr. N R Prabhala with academic presenters
Right: Dr. Raghuram Rajan, G Gopalakrishna and Dr. N R Prabhala with Panelists and Participants

Administration and HR

CAFRAL's team is growing! The year has been exciting with many new faces joining CAFRAL, while few pursued other opportunities. Shri G Gopalakrishna took charge as Director on April 21, 2014. As on August 2015, CAFRAL has 27 contract staff and six deputed from RBI; four officers on deputation from RBI with CAFRAL have been transferred to RBI. We hired two new accounts assistants. In Research, we hired 11 research associates in two batches. We mentored four interns this summer.

Since launch in January 2014, CAFRAL's website has been instrumental in global content distribution and expanding CAFRAL's reach. The online nomination process introduced in June 2014, has been a huge success in streamlining and smoothening the entire nomination process. The website has been attracting a lot of new and repeat visitors; a total of **65,561 visitors** left footprints in this financial year.

The names of CAFRAL staff are given in **Annex III**.

Dr. Raghuram G Rajan with CAFRAL team

Acknowledgements

We would like to acknowledge the valuable guidance given to us by our Governing Council and Research Advisory Council members. We are also thankful to the management and officials of the Reserve Bank of India, various financial services institutions, consulting organisations, academics and professionals from various fields for their support provided to our activities. Without their unstinted support and encouragement, we could not have been able to reach this far in our journey to achieve our objectives.

We also acknowledge the contribution of M/s Deodhar & Patel, our internal auditors, M/s Mukund M Chitale & Company, our statutory auditors and other service providers.

G Gopalakrishna
Director, CAFRAL

BALANCE SHEET

2014-15

Independent Auditor's Report

To the Trustees of Centre For Advanced Financial Research And Learning

Report on the Financial Statements

We have audited the accompanying financial statements of Centre for Advanced Financial Research And Learning (The Trust), which comprise the Balance Sheet as at 31st March 2015, the statement of Income and Expenditure of the Trust for the year ended on that date, and a summary of significant accounting policies.

Management's Responsibility for the Financial Statements

The Trust's Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position and financial performance of the Trust in accordance with the section 32 of Bombay Public Trust Act 1950. This responsibility includes the design, implementation and maintenance of internal controls relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Trust's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by trust's management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Trust as at 31st March, 2015; and

(b) in the case of the Income and Expenditure Account of the Trust of the income and expenditure for the year ended on that date;

Report on other legal Regulatory Requirements

We report that:

1. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;

2. In our opinion, proper books of account as required by law have been kept so far as appears from our examination of those books;

3. In our opinion, the Balance Sheet and Income and Expenditure Account dealt with by the report comply with the Accounting Standards issued by the Institute of Chartered Accountants of India.

4. The Balance Sheet and Statement of Income and Expenditure dealt with by this report are in agreement with the books of account.

For Mukund M Chitale & Co.
Chartered Accountants
Firm Reg No. 106655W

(A V Kamat)
Partner

Place: Mumbai
Date: August 24, 2015

M. No.: 39585

SCHEDULE - VIII [(Vide Rule 17 (1)]

Name of the Public Trust: CENTRE FOR ADVANCED FINANCIAL RESEARCH AND LEARNING

Balance Sheet as at: 31st March, 2015

FUNDS & LIABILITIES	As at 31st March 2015	As at 31st March 2014
	₹ P.	₹ P.
Trusts Funds or Corpus:		
Balance as per last Balance Sheet	50,00,000.00	50,00,000.00
Other Earmarked Funds:	NIL	NIL
(Created under the provisions of the Trust Deed		
or Scheme or out of the Income)		
Loans (Secured/Unsecured):	NIL	NIL
Liabilities:		
Advance From Reserve Bank of India	1,80,66,596.85	15,95,239.75
Liabilities as per Schedule "A"	78,17,508.00	20,59,368.00
Income And Expenditure Account:		
Balance as per last Balance Sheet	NIL	NIL
Add : Surplus/(Deficit) as per Income and Expenditure A/c	NIL	NIL
TOTAL	**3,08,84,104.85**	**86,54,607.75**

Notes to Accounts - Schedule 'F'
As per our report of even date

For MUKUND M CHITALE & CO.
CHARTERED ACCOUNTANTS
FIRM REG. NO.106655W

(A V Kamat)
Partner
M.NO.: 39585

Place: Mumbai
Date: August 24, 2015

	PROPERTY & ASSETS	As at 31st March 2015 ₹ P.	As at 31st March 2014 ₹ P.
	Immovable Properties: (At Cost)	NIL	NIL
	Balance as per last Balance Sheet		
	Add: Additions during the year		
	Less: Sales during the year		
	Less: Depreciation up to date		
	Investments:	NIL	NIL
	Movable Properties (Schedule B):		
	Balance as per last Balance Sheet - Cost	92,82,336.02	76,35,175.42
	Add: Additions during the year	53,46,992.00	16,47,160.60
	Less: Deduction/Sales during the year	-	-
	Less: Depreciation up to date	98,98,496.92	70,94,178.21
		47,30,831.10	21,88,157.81
	Unsecured and Good		
	Sundry Debtors	37,79,677.00	NIL
	Advances:-	83,92,787.69	62,75,597.69
	As per Schedule "C"		
	Income Outstanding:		
	- Interest Accured on Fixed Deposit	1,69,945.00	NIL
	Cash And Bank Balances:		
	(a) Cash Balance	12,314.00	NIL
	(b) In Saving Account with Bank of India	8,798,550.06	190,852.25
	(b) In Fixed Deposit with Bank of India	5,000,000.00	NIL
	TOTAL	**3,08,84,104.85**	**86,54,607.75**

The above Balance Sheet to the best of our belief contains a true account of the Funds and Liabilities and of the Property and Assets of the Trust.

CENTRE FOR ADVANCED FINANCIAL RESEARCH AND LEARNING

TRUSTEE TRUSTEE TRUSTEE

Place: Mumbai
Date: August 24, 2015

SCHEDULE - IX [(Vide Rule 17 (1)]

Name of the Public Trust: CENTRE FOR ADVANCED FINANCIAL RESEARCH AND LEARNING

Income and Expenditure Account for the year ended 31st March, 2015

Expenditure	For the Year Ended 31st March 2015 ₹ P.	For the Year Ended 31st March 2014 ₹ P.	Income	For the Year Ended 31st March 2015 ₹ P.	For the Year Ended 31st March 2014 ₹ P.
To Expenditure in respect of Properties	NIL	NIL	By Contribution From RBI	9,35,28,642.90	7,25,52,445.10
To Establishment Expenses					
As per Schedule "D"	18,40,183.10	11,84,957.82	By Bank Interest	7,31,714.00	8,46,403.23
			By Dividend	NIL	NIL
To Audit Fees	1,00,000.00	1,00,000.00	By Donations in Cash or Kind	NIL	NIL
To Contribution and Fees	NIL	NIL	By Grants:	NIL	NIL
			By Income from Other Sources	NIL	NIL
To Amount written off	NIL	NIL			
(a) Bad Debts					
(b) Loan Scholarship					
(c) Irrecoverable Rents					
d) Other Items					
To Depreciation	28,04,318.71	30,14,387.98	By Transfer from Reserve	NIL	NIL
As per Schedule "B"					
To Expenditure on the object of the trust					
Educational	8,95,15,855.09	6,90,99,502.53			
As per Schedule "E"					
To Surplus carried over to Balance Sheet	-	-			
Total	**9,42,60,356.90**	**7,33,98,848.33**	**Total**	**9,42,60,356.90**	**7,33,98,848.33**

Notes to Accounts - Schedule 'F'
As per our report of even date
For MUKUND M CHITALE & CO.
CHARTERED ACCOUNTANTS
FIRM REG. NO.106655W

(A V Kamat)
Partner
M.NO.: 39585

Place: Mumbai
Date: August 24, 2015

CENTRE FOR ADVANCED FINANCIAL RESEARCH AND LEARNING

TRUSTEE TRUSTEE TRUSTEE

Place: Mumbai
Date: August 24, 2015

CENTRE FOR ADVANCED FINANCIAL RESEARCH AND LEARNING

Schedule A: Liabilities

Particulars	As on 31st March 2015	As on 31st March 2014
	₹ P.	₹ P.
Expenses Payable	59,76,456.00	13,23,593.00
Tax Deducted at Source	12,88,957.00	7,35,775.00
Service Tax Liability	5,40,207.00	-
Retention Money	7,088.00	-
Profession Tax Payable	4,800.00	-
Total	**78,17,508.00**	**20,59,368.00**

Schedule B: Movable Properties

Name of the Asset	Rate of Depreciation	COST			
		As on 1st April 2014	Additions	Deletions	As on 31st March 2015
		₹ P.	₹ P.	₹ P.	₹ P.
Tangible					
1. Computer Hardware Including Printers	33.33%	26,11,079.72	10,56,917.00		36,67,996.72
2. Other Electrical Equipment	33.33%	6,79,025.50	6,88,690.00		13,67,715.50
3. Furniture	20.00%	5,99,292.00	1,16,091.00		7,15,383.00
4. Car	20.00%	-	27,04,969.00		27,04,969.00
Intangible					
5. Computer Software	33.33%	53,92,938.80	7,80,325.00		61,73,263.80
Total		**92,82,336.02**	**53,46,992.00**	**-**	**1,46,29,328.02**
Previous Year		**76,35,175.42**	**16,47,160.60**	**-**	**92,82,336.02**

Schedule C: Advances

Particulars	As on 31st March 2015	As on 31st March 2014
	₹. P.	₹ P.
Advance against Research Project	-	15,75,360.00
Service Tax Input Credit	92,840.19	5,80,751.19
Deposit for Rental Premises	15,90,000.00	-
Advance to Creditors	3,000.00	-
Other Receivables	3,22,295.00	6,618.00
Income Tax Receivable	47,16,909.50	36,05,798.50
Prepaid Expenses	16,67,743.00	5,07,070.00
Total	**83,92,787.69**	**62,75,597.69**

	DEPRECIATION				W.D.V.	
	Up to 1st April 2014	During the Year	Deletions	As on 31st March 2015	As on 31st March 2015	As on 31st March 2014
	₹ P.	₹ P.	₹ P.	₹ P.	₹ P.	₹ P.
	17,93,705.75	9,24,146.33		27,17,852.08	9,50,144.64	8,17,373.97
	4,83,364.68	3,49,716.44		8,33,081.12	5,34,634.38	1,95,660.82
	1,72,175.40	1,43,076.60		3,15,252.00	4,00,131.00	4,27,116.60
	-	5,40,993.80		5,40,993.80	21,63,975.20	-
	46,44,932.38	8,46,385.54		54,91,317.92	6,81,945.88	7,48,006.42
	70,94,178.21	**28,04,318.71**	**-**	**98,98,496.92**	**47,30,831.10**	**21,88,157.81**
	40,79,790.23	**30,14,387.98**	**-**	**70,94,178.21**	**21,88,157.81**	**-**

Schedule D: Establishment Expenses

Particulars	For the Year Ended 31st March 2015	For the Year Ended 31st March 2014
	₹ P.	₹ P.
Administrative Expenses	15,01,459.30	9,10,623.82
Sitting Fees paid to Council Members	1,91,110.00	1,48,891.00
Facilities Management Expenses	1,47,613.80	1,25,443.00
Total	**18,40,183.10**	**11,84,957.82**

Schedule E: Expenditure on Object of the Trust - Educational

Particulars	For the Year Ended 31st March 2015		
	Learning	Research	Total
	₹ P.	₹ P.	₹ P.
Administration Expenses#	22,27,790.50	16,90,143.70	39,17,934.20
Rent for Director's Residence	18,55,000.00	-	18,55,000.00
Foreign Exchange Loss	5,339.00	318.00	5,657.00
Computer/fax/Printer Consumables	2,32,302.80	2,32,302.80	4,64,605.60
Event Related Expenses	1,40,90,744.00	1,79,438.00	1,42,70,182.00
Honorarium - Guest Faculty	11,08,695.00	-	11,08,695.00
Online Data Service	-	41,86,929.00	41,86,929.00
Paper/ Conference registration fees	-	76,532.00	76,532.00
Photography/videography	22,11,558.00	1,13,760.00	23,25,318.00
Printing & Stationery	13,75,783.00	1,06,274.50	14,82,057.50
Professional Fees	16,77,850.00	9,11,200.00	25,89,050.00
RAC Related Expenses	-	5,80,657.00	5,80,657.00
Research Projects	-	20,02,760.00	20,02,760.00
Salaries & Staff Expenses*	3,23,85,783.79	2,85,66,683.00	6,09,52,466.79
Stay Expenses- Guest Faculty and Participants	19,66,112.00	3,37,795.00	23,03,907.00
Training Fees to Employees	1,61,609.00	1,68,000.00	3,29,609.00
Travel Expenses- Guest Faculty and Participants	22,81,979.00	5,46,454.00	28,28,433.00
Travelling & Stay Expense of visiting professors	-	35,65,885.00	35,65,885.00
Travelling & Halting Expenses - Staff	53,84,487.00	35,70,833.00	89,55,320.00
Website Maintenance and subscription	2,33,138.00	2,33,138.00	4,66,276.00
	6,71,98,171.09	4,70,69,103.00	11,42,67,274.09
Less: Training Programme Fees Recovered	2,47,51,419.00	-	2,47,51,419.00
Total	**4,24,46,752.09**	**4,70,69,103.00**	**8,95,15,855.09**

**Salaries includes remuneration to Director (including previous Director) of ₹24,81,999/- (P.Y. ₹33,63,735/-) who is also one of the trustees of the trust.*

#Includes ₹1,80,258/- (P.Y. ₹Nil) relating to previous year.

	For the Year Ended 31st March 2014		
	Learning	**Research**	**Total**
	₹ P.	₹ P.	₹ P.
	15,20,201.00	16,28,874.53	31,49,075.53
	-	-	-
	-	-	-
	1,22,128.00	1,22,128.00	2,44,256.00
	76,27,027.00	1,90,362.00	78,17,389.00
	15,34,563.00	-	15,34,563.00
	-	28,03,998.00	28,03,998.00
	-	78,948.00	78,948.00
	22,35,147.00	31,964.00	22,67,111.00
	10,17,274.00	86,197.00	11,03,471.00
	3,84,475.00	10,22,500.00	14,06,975.00
	-	-	-
	-	15,45,000.00	15,45,000.00
	2,35,73,468.50	2,45,45,159.50	4,81,18,628.00
	88,42,048.00	1,11,586.00	89,53,634.00
	2,05,535.00	50,500.00	2,56,035.00
	31,79,295.00	6,09,091.00	37,88,386.00
	-	-	-
	21,69,257.00	33,45,486.00	55,14,743.00
	6,98,645.00	6,98,645.00	13,97,290.00
	5,31,09,063.50	3,68,70,439.03	8,99,79,502.53
	2,08,80,000.00	-	2,08,80,000.00
	3,22,29,063.50	**3,68,70,439.03**	**6,90,99,502.53**

Schedule F

Centre for Advanced Financial Research and Learning

Notes on Accounts annexed to and forming part of the Balance Sheet as at 31st March, 2015 and Income and Expenditure Account for the year ended 31st March, 2015.

A. SIGNIFICANT ACCOUNTING POLICIES

1. Basis of preparation of financial statement

a) The financial statements are prepared under the historical cost convention on the basis of going concern and in accordance with the Generally Accepted Accounting Principles in India (GAAP) and provisions of the Bombay Public Trust Act, 1950.

b) The Presentation of financial statements are in conformity with generally accepted accounting principles, requires estimates and assumptions to be made that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and the differences between actual results and estimates are recognized in the periods in which the results are known/materialised.

2. Recognition of Income/Expenditure

Income and Expenditure are accounted on accrual basis. The amount equal to the deficit arising from the activities of the Trust is shown as income by way of Contribution from RBI.

Training programme fees are recognised as income on completion of the programme and these are shown as recovery towards cost of conducting programmes. Expenses on outsourced research projects are recognized on completion of the project and submission of final report.

3. Fixed Asset and Depreciation

Fixed Assets are stated at cost less depreciation. All costs relating to acquisition and installation of Fixed Assets are capitalized. Assets costing less than ₹10,000/- are not capitalised.

Depreciation on assets is charged on the Straight Line Method for the full year.

4 **Foreign Currency Transactions**

A foreign currency transaction is recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency prevailing on the date of transaction. At the balance sheet date, foreign currency monetary items are reported using the closing rate. Gain or loss if any, is recognised in the Income and Expenditure Account for the year. The gain or loss arising on account of exchange rate differences between the payment date and transaction date is charged to the Income and Expenditure Account.

5 **Related Party Transaction**
Disclosure is made as per the requirement of the AS -18 – Related Party Disclosures and the same is given under Note No.B.2.

6 **Operating Leases**
Lease of Asset under which all the risks and rewards of ownership are effectively retained by the lessor and classified as operating lease. Lease payments under Operating Leases are recognized as an expense on accrual basis in accordance with respective lease agreements. The disclosure as required by AS – 19 – Lease in respect of operating leases in the books of lessee is given in Note No B.3.

7 **Impairment of Assets**
An Asset is considered as impaired when at the Balance Sheet Date there are Indications of Impairment and the carrying amount of Asset exceeds its recoverable amount (i.e. the higher of the assets Net selling price and Value in Use). The carrying amount is reduced to the recoverable amount and the reduction is recognised as an Impairment Loss in the Income & Expenditure Account.

8 **Provisions, Contingent Liabilities and Contingent Assets**
Provisions are recognized for liabilities that can be measured only by using substantial degree of estimation. These are reviewed at each balance sheet date and adjusted to reflect the current management estimates. Contingent liability is disclosed in case of possible obligation where the probability of outflow of resource is not certain. Contingent Asset is neither recognized nor disclosed in the balance sheet.

B. NOTES TO ACCOUNTS

1. During the year the cost of staff deputed by Reserve Bank of India amounting to ₹1,73,37,124/- (Previous Year – ₹1,39,07,805/-) has been reimbursed to Reserve Bank of India and is included under as salaries and staff expenses in Schedule ‘E’.

2. Related Party Discourse
Reporting Enterprise: Centre For Advanced Financial Research and Learning
Name of the related parties and description of relationship:

1. Key Management Personnel – Mrs. Usha Thorat (up to 23rd April 2014)
   – Mr. G Gopalakrishna (from 21st April 2014)

Details of Related Parties transactions are as under:

Particulars	**Key Management Personnel**	
	2014-15	**2013-14**
	₹	₹
Remuneration to Director	24,81,999/-	33,63,735/-

3. **Leases - Operating Lease**

The trust has taken on leases resid ential premises under Lease Agreements. Lease Rental expenses incurred for the year is ₹18,55,000/-. The total lease rental payable over the lease period for the residential premises, as detailed below is ₹82,85,000/-.

Particulars	**31.03.2015 (In ₹)**	**31.03.2014 (In ₹)**
Not later than One Year	32,85,000/-	-
Later than One Year and not later than Five Year	50,00,000/-	-
Later than Five Year	-	-
Total ₹	**82,85,000/-**	**-**

4. Previous year figures have been regrouped wherever necessary.

Signature to Notes A to F

For Centre for Advanced Financial Research and Learning

For Mukund M Chitale & Co.
Chartered Accountants
Firm Reg No. 106655W

(Trustee) (Trustee) (Trustee)

(A V Kamat)
Partner
M No.: 39585

Place: Mumbai
Date: August 24, 2015

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ANNEXES

Annex 1

1. CAFRAL Advanced Leadership Program (CALP) Retreat

Date April 6-8, 2014

Venue Goa

Objective The objective of the program was to reinforce and share the learnings from the CALP experience amongst the CALP Participants.

2. Workshop on Revitalising Distressed Assets

Date April 22, 2014

Venue Mumbai

Objective There is an enormous increase in NPAs and Restructured Assets in the Indian banking system during the recent years due to the slowdown of the Indian economy which leads to stress on a number of companies/projects. There is a need to ensure that the banking system recognises financial distress early, takes prompt steps to resolve it and ensures fair recovery for lenders and investors. In this regard, RBI had recently come out with final guidelines on the 'Framework for Revitalising Distressed Assets in the Economy' which will help to identify the corrective action plan that will incentivise early identification of problem accounts, timely restructuring of accounts which are considered to be viable and taking prompt steps by lenders for recovery or sale of unviable accounts. The objective of the workshop was to discuss the implementation of RBI's latest guidelines on 'Framework for Revitalising Distressed Assets in the Economy.'

3. Program on Transfer Pricing in Banks

Date May 15, 2014

Venue Mumbai

Objective The objective of the program was to provide conceptual clarity and practical insights on Transfer Pricing methods and its linkage to strategy and risk management.

4. Conference on Financial Frauds

Date June 24, 2014

Venue Mumbai

Objective The objective of the conference was to deliberate on the framework for strengthening the mechanism to deal with financial frauds in the financial sector and understanding best practices in banks by inviting the top regulatory authorities from the CVC, RBI, Police Department and eminent legal authorities.

5. Conference on Derivative Markets – Issue and Challenges

Date June 28, 2014

Venue Mumbai

Objective The objective of the program was to deliberate on the strategies, challenges and issues before the banks for developing and deepening the derivatives markets in India, given the dynamic nature of our exposure to international and domestic financial markets.

6. Conference on Current Issues in Project Finance and Way Forward

Date June 30-July 1, 2014

Venue Mumbai

Objective The objective of the conference was to understand the sectoral growth in infrastructure finance in India, assess the causative factors for the rapid growth of NPAs in the area, and identify preventive solutions.

7. Seminar on Imperatives of Basel III Capital Requirements

Date July 4, 2014

Venue Mumbai

Objective The objective of the seminar was overall in-depth understanding of the Basel III guidelines and its challenges and to equip CMDs/CEOs of banks to implement the transitional requirements, plan their capital requirements and manage the impact on their businesses.

8. Advanced Program on Basel III

Date July 15 - July 16, 2014

Venue Mumbai

Objective The objective of the program was to provide a platform to senior executives from banks and RBI to hear from experts on the latest regulatory reforms contained in the Basel III framework and to share experiences and issues in implementing Pillar 2 and the advanced approaches under Pillar 1 in Basel II.

9. Program on Use of Social Media by Banks

Date July 25, 2014

Venue Mumbai

Objective Facebook, the world's largest social network has crossed 100 million users in India. Twitter, Google+, LinkedIn, Instagram, BlogSpot, Pinterest, and many more social media network are increasingly becoming the preferred communication mode for customers. What are the implications of this emerging trend for banks in India? How can banks prepare and embrace the use of social media to enhance their brand and improve customer engagement?

10. Meeting of Treasury Heads of Public Sector Banks

Date August 2, 2014

Venue Mumbai

Objective The objective of the meeting was to discuss the issues regarding lack of participation in derivatives market by the PSBs which are muted participants compared to active treasuries of foreign and private banks. Shri A V Rajwade, Risk Management Expert and Shri G Mahalingam, Principal CGM, FMD, RBI were the mentors for the discussion.

11. Seminar on Enhancing the Effectiveness of Asset Reconstruction Companies

Date August 12, 2014

Venue Mumbai

Objective The objective of the seminar was to discuss the role and responsibilities of ARCs, measures needed to improve their functioning so as to enable them to effectively act as a supportive system for stressed asset management. Also, steps needed for improving the system of valuation of security receipts (SRs) to ensure that SRs reflect the appropriate underlying asset value of stressed assets and sale of NPAs is not used as a tool for artificial balance sheet management were also discussed.

12. Conference for Chief Compliance Officers

Date August 27, 2014

Venue Mumbai

Objective The objective of the conference was to have a dialogue with the Chief Compliance Officers (CCO) on the key aspects of their role in ensuring regulatory compliance with special emphasis on risk based supervision.

13. Advanced Program on Basel III and Risk Management

Date September 1-3, 2014

Venue Chennai

Objective The objective of the program was to provide a platform to senior executives from banks to understand Basel III framework and risk management issues in more detail as also interact with various speakers and other participants.

14. Workshop on Forensic Audit

Date September 9, 2014

Venue Mumbai

Objective Forensic Accounting and Fraud Detection specialisation is in increasing demand considering increasing incidents of cybercrimes and frauds. Deliberating on the framework for strengthening the forensic accounting and their application, understanding use of forensic tools in NPA lifecycle, data security and cyber forensic issues, digital forensics and investigative skills to detect fraud/mistakes, forensic audit and data mining tools were the broad objectives of the workshop.

15. Seminar on Unhedged Foreign Currency Exposure of Corporates

Date September 13, 2014

Venue Mumbai

Objective The objective of the seminar was to sensitise the banks towards the risk involved with unhedged foreign currency exposure of the entities on which they have taken credit exposure and the need to monitor such exposures so as to ensure that the exchange rate volatility does not have any spill over effect on the banking system adversely. The seminar also provided a platform to the participants to discuss the issues and challenges in effectively monitoring the unhedged forex risk. Shri Anand Sinha, former DG, RBI delivered the opening remarks.

16. Advanced Program on Basel III and Risk Management

Date September 22-23, 2014

Venue Mumbai

Objective The objective of the program was to provide a platform to senior executives from commercial banks and RBI to hear from experts on the latest regulatory reforms contained in the Basel III framework and to share experiences and issues in implementing the framework. The microprudential component of the Basel III framework enhances the quality and level of capital, introduces a backstop leverage ratio and establishes minimum liquidity standards. Basel III implementation will, therefore, require banks to put in place an effective capital planning exercise and liquidity risk management framework. Basel III also has a macroprudential element which addresses the issue of pro-cyclicality and systemic risk. The D-SIBs will not only need to meet higher loss absorbency requirements but also meet enhanced supervisory expectations under a regime of supervisory intensity and effectiveness by, *inter alia*, improving their risk management, governance and risk appetite frameworks.

17. Seminar on Hedging Oil Requirements of Indian Oil Marketing Companies

Date October 10, 2014

Venue Mumbai

Objective The objective of the seminar was to examine appropriate strategy for hedging of India oil requirements by the OMCs with expert speakers drawn from academic, multilateral institutions, investment banks, energy experts, etc.

18. Roundtable on Mobile and Agency Banking

Date October 17-18, 2014

Venue Hyderabad

Objective The objective of the roundtable was to get CEOs of banks and telecom companies from across the world to share, discuss and ideate on the opportunities and challenges of mobile and agency banking. It was a roundtable format with closed group discussions amongst the attendees.

19. Advanced Program on Basel III and Risk Management

Date October 27-29, 2014

Venue Bengaluru

Objective The objective of the program was to provide a platform to senior executives of Canara Bank to understand Basel III framework and risk management issues in more detail as also to interact with various speakers.

20. Program for Non-Executive Directors on the Boards of Public Sector Banks

Date November 17, 2014

Venue Mumbai

Objective The objective of the program was to make the Non-Executive Directors of PSBs aware of risks involved in functioning of banks, to upgrade their skills and to sensitise them to the key issues like risk management, Basel III, risk based supervision, corporate governance as also any other issue of significant relevance.

21. Roundtable on Corporate Bond Market

Date November 24,2014

Venue Mumbai

Objective The objective of the roundtable was to discuss the need for development of corporate bond market in India and what more was required to be done by the financial market players, corporates and the regulator.

22. Program on Risk Management for Leaders

Date November 27-29, 2014

Venue Lonavla

Objective The core purpose of banks is to assume manageable level of maturity risk and credit risk and to generate a level of return consistent with it. This is hard to do even in relatively small financial institutions because of the fact that each risk is being assumed by the institution on a near continuous basis and not just in head offices but also in distant branches. Despite these difficulties, management of these risks is of key strategic importance for banks. Decisions such as the choice of data generating processes for each source of risk, implementing appropriately chosen transfer pricing methodologies and the setting of confidence bands to assess the requirements of capital, need more of attention of the top management than issues such as locations of new branches or making individual credit decisions.

1. How much economic capital is required for different business of the bank?
2. What are the drivers of the rating and valuation of the bank?
3. Is there a need to diversify the credit portfolio of the bank? What benefits will it give?
4. How should the interest rate risk in the bank be identified, measured and actively managed?

This program answered the above questions and other similar issues that the top leadership of the bank grapples with and needs to prepare for.

23. Program on Implementation of Advanced Approach (IRB) of Basel II

Date December 23-24, 2014

Venue Mumbai

Objective The objective of the program was to help the bankers to develop IRB credit risk models. The program will also give guidance on arriving at PD, LGD and EAD numbers on the loan asset of a banker. It also threw light on assessment of the correlation factor amongst borrowings and borrowers. From regulators point of view, the program gave feedback regarding various valuation methods.

24. Workshop for Judges of Debts Recovery Appellate Tribunals and Debts Recovery Tribunals

Date December 29 & 30, 2014

Venue Lonavla

Objective The objective of the program was to have an interaction with the Judges of DRATs and the POs of DRTs to understand the problems/issues faced by them in settling the cases as also to update them about the regulations and nuances of NPA management.

25. Gyan Sangam – Bankers' Retreat

Date January 2 – 3, 2015
Venue Pune
Objective The objective of the program was to discuss the restructuring and reforms in PSBs.

26. Financial Markets Program for IES Officers

Date January 5-9, 2015
Venue Mumbai
Objective The objective of the program was to provide senior officials from IES an overview of the financial markets, with an emphasis on the strategic issues that impact and shape policy making.

27. CAFRAL Advanced Leadership Program (CALP) 2015

Date February 1-15, 2015
Venue Lonavla
Objective An innovative program tailored for senior management of banks in India to provide them with a unique opportunity to expand their strategic thinking and equip them to be effective leaders and lead their banks in an increasingly competitive environment.

28. Roundtable on Strategy for Malware, Digital Forensics and Cybercrime Investigation for Banks

Date February 24, 2015
Venue Mumbai
Objective The roundtable provided insights into capacity building in the cyber security management in banking sector, emerging trends in cyber security management, exploring the drivers and challenges around cyber security and strategising to manage the risks and the road ahead. The roundtable was organised in association with not-for-profit research wing of eSF Labs Ltd..

29. 2nd Program for Non-Executive Directors on the Boards of Public Sector Banks

Date February 27-28,2015
Venue New Delhi
Objective The objective of the program was to make the Non-Executive Directors of PSBs more aware of the risks involved in functioning of banks and upgrade their skills/knowledge relating to certain key issues like risk management, Basel III, risk based supervision and corporate governance.

30. CAFRAL-IPA SME Initiative Conference on Young Firm Financing

Date March 16, 2015
Venue Mumbai
Objective The goal was to discuss innovative, practical and scalable solutions for robust MSME financing practices. Our panelists brought experience from over a dozen countries. Panel discussions were followed by individualised breakout sessions, customised to focus on group members' own MSME challenges.

Annex 2

Highlights of Seminars and Roundtable Discussions Conducted during the Year

A **Seminar on Enhancing the Effectiveness of Asset Reconstruction Companies** was held in August 2014. Participants included senior officers from banks, NBFCs, ARCs, Rating Agencies, RBI, IBA as well as legal experts. The following were the major takeaways from the discussions/ deliberations:

- ARCs must capitalise themselves adequately and raise resources to acquire assets from banks for full or almost full cash payment. The regulator may mandate minimum capital adequacy levels for ARCs in line with the NBFCs.
- To facilitate ARCs in raising resources, regulation/policy may permit 85% investment by international investors into underlying SPVs where assets are acquired. In fact, there is a good reason to also permit 100% of ownership of ARCs by international investors if they bring in certain minimum level of capital as is currently applicable for NBFCs and HFCs.
- Banks which have sold assets to ARCs should make a provision within 2/3 years of sale up to 50% of the value at which sale of assets has taken place as a prudential measure so that non-recovery/non-reconstruction of assets does not adversely impact the bank at a later stage.
- As per SARFAESI Act, after the recoveries are made in the defaulters' loan account, the secured creditors shall handover Management control back to the borrower. Takeover of management coupled with the property rights in the assets of the company is the property of the shareholders. Therefore, it is necessary that the person who takes over also acquires the shareholding in his own name for retaining the same. In most of the lending, particularly the project financing, the promoters' shares are pledged with the banks. So transferring the pledged shares to the new management and advising them to acquire the shares from the market will help them become the owner. Compensation has to be arranged to the owners of the property *viz.* shareholders while taking over the management. Thus, the question of handing over the management back to the borrower would not arise. Either with the consent of the present management the lender has to work out for takeover of management or acquire the majority share holdings in the company.
- To ensure that there is no nexus between the bank and an ARC, banks must upfront – in the beginning of the auction – announce the Reserve Price for assets being auctioned and place in the public domain the value of bids from various ARCs after the bids are opened. The difference between the value of bid chosen and the next lower bid will give an indication of any odd transaction taking place between the bank and the ARC.
- To become the member of JLF, ARCs should have enough resources in-line with other banks for funding for undertaking of restructuring of the assets. ARCs should be well capitalised therefore ARCs have a maximum period of eight years for resolution, whereas in JLF/CDR, the resolution period may go beyond eight years. These rules have to be aligned.
- As per the current regulation, there is no option for ARCs to go for an auction for residual portfolio, if the investor wants to exit from the residual portfolio. There should be a mechanism to permit the ARCs to sell the residual portfolio for the said purpose.

- Unless banks move to cash flow-based assessment, continued slippages in quality of assets will keep happening in years to come. The cash credit limits should be substituted by demand loans of 2/3 years with about 80-85% of core cash credit limits. The demand loans should be repayable every month or quarter from the profits generated.
- One of the main reasons for low recoveries by ARCs is that the average age of the NPAs sold by the banks is five years. More the delay in selling the asset, lesser the value of recovery from it. It can take between 18-30 months for an ARC to aggregate the debt which also leads to more delays in recovery and reduction in the value of the assets.
- For the purpose of recovery, the lenders should be very careful in identifying the borrowers who are really unable to pay due to genuine reasons and wilful defaulters while taking steps for recovery of loans.
- Around 25% of the total NPAs are from infrastructure sector. This is due to land acquisition problems, environmental clearances, leakages, etc. Thus, this stress can be easily resolved if the government agencies address these issues.
- To strengthen the DRTs, additional DRTs may be set up in metropolitan cities where the cases have crossed 1,000; additional recovery officers may be posted and there should be more recruitment at DRTs.
- An SPV has to be created to resolve the issues for stressed assets. There should not be any restriction in the investment of a stressed asset vehicle. International capital is available for revival in particular and also for realisation of value in stressed assets.
- Banks and ARCs should work hand-in-hand. ARCs should be extended arms of banks for the purpose of resolution of stressed assets.
- ARCs should allow the Rating Agencies to access information at ease which will help them do the rating process quickly and clearly.
- Rating Agencies should have better access to the management, especially, for the large borrowers, which will help them to judge better the expected valuation based on the resolution strategy by the promoters.
- Delay or inability to aggregate debt, very high vintage of NPAs, poor documentation and prolonged litigations are the major reasons for ARCs leading to lower redemption of SRs.
- The regulator may allow ARCs to mandate listing of SRs. As the market will determine the NAVs for the SRs, the listing will help the ARCs not to depend on ratings once the debt markets starts to show its growth.
- The regulator should address the anomaly in differential treatment with regard to similar assets taken directly in the books of companies and trusts. The books of companies would attract prudential norms, treating taxes and allotting provisioning, whereas it is not applicable for the trusts. This anomaly attracts the borrowers to choose the option of books of trusts to avoid regulatory requirements.
- Quicker debt aggregation, joining JLF and selling SMA 2 Accounts, arranging additional funds by ARCs or banks, curtailing prolonged litigation periods, ensuring regular flow of sale of assets to ARCs, bringing down the vintage of NPAs from five years to two years and enhancing transparency in independent assessment of assets by Rating Agencies are the major strategies to improve the reconstruction and recovery process of ARCs.
- Banks should be instructed to reimburse the expenses met by ARCs towards resolution related issues while acquiring the accounts of a trust to reduce the burden of ARCs.
- Clarifications required from RBI regarding the approval requirements for (i) transfer of shares of an ARC and (ii) change in management of an ARC. Clarification is also required regarding the inter-play with company law and other statutes in the context of change in management by ARCs.

- Time period may be specified within which change in management can be undertaken by an ARC and action required following the end of such time period.
- Foreign investors may be allowed to buy 100% of SRs.
- Exemption may be considered under the takeover code regarding the acquisition of shares pursuant to enforcement of pledge by ARCs.
- NAV may be calculated on an annual basis – management fee to be paid only after credit rating agency has submitted its valuation.
- There should be a mechanism for put option on ARCs, if the assets are unable to recover or reconstruct within the stipulated period of eight years. It also solves the issue of valuation in the initial periods.
- Part of the resolution rights may be given to the SR holders at the end of five year period to help push the ARCs to recover or reconstruct the assets.
- The banks should have the powers to change the Trustees after a period of five years. The bankers should be a part of the Trustees to control.
- Stamp Duty and Registration Fee need to be exempted in the documents while assigning the loan especially with regard to the multi-state effect.
- In respect of bids, as per RBI stipulation, if the bid involves payment of 50% or more by cash, the selling bank is mandatorily required to sell the asset. This may be brought down to 25%.
- There should be statutory or regulatory norms for ARCs to convert the debt into equity. Otherwise it takes time for them to get the approval for the same from the concerned authorities.
- Review is needed on promoter holding (49%) as remaining (51%) shareholders are not willing to participate in right issues and ARCs are having very meagre capital.
- FII can own/invest up to 74%of ARC, while Indian promoters are not allowed beyond 49%. The position may be reviewed.

A **Meeting of Treasury Heads of Public Sector Banks** was held in August 2014. There is asymmetry in the GSec trading and derivative market. Objective of the meeting was to discuss reasons for muted participation of PSBs in GSec trading and derivatives market (IRS, OIS & IRF) compared to foreign banks and private sector banks. The highlights of the discussions are below:

Some of the facts:

- **PSB participation in GSec Trading:** Public sector banks share in GSec trading activity was limited to 23.2% of total trading volumes compared to 28.2% of foreign banks, 19.5% of private banks and 16.5% primary dealers in last quarter of 2013.
- **PSB participation in derivatives market:** Market share of PSBs in IRS (MIBOR) for May 2014 was negligible (0.43%) compared to 68.88% by foreign banks, 19.54% by PDs and 11.15% by private banks. Participation by PSBs in the derivative market is of the view taking type and not hedge taking type. The reasons for current dichotomy in OIS and GSec market may be a result of the view taking instead of hedge taking approach of PSBs. PSBs participation can make market more scientific and dynamic. PSBs prefer using IRF due to it being correlated to benchmark and relatively less uncertain. Whereas off balance sheet items (contracts/derivatives/credit contingents together) of PSBs are just 48% of the total assets, in contrast, ten times of their total assets foreign banks.

Compelling reasons for PSBs to take up GSec trading and IRS IRF OIS derivatives:

- **Profitability from derivatives:** Comparative analysis of contracts & derivatives/total assets and profit/loss on forex operations as % of PAT shows that in March 2014, foreign and new private sector banks made substantial profits in treasury operations as compared to PSBs, despite PSBs holding almost 70% share of securities. Profit from forex operations by foreign banks was 50% of their total profits against 24% by PSBs.

- **Carrying huge exposure to interest rate/market risk on their balance sheets:** Globally, swap rate is always higher than GSec rate, but in India it is not always so, especially during volatile periods. Distortions in swap rates are due to inefficiencies caused due to PSBs keeping away from the market. If all major banks participate, swap curve will trade above bond curve as it should in a mature market even during volatile periods. An aversion to hedging market risk, leads to carrying huge exposure to interest rate/market risk on their balance sheets. Therefore, derivative market is full of speculators, view takers and arbitragers, but not the hedgers (PSBs). As long as PSBs don't see derivatives as hedge management tool, distortions in swap curve during volatile conditions may not disappear. Playing safe is like a ship happily porting in the harbour avoiding sea, which is against the purpose it is made for.
- **ALM & compensating GSec trading losses:** Active trading in hedging instruments like IRS, OIS will be useful from various perspectives like ALM, compensating losses on GSec portfolios, developing active trade management by PSBs and evening out the distortions in interest rate swap market etc. These are the only hedging tools available for duration matching in ALM assets and liabilities and progressively reducing HTM portfolio. Although deposits are repricing themselves, there is a hidden interest rate risk in 70% of banking assets.
- **Proven correlation of underlying GSec and derivatives market movement-against the popular perceptions:** Popular perceptions regarding OIS liquid derivative and overall derivative markets is that these are volatile, with little correlation between underlying bond market and swap market, and transmission of interest rates is only through bond markets. Last two and half years data (February 2012 onwards) on bond and swap market shows that movement in GSec bond curve is corresponded by movement in swap curve and that there is compensatory correlation both from interest and liquidity perspective.
- **Developments like standardisation:** Under the umbrella of CCIL, FIMMDA and overall guidance of central bank, developments like standardisation of derivative products, their traded volumes, and proven sensitivity of swap curve to pressures on interest rate or liquidity should develop/change the approach of PSBs. Well-managed treasuries of foreign and private banks have become profit centres.

Constraints for PSBs:

- **Lack of specialisation for investment banking:** Investment banking (capital and managing risk) and commercial banking (deposit/credit based) are two segregated functions in banks of developed nations and foreign banks in India. Different business philosophies govern these functions, leading to developing specialisation and honing talent for investment banking. In contrast, in PSBs of India, these disciplines are merged which results in adopting the same generic practices of commercial banking like rural transfer, one city or one department posting cut-off limits etc. being followed in treasuries also, retaining talent and development of expertise. It will be important to establish such enabling conceptual divide in PSBs.
- **Lack of involvement of PSB Boards in investment function:** Generally Boards and senior management of banks are aware of their needs of risk management and trading. But they don't have time to go into details of the treasury operations. They rely on the reports of risk management committees whose duty is to ensure management of best practices and avoidance of untoward risks. The stability of the deposit-credit based business doesn't compel them to do so. Developing a will and involvement of top management & Boards and specialisation of talent are the areas on which PSBs may have to focus for active market participation in IRS, IRF, OIS, GSec Trading etc.
- **Preparing for declining HTM and valuation issues:** With a regulatory policy environment of declining HTM, marking to market the entire investment portfolio would be necessitated. It would be necessary to activate the banks to take calculated risks by taking Boards in confidence and explain how treasuries can take profit position by optimising hedge (buying selling OIS IRS) to

counter volatility in GSec market to distribute risks on investments across tenor curve for better risk management.

- **Term money market is not developing beyond 14-day:** Evolution of banking and term money market overseas and in India have certain basic differences arising from deposit funded banking in India as against purchased funding based banking system in the developed overseas market or even foreign banks in India. Actively traded benchmark indexes and term money swaps built around it have developed in developed countries.
- Another difficulty in development of active term money market emanating from the fact that in the post crisis era, most of the banking system in India and even globally, are encouraged to be liquidity surplus, so there is nobody on the other side of the market to buy the surplus.

Required Change of Approach of PSBs:

- Approach of looking at derivative market needs a fundamental change. Fear of unknown and loss can be tackled only if PSBs look at the derivative market over a longer period horizon, at least over a three year horizon, as suggested by the experience of some major private banks. Behaviour of derivative products can be understood by staying with the product over a longer horizon in controlled environment. From experiences of participating larger players like private banks show that the ROI in derivative markets (OIS, IRS) over longer horizons can be much higher than credit. It is also necessary to be present in all the markets all the time. Various investors enter market with as investors, speculators, arbitragers, hedgers at different times with different motives. Prudence lies in optimising by operating in all the markets. Essentially, presence in all the markets all the time has proved to work better for risk management, as markets are volatile and can go on different trajectories. To be present in all the market helps to optimise and take advantage of market movements for better returns.
- The risk management team of the bank must ensure that strong risk management policies assure top management of the bank who would review risk management policies.

A **Seminar on Unhedged Foreign Currency Exposure of Corporates** was conducted in September 2014. There were participants from banks, RBI, IBA and corporates. Major suggestions received from the participants were as under:

- Some businesses like metals, oil & gas etc. have an economic hedge. While the same may not completely cover the forex risk, it may be prudent for these companies to have a portion of their borrowings in USD in view of partial hedge. In the view of the natural/economic hedge available to these industries, RBI may consider a more lenient provisioning/capital requirement metric.
- Overseas borrowers are outside the purview of the Indian regulators and have different accounting standards. Although banks may try to obtain UFCE data in the prescribed format, it may be difficult to get the required information. Considering the operational challenges envisaged in obtaining the UFCE Certification, RBI may consider prescribing a blanket provisioning of 10 basis points (bps) in case of non-availability of data in case of offshore borrowers as against highest provisioning as mandated currently.
- Minimum floor of 20 bps provisioning has been specified for projects under implementation. The minimum floor may be removed as even in the event of a minimal mismatch in foreign currency exposure of the borrower, the overall cost for the borrower would increase. This would impact projects which are expected to have a USD denominated cash flows/ balance sheets.
- In case the bank has an exposure of only up to ₹10 Crore in a borrower, the bank may be allowed to go ahead with a 10 bps provision without obtaining a UFCE Certificate.

- In case comfort is available from another guaranteeing/sponsor corporate, the EBID of that entity should also be considered and the better of the two EBIDs should be taken into account for the computation of provision for UFCE.
- Currently each bank devises its own format and presents it to the corporate for seeking information. As a result, this makes the providing of information tedious for the corporate; the banks may often end up not getting a response from the corporates. Based on each bank's different format, the UFCE assessment done by every bank is also likely to throw different results. It is therefore recommended that a common format be developed so that corporates can provide a uniform set of information to all banks and ensure consistencies in assessment across banks. While the uniform template gets developed by IBA or ICAI, RBI may consider making the task of compiling the information and UFCE assessment and dissemination of information to all banks a responsibility of the lead bank in the consortium or of the bank with the largest share of credit limits.
- The RBI circular of January 2014 states that "While computing the UFCE of the foreign MNCs (i.e. MNCs incorporated outside India), intra-group foreign currency exposures (e.g. a subsidiary of a foreign MNC in India may have borrowed from its parent) may be excluded if the bank is satisfied that such foreign currency exposures are appropriately hedged or managed robustly by the parent". Past experience show that these MNC clients have dollarised financial statements at consolidated level and also many do not hedge their UFCE in the local subsidiaries and are managed at the central treasury as a part of their global hedging practices followed at parent level. Accordingly, RBI guidelines may be modified to allow banks to exclude exposures on MNC clients where the lending is based on support from their parent companies.
- FCE has been defined as the gross sum of all items on the balance sheet that have impact on profit & loss account on account of movement in foreign exchange rates. An export-oriented business which borrows long tenor foreign exchange denominated loans may choose not to hedge it because of sufficient foreign exchange generated each year over the term of that loan which can be utilised to pay off the loan. Thus the export receivables in any year naturally hedge any foreign currency variation pertaining to that year's maturing loans. However, the circular currently constrains this approach through limiting the consideration of foreign exchange generated in just one year. To overcome this constraint, it is suggested that banks may be allowed to determine the UFCE using a combination of flows (*viz.* exports and imports assessed through P&L disclosures) and foreign currency debt repayments (short-term debt and portions of long-term debt) which would mature in next 12 months.
- A central database of UFCE may be developed similar to the central database of SMA data as the data provided by companies is uniformly applicable to all banks. This will reduce the efforts of individual banks to request the data from various corporates/lead banks.
- For loss making companies, banks may be provided another table which links 'Likely loss to Net worth' as there are some companies which have a strong net worth which may absorb any likely loss from unhedged FCY but may not have current profits. In such cases, a provision of 80 bps is not justified.
- Certification of Statutory Auditor may be done away with for those companies that do not have any FCY exposures due to their very nature of business.
- As banking exposure data is already collated as part of CRILC database, banks may be provided a utility to extract banking exposure of all entities through a single report/dump so that bank may apply 10 bps provision for those entities whose aggregate debt is less than ₹25 Crore. As of now, this data needs to be extracted through individual customer reports.
- It is suggested that net worth (of the borrower) along with EBID may be considered to arrive at UFCE risk category of the borrower.
- RBI may consider coordinating with Ministry of Corporate Affairs and/or ICAI to make it binding for CAs to disclose UFCE position in the annual audited balance sheet.

Suggestions from corporates:

- Financial hedge is ensured normally through a derivative contract with a financial institution. Hedging through derivatives may only be considered where the entity at inception of the derivative contract has documented the purpose and the strategy for hedging and assessed its effectiveness as a hedging instrument at periodic intervals.
- Natural hedge may be considered when cash flows arising out of the operations of the company offset the risk arising out of the FCE defined above. For the purpose of computing UFCE, an exposure may be considered naturally hedged if the offsetting exposure has the maturity/cash flow within the same accounting year. For instance, export revenues (booked as receivable) may offset the exchange risk arising out of repayment obligations of an external commercial borrowing if both the exposures have cash flows/maturity within the same accounting year.
- In case of a globally traded commodity, the realisation in INR will be the traded price of commodity in USD multiplied by the exchange rate. Even in the domestic market the price is determined similarly. Hence for a commodity company exposure is perpetual and future cash flow for any year will have an exchange rate risk whether it is accounted in the balance sheet or not. Secondly, RBI has not allowed hedging of economic exposure unless there is a confirmed order in hand. Hence many corporates use long-term USD loans to hedge the receivable economic exposure. Hence hedging a payable leg ignoring the receivable economic exposure adds to the risk of the organisation.
    - Since risk management is continuous process in a commodity company, considering only the items accounted for in the balance sheet during the financial year do not give the correct picture and will create a mismatch in the risk management strategy.
    - Should allow economic exposure to be set off against actual exposure on the other side while calculating the unhedged currency exposure.
- In case of a commodity company almost the entire receivable for any period in future is linked to INR/USD which means the balance sheet is almost dollar denominated on the receivable side. Many companies keep the USD loans unhedged to match with the future USD inflows. The circular does not consider the receivable exposure not in the balance sheet and also the receivable on the balance sheet beyond one year for natural hedge. So, future FC receivable exposure not accounted in the BS should be allowed to be set off against open FC loans.

An international **Roundtable on Mobile and Agency Banking** was organised in October 2014. The discussions that took place amongst the regulators,CEOs of banks and telecom companies from across the world in the roundtable centered on four key topics:

1. **Digitisation: A threat or an opportunity for banks and providers of financial services.**

   Digital mega trend is profoundly impacting all businesses globally. Digitisation is about transformational innovation.Recognising the shifting trends, banking regulators have responded with different measures to promote competition, innovation and financial inclusion.

2. **How customer adoption to mobile financial services can be accelerated?**

   Low customer activity rates have been a persistent challenge across the mobile financial services spectrum. Even though mobile penetration has grown rapidly in most countries, active usage of mobile financial services though growing is a fraction of the potential. Distribution and reach, customer awareness and handholding provided to the customer could play an important role in the customer on-boarding process.

3. **How can agent network (BC) be made an effective partner in providing financial services?**

   In many countries, the agent outlets far outnumber the bank branches; however, a major challenge for the industry is ensuring agent activity and quality of service. Proper selection of agent, continuous engagement and skill training and sufficient earnings for the agent is important factors to make the agent network effective.

4. **How can it be viable for banks to make investments required to make mobile banking and agency banking a success?**

   Bulk payments from the government like direct benefit transfers, pension payments (g2p), if done through the mobile can result in significant volumes to drive adoption and usage, while the opportunity is massive, its resource intensive and requires fully committed partnerships to make it work at scale.

Key recommendations made to RBI by CAFRAL:

— Creation of a common registry of mobile numbers and bank accounts so that receiver can be selected based on mobile number.

— Remove two-factor authentication for small value mobile payments and set common standards to facilitate inter-operability between all telecom companies and banks.

— Instil customer education to facilitate uptake, have a coordinated approach with TRAI, ensure uptime of the network/call drop, and maintain customer data privacy.

— Regulator should influence the government to support digitisation of payments.

— Data pertaining to utility bills payment may also be included in credit bureau aggregation.

— To promote bank agent model regulator must not allow exclusivity of agents.

— Regulator must ensure banks have well laid out policies as well as various contractual obligations with agents in place and also ensure that banks have ability to effectively monitor, provide oversight and control of its agents.

A **Roundtable on Corporate Bond Market** was organised in November 2014. There were participants from banks, rating agencies, IBA, SEBI, FIMMDA and RBI in the roundtable and deliberations centered on various issues faced by the issuers/investors in corporate bonds. The following were the major suggestions which emanated from the roundtable:

- Further liberalisation of norms for PF and insurance companies for investments in corporate bonds, although the current limits have not been utilised. Further liberalisation would signal to the participants that this is something that the regulators take seriously.
- The difference in regulatory treatment of loans and investments (corporate bonds) is very critical. Banks constitute major segment of the investing population and they have disincentives for investing corporate bonds.
- Bankruptcy laws – for foreign investors, really strong regime which balances concerns of issuers and investors is necessary. There is still not enough confidence in the robustness of the bankruptcy framework which is critical to the evolution of strong credit market and particularly for the evolution of corporate bond market.
- Secondary market develops only when it is need based. Need arises if we have diversified class of investors.
- Worldwide wherever we have good corporate bond market the deposit rates are near LIBOR but in India the deposit rates are always MIBOR+ 300/400 points. Insurance companies/PFs have to invest in corporate bonds mandatorily even if they get better rate in bank deposits. But the HNI/individuals would prefer bank deposit because of higher rates offered. To solve the problem some structural change is required.

- Although, FIIs are buying corporate bonds it is not helping to build healthy development of the corporate bond market. First preference for the FII is GSec. As the limit for GSec is full they are now moving on to investment in semi government and PSUs just to access Indian market and thereby compressing the spread beyond normal. If the limit for GSec is increased or the regulatory arbitrage disappears then the situation will change.
- Market will succeed only if the investors get reasonable return on the capital as far as the activity is concerned on sustained basis. There is no NII in investments in corporate bonds. Investment in corporate bonds has negative-carry. It is not attractive to any investor class other than the mandated investors' *viz.* PF/insurance. The market is growing because people who are ultimately buying these bonds are growing @5-10% year-on-year and that's why the appetite is growing and that's why the issuances are growing. There is no investor class which believes that there is reasonable return on sustained basis to be committed to the activity. If we do not have such a structure, market is not going to take off.
- The funding cost for the corporate bond investors should be such that they do not lose money on day to day basis. As of now the economics does not make sense for the investors to invest in corporate bond market.
- Development of a particular bond market should not be considered in isolation – development of entire spectrum *viz.* corporate bond market, GSecs, derivatives and currency should be considered.
- Since the time RBI and SEBI have introduced cash settled interest rate future market participants now have the capability to strip the credit risk out of the interest rate risk and participate in corporate bonds irrespective of the fact whether rates are moving in their favour or not. We need to build upon that. If IRF and CDS are combined, synthetic corporate bonds and synthetic GSecs can be created which could be a big motivator for the markets to trade.
- We should try to develop both primary market as well as secondary market. Although private placement forms a large part of the public issue, we must remember that private placement is not coming at the cost of public issue.
- Consolidation of issues is required - otherwise the investors get frustrated as they do not get opportunities to trade. Bunching of cash flows could be a problem. Government and regulators can find a solution to that.
- So far IRDA and PFRDA have not allowed the investors to go down in credit spectrum. If AAA and AA+ issues start trading in a big way then it is a matter of time before the lower rated issues become liquid.
- Banks/insurance companies/PFs invest in the primary market and then forget about it. It stays in their book till maturity. There needs to be encouragement that they come forward and trade in the secondary market. The regulatory restrictions may be revisited.
- Funding for corporate bond should be made easier. Regulators need to call for representations from various lenders especially the insurance and mutual fund companies and find out what is preventing them from participating in repo market. Borrowers are willing but lenders are not there.
- PDs have done a great job in imparting liquidity in the GSec market. Regulator should consider making rules for the PDs to be market makers for corporate bond market, provide them the incentive, may be on the funding side; may be on limit side. It is needed to embrace the PDs in the corporate bond market.
- SARFAESI is available to banks and not to MFs/Pension Funds etc. So MFs will not be able to price a debt loan product as good as the banks. It should be applicable to all the investors.
- RBI may be requested if they can collect and provide, may be not bank-wise but rating-wise, at least with a lag of 2 months/3 months the loan they have given and their price. That would work as seed price for the bonds.

- Information of default is very critical. There must be standard definition and any regulated entity should disclose the information of default to the market. Market regulator should give specified time and that rule should be same for everybody.
- Volume in GSecs is extremely deceptive. Quality of GSec market is not as good as it is made out to be. Depth in one security is mind boggling but the numbers of securities are limited.
- Credit enhancement - No fund whether it is pension fund or provident fund or endowment fund will invest in a security which has high rate of default. When infrastructure SPVs issue bonds their principals are not willing to give credit enhancements because credit enhancement costs money.
- Efforts may be made to channelise the long-term savings into corporate bonds. At present, banks are not regulated by the regulator as to which category of bonds they should invest. Whereas lot of other categories of investors are restricted by their regulators as to how much and which category of bond they can invest. Regulators should not prescribe where the regulated entities should invest like only up to AA bonds. To give them a comfort in case of default, the recovery ability should be made on par with banks. Therefore, the applicability of SARFAESI to all type of investors should be done at the earliest.
- Ability to refinance against the corporate bond holdings is now theoretically possible by introduction of corporate bond repo – but this has not taken off. What might work for the corporate bond repo to take off is an anonymous trading platform. Because now there is a stigma attached to it if you have to seek funding using corporate bond, it gives signal that you do not have excess SLR and you are strapped for liquidity.
- Some of the regulators may consider ensuring that the secondary market activity for corporate bond takes place, per force, on the exchange traded platform. It will enable anonymous secondary market activity for corporate bond and will bring in lot of institutional investors who want to sell.
- SEBI does not recognise put call structure which will allow the MF to come out of a five year paper by exercising the put/call option at the end of two years. This is inhibiting deployment of resources.
- Issue of disintermediation – it may be beneficial to some participants, may not be as beneficial to banks. Regulators must be cognizant of that. A healthy bond market incentivises the issuers more importantly the retail investors to get into the corporate bond market. If the pricing is skewed towards banks no headway will be made.
- The market participants and the regulators should sit across and decide what kind of regulations should be put in place for innovative products.
- Bankruptcy remoteness and true sale concept - Lawmakers of the country need to be educated to include these things in the law books of the country, then only it can be applicable to all the loans across boards.

A **Workshop for Judges of Debts Recovery Appellate Tribunals and Debts Recovery Tribunals** was conducted in December 2014. Following actions points emanated out of the deliberations during the workshop:

- Lok Adalats need to be more popularised and machinery should be sensitised to utilise it to the maximum with the co-operation of bank officers and borrowers.
- Bank officers are not coming with proper briefing to Lok Adalats and as such cases do not get resolved (since there is very little delegation of powers when it comes to write-offs, bank officers are not able to respond during Lok Adalats).
- Banks should have meticulous monitoring system to ensure that their lawyers are attending the hearings of the DRTs on each and every day.
- It is observed that while borrowers engage senior lawyers, the banks engage in most cases junior and inexperienced advocates.

- In case of non-service or failure of service of summons immediate steps for substituted service/publication of summons should be taken.
- In case of action under SARFAESI Act, caveat application should be filed to avoid any ex-parte order.
- The officers handling SARFAESI cases in banks are not well trained and there are many defects in the notices issued by banks. Also, in their urgency to file/issue notices under SARFAESI a large number of mistakes are committed. There should be a prescribed format for sale notice under SARFAESI Act.
- Any adjournment from bank side, if sought by the advocate of the bank on frivolous grounds, should not be allowed.
- The banks should have a well-defined fee schedule of advocates fee and stage-wise payment of the same. Banks should ensure to empanel competent advocates to conduct cases.
- Amendment in Sec. 14 of SARFAESI Act is required so that powers of DM/CMM are given to Presiding Officer (PO) of DRT. Sec. 17 of SARFAESI Act needs to be amended.
- There should be provision of exemplary cost if appeal is dismissed, besides fees and deposit of amount.
- Principal and interest outstanding as on the latest date should be shown in the SA and absence of this is creating problems for POs in passing orders.
- If banks appoint trained officers to attend DRTs/SARFAESI cases, many of the cases could be disposed of expeditiously.
- Computerisation is a must for efficient working of DRT and also convenience of parties appearing before the Tribunal.
- There should be a regular/quarterly meeting with POs of DRTs and Chairpersons of DRATs.
- Recovery officers are major hindrance and the posts should be filled exclusively by bank officials.
- The Recovery of Debts Due to Banks and Financial Institutions Act, 1993 has been enacted and DRTs have been set up to expedite recovery. Therefore endeavour should be to help in fast disposal by avoiding any adjournment and fast recovery.
- E-Auctions are not very effective in rural areas. As a result cases get adjourned and delayed. It is suggested that manual auction may be continued in rural areas.
- There should be equal distribution of work among all DRTs, area-wise. SAs are filed in the DRT where the property is located. So if large area comes under one DRT, it will receive more SAs and that will increase the work load.
- If a case is pending with DRTs, there should not be any assignment of the debt without the permission of the Tribunal. Every order passed by the DRTs should not be appealable.
- Even after obtaining decrees, debt recovery cases continue to be pending because banks are not coming forward to execute the decrees. In some cases the property has been sold at a cost much lower than its actual value. As a result the bank has not recovered its total dues and the case is still shown as pending.
- Court fee for filing the original application (OA) cases should be increased, maximum court fee now payable is ₹1,00,000/-. It should be proportionate to the amount of debt.
- Problems like infrastructure including shortage of staff/stenographer have also been raised by various POs.
    - Authorised Officers are not trained in legal matters.
    - Banks should appoint one nodal officer, preferably Law officer, for each DRT.
    - The Registrar, Recovery Officers and the LDCs post may be made all India service.

- DRTs may be allowed to pay for the following four head of expenses: (a) Rent for the premises b) Electricity bills c) Telephone bills d) Expenses for the contract labourers.
- Presiding Officers suggested that as the POs are busy in the courts almost whole day male stenographers may be posted to the DRTs so that they can take dictations much beyond office hours. The suggestion of the Finance Secretary that retired judiciary stenos may be appointed on contractual basis was well accepted by the POs.
- Permanent building should be given to the DRTs as that will help them to preserve the records in proper manner.
- Loan amount above ₹10 Lakh are eligible to be tried by DRTs. Nowadays every loan is above ₹10 Lakh. Hence the DRTs are clogged. Hence the threshold amount should be raised and so also the staff strength of the DRTs.
- Some training may be imparted to the staff being posted to DRTs so that they have requisite knowledge about the provisions of the relevant Acts and the rules.

A **Conference on Financial Frauds** was held on June 2014. **Shri Sadanand Date, DIG of Police in the Central Bureau of Investigation (CBI)** was one of eminent speakers. Discussing the Framework for Fraud Detection and Monitoring for the Asset side of Bank's Balance Sheet, Shri Sadanand Date made important remarks as under:

- **Fraud risk needs to be recognised as business risk:** Fraud is a business risk where banking sector has substantial stake, as seen from the reported frauds which have jumped from ₹20353.10 Crore in 2012-13 to ₹50263.23 Crore to 2013-14. Many more may be unreported and yet hidden. Many cases are pending for trial for 25 years or more, which acts as an indirect incentive for fraudsters.
- **Require investment to build fraud risk skills and machinery:** To combat this fraud risk, collective approach by police and banks would be required. Machinery and resources available with Crime Branch of Police or Economic Offenses Wing (EOW) of CBI are very limited compared to the gigantic task. Banking industry would have to make substantial investments in terms of resources and skills with Crime Branch and EOW to fight fraud cycles at important nodes. EOW needs good bank officers to collaborate. RBI can take lead. Banks can help the CBI EOW by making available critical resources to further investigations.
- **Out of court settlements at last stage let fraudsters go scot-free:** Many a times EOW and police make a foolproof case for conviction against the fraudsters after years of research. But at crucial time of the judgment, fraudsters or culprits and financers (bankers) arrive at compromise and approach regulators like RBI for quashing the case in the courts, thus allowing culprits to go scot-free. Working in tandem would avoid such instances.
- **Increasing the capacity of courts:** All the long pending fraud matters can be disposed off, if the capacity of the Courts in Mumbai is increased. Even if just 100 cases of high value frauds (amounts of more than ₹5 Crore) are handled by courts annually, there won't be any lingering cases. Having special courts and expediting the investigation and trial can also bring substantial results. Banks and FIs are the most important stakeholders to push a demand for reforms in these areas.
- **Quality prosecutors needed by police:** Banking industry should use courts to get teeth by deploying quality prosecutors; generally they are no match to culprits. If banks collectively work with police and government, it would be of good value. These problems are not insurmountable, if services and capacity issues are resolved.
- **Combating easy fabrication of documents by fraudsters:** Another strong problem is ease with fabrication of documents is possible in the country. Generally it is seen that even the Courts are taking a liberal view in the matter. Generally, no fraud is possible without forged and altered documents. Many a times banks knowingly take a liberal view towards forgery of documents by major accounts and turn blind eye to it just because they are roaring accounts. We need a forum to represent in such cases. If forgery is not taken seriously, any fraud can take place.

Shri J M Garg, Vigilance Commissioner, Central Vigilance Commission, New Delhi delivered the keynote address at the **Conference on Financial Frauds** in June 2014. Referring to the fraud data of PSBs for the year 2013-14 over which CVC has a mandate, Shri Garg stated that incidence of frauds has increased not only in banking sector (PSBs) but in insurance and other financial sector entities including revenue sector. The basic reasons were elucidated as under:

- Lack of proper fraud risk management system in place is the major deficiency in PSBs. Large value corporate frauds have increased draining banks' capital, resources and affecting morale of banking staff causing diffidence in decision making and hence clogging work. In most of large fraud cases reported and investigated, there is hardly any recovery. One of the root cause of frauds in banking is because of the quick migration from working capital financing to term loan financing (universal banking) with DFIs converting into banks without the skills and ability to assess and conducting due diligence for long-term loans. In many cases, for large infrastructure loan projects forming almost 20% of banks' exposure, due diligence is outsourced. Exuberance to take large exposures is not supported by skills in appraisals, pre-sanction, due diligence and monitoring.

- Retirement of the senior management officials and the skilled senior bankers without any succession plan and timely recruitment, attributed by the long period of no recruitments in the banks, has landed the banks in an awkward situation of having younger inexperienced people in decision making positions. Also, there are hardly any specialised skills for techno-economic viability study in banks. The dependence on the loan syndicators for preparation of project reports, on behalf of the customers and make due diligence on the basis of which bankers decide their exposures, is fraught with risk. The uncertainty in project completion makes it doubtful that how much amount will go to borrower and how much of it is siphoned off. There are examples of in-house companies who issue invoices for machinery and capital goods to borrowers. Such and other ingenious methods are used to defraud the banks, delivering low-value and old machinery, capital goods. The banks have become soft targets of the borrowers who very well studied the loopholes in the bank systems and procedures. Private sector banks also are not free from such weaknesses and they are also dealing with public money.

- Complacency sets in banks with rating by software packages, but integrity of borrowers' balance sheets is a challenge due to trust deficit in banks and borrowers.

- Another important issue leading to frauds is deviations. Deviation in sanction on request for post sanction lower down the hierarchy dilutes terms and conditions under the name of expediency, therefore, it is necessary for the branches to strictly comply with the terms of sanction. For example, in a particular case, it was seen that 3 months' time was granted to create security by a branch violating the terms, virtually creating a clean advance. Strict action needs to be taken for such deliberate mistakes.

- In principal approvals are granted to proposals sent by branches to take the exposures by New Business Group Committees (NBG) in PSBs headed by EDs/CMDs. These are treated as an approval by default and an approval to take sanction. In many cases, these loans are then structured to cover any deficiencies to avoid displeasure from Head Offices. No check is conducted on background of promoters. The Committees are inherently structured of juniors such that nobody can raise a voice of dissent to displease seniors. Reports from other banks are in stock format which do not give true picture to the sanctioning bank. Perhaps IBA needs to take some action to change these formats. Huge exposures are taken on the basis of CIBIL reports alone. Such committees create accountability gaps as everybody's job is nobody's job! Deviations in sanctions are allowed by request from borrowers to dilute terms and conditions. Powers are assigned to zonal, regional, branch offices infringing security. In one such case, three months' time was given as a deviation to create security for a loan sanctioned by the Board, as expediency by branch. Moreover, such expediencies and deviations are protected with impunity. Strict action and compliance of sanctioned terms have to be enforced to create deterrence. Sizes of borrowings have expanded to thousands of crores. Security cover up to 70% is mostly on the capital goods and machinery which are difficult to realise, forcing a shortcut of selling to ARCs at a huge discount to take toxic assets off the balance sheets. More so in multiple banking with shared assets, it is seen that fraudster borrowers indulge in round tripping by borrowing from one bank and repaying to others in cycles and keep on increasing the exposures and debt with multiple banks until it becomes unmanageable and toxic. There are examples of accounts whose size increase from ₹100 Crore to ₹5000 Crore within a year in such a way. Sometimes the systems and technology do give warnings but too bold bankers ignore them and work in haste, leading to quick NPAs turning out frauds. At times, large once sanctioned by Boards and Head Offices has its operations and responsibility left to branches. It is necessary to have HO role in monitoring. Banks need to keep a repository of names of various promoters, lawyers, values, engineers, architects, chartered accountants and auditors who have duped banks and circulate it via ICAI. It has been found that many a time's promoters change names and organisations to defraud banks.

- A relook at customers for character and capacity should be done every year. Banks need to have their own checks on borrowers. Hasty actions forcing juniors to make decisions need to be avoided.

Annex 3

CAFRAL Team, as on August 1, 2015

1. G Gopalakrishna, Director
2. N R Prabhala, Chief Mentor & Head of Research
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4. Samita Sareen, Research Director
5. Ravi Sangvai, Program Director
6. M P Baliga, Program Director
7. Arun Balwatkar, General Manager (Admin)
8. Saibal Ghosh, Deputy Adviser (Research)
9. Janaki Ravindran, Administrative Officer
10. Vasudevan Nair, Administration Officer (Research)
11. Jugnu Ansari, Assistant Adviser (Research)
12. C Pushparaj, Private Secretary to Director
13. Pushkala Ranganathan, Private Secretary to Chief Mentor & Head of Research
14. S A Talpade, Private Secretary to Senior Program Director
15. Reeta Bose, Assistant Manager
16. Farida Driver, Assistant Manager
17. Nimesh Gopiyani, Accounts Officer
18. Rajal Ajai, Web Content Manager
19. Nidhi Prabhu, Program Officer
20. Vinita Jain, Program Officer
21. Anup Sonawane, Technical Support Officer
22. Reshmi Kurup, Accounts & Admin Assistant
23. Trupti Kanade, Accounts Assistant
24. Pushpalata Nadar, Accounts Assistant
25. Vinod Dharmarajan, Research Associate
26. Maruti Nandan Srivastava, Research Associate
27. Devika Shivadekar, Research Associate
28. Ashiana Salian, Research Associate
29. Ambhuj Sharma, Research Associate
30. Madhav Kumar, Research Associate
31. Khushboo Khandelwal, Research Associate
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Notes

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