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DAILY NEWS DIGEST BY BFSI BOARD

20 August 2024



ECONOMY

US sensitises Indian firms on items not to be exported to Russia: The US wants to sensitise the Indian industry against exporting certain items to Russia such as chemicals, defence equipment, aeronautical parts and components that could be used for missile systems, which may purportedly aid Moscow in its war against Ukraine and attract secondary sanctions from the West, sources have said. The communication is taking place at a time when India's exports of engineering goods and chemicals to Russia is on the rise "The US has held consultations with Indian exporters to make them more aware about the economic sanctions against Russia and sensitise them about items that shouldn't be exported such as chemicals, defence equipment, aeronautical parts, and parts that could go into missile systems. These could attract secondary sanctions," an official tracking the matter told businessline..

(Business Line)

Cautious monetary policy needed if food inflation persists: RBI paper: Monetary policy must adopt a cautious approach if food inflation persists, as such shocks may not be transient and could spill over into generalised inflation, according to a report titled Are Food Prices Spilling Over? authored by Reserve Bank of India Deputy Governor Michael Debabrata Patra and others. "Monetary policy is the only active disinflationary agent in the economy. Therefore, if food price pressures persist and continue to spill over, a cautious monetary policy approach is warranted," the report stated. The report indicates that treating food price perturbations as transitory in monetary policy settings is becoming increasingly untenable. "A large part of this increase in persistence is driven by the secular upward drift in food inflation expectations," it added. Observing that high food inflation has become endemic in the 2020s, the authors said a staggering 57 per cent of months between June 2020 and June 2024, food inflation was at or above 6 per cent, with around six of 12 food sub-groups experiencing 6 per cent and above inflation for 50 per cent or more of these months.

(Business Standard)



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Outward remittances under RBI's LRS drop 24% to \$6.9 billion in Q1 FY25: Outward remittances under the Reserve Bank of India's Liberalised Remittance Scheme (LRS) dropped 24.39 per cent year-on-year (Y-o-Y) to \$6.9 billion in the April-June quarter of financial year 2024-25, from \$9.1 billion in the year-ago period. In June 2024, overall remittances fell around 44 per cent Y-o-Y to \$2.18 billion amid a decline in remittances across categories. In Q1 FY24, there was a surge in outward remittances due to the revision in norms for tax collection at source (TCS) on LRS. The Union Government introduced TCS on remittances under the scheme for all purposes except education and medical treatment, scheduled to be effective from July 1, 2023, which was later deferred to October 1, 2023.

(Business Standard)

Net foreign direct investment rises to \$6.9 billion in Q1, shows RBI data: Net foreign direct investment (FDI) during the April-June period of the current financial year was \$6.9 billion, compared to \$4.7 billion in the year-ago period, the latest data released by the Reserve Bank of India showed. The increase was due to an improvement in gross inward FDI, which grew by 26.4 per cent year-on-year (Y-o-Y) to \$22.5 billion during Q1 of 2024-25. Manufacturing, financial services, communication services, computer services, and electricity and other energy sectors accounted for about 80 per cent of the gross FDI inflows. "With around 75 per cent of the flows, the major source countries were Singapore, Mauritius, the Netherlands, the US, and Belgium," RBI's state of the economy report said.

(Business Standard)

BANKING & FINANCE



FM urges PSBs to carry out special drives to garner deposits; focus on efficient customer service: Finance Minister Nirmala Sitharaman on August 19 urged public sector banks (PSBs) to carry out special drives to garner deposits and focus on efficient customer service. The focus is to be kept on rural and semi rural areas, the FM said. In a review meeting with the banks in Delhi, Sitharaman discussed various financial parameters such as deposit mobilization, digital payments and cyber security, implementation of new credit products, schemes and access to credit under financial inclusion. FM also emphasised on a collaborative approach between banks, Government, regulators and security agencies against frauds and cyber security risks. "Banks must expeditiously



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implement recent Budget announcements, including, a new credit assessment model for MSMEs based on digital footprints and cash-flows,” she said. Sitharaman also instructed banks to focus on further increasing credit flow to eligible beneficiaries under initiatives like PM Surya Ghar Muft Bijli Yojana and PM Vishwakarma Yojana.

(Moneycontrol)

P2P companies pause new business, see adverse impact from latest RBI diktat: In its latest action, the Reserve Bank of India (RBI) on August 16 disallowed P2P companies from offering investment products with features like tenure-linked assured minimum returns and liquidity options, which has led a few P2P companies to stop generating new business altogether, four industry sources told businessline. “Most of the players including us are pausing new investments till we comply with the revised RBI guidelines. The SEBI on August 7 said that to boost the corporate bond market, liquidity is a must. For liquidity, the secondary market is very important. But the RBI has completely killed the secondary market and hence the liquidity,” said an official at a large P2P company. Another small-sized P2P company “India P2P” has also reportedly stopped withdrawals and onboarding new customers temporarily. The official quoted above said that lenders on P2P platforms could earlier sell their performing loans in the secondary market, but the RBI’s new diktat disallows such practices. “Volumes will take a hit. The features that the RBI has disallowed were extremely beneficial both for lenders and borrowers. The lending experience was very seamless, for borrowers, disbursements were very fast. Now with these new updates, lenders will not have a good experience and would not like to participate,” said an official at a large P2P company.

(Business Line)

IndusInd Bank gets RBI nod to launch AMC arm: The Reserve Bank of India (RBI) on Monday approved IndusInd Bank to set up a wholly-owned subsidiary for asset management business of mutual funds, the lender said in an exchange notice on Monday. “This is to inform that the Reserve Bank of India...has accorded its approval to the bank for setting up a wholly-owned subsidiary to undertake asset management business of mutual fund along with infusing equity capital in the said asset management subsidiary...,” the notice said.

(Business Line)

RBI Deputy Governor Rao moots periodic revision of deposit insurance: A periodic upward revision in the uniform deposit insurance coverage of Rs 5 lakh is necessary as India's growth and formalisation are likely to lead to a significant rise in primary and secondary deposits, which might create a gap between the ideal insurance reserve requirement and the available reserves, Deputy Governor, Reserve Bank of India, M Rajeshwar Rao said on Monday. Currently, there is a uniform deposit insurance coverage of Rs 5 lakh per depositor of each insured bank in India.

(Business Line)



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NPCI launches 'UPI Circle' for secure delegated payments with trusted users: The National Payments Corporation of India (NPCI) has introduced a new feature called 'UPI Circle' on its Unified Payments Interface (UPI) platform. This feature allows primary UPI account holders to securely delegate payment responsibilities to trusted secondary users. "UPI Circle-Delegate Payments is a feature where a UPI user acts as a primary link with their trusted secondary users on their UPI App for either partial or full delegation," says NPCI in a release dated August 13, 2024. "Delegated Payments" would allow an individual (primary user) to set a UPI transaction limit for another individual (secondary user) on the primary user's bank account.

(Business Line)

Bank borrowings cross Rs 9 lakh crore mark; lenders face pressure to raise funds: Banks' borrowing through market instruments has climbed to its highest levels, jumping past the Rs 9 lakh crore mark, as a persistently faster pace of credit growth than deposit growth compels lenders to rely on other routes to raise funds – a phenomenon that has caught the regulator's eye. Data that the RBI releases on a fortnightly basis showed that as on July 26, banks' borrowings were at Rs 9.32 lakh crore, 20% higher than the borrowing figure as on April 5.

(Economic Times)

INDUSTRY OUTLOOK



NTPC plans to go big on nuclear expansion, scouts for locations in states: The country's largest power company NTPC is planning to go big on nuclear energy generation and has plans to make NTPC nuclear power company, which will be 100% subsidiary of NTPC, and is exploring sites in several states for setting up nuclear units. The NTPC nuclear power foray comes as it works towards a carbon-neutral economy and an integrated energy spectrum comprising renewables, nuclear power, green hydrogen and chemicals, green mobility, energy storage and waste-to-energy initiatives keeping low-emission thermal power generation at the core. The NTPC's first nuclear power project in Mahi, Banswara in Rajasthan in a joint venture with Nuclear Power Corporation of India Limited (NPCIL) is likely to take the activities of groundbreaking in the next two months. The plant's project cost with a 2.8 gigawatt (GW) capacity is expected to be Rs 50,000 crore.

(Business Today)

FM asks RRBs to devise suitable products aligning with MSME clusters: Finance Minister Nirmala Sitharaman on Monday asked Regional Rural Banks (RRBs) to devise suitable products



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aligning with MSME clusters to increase banking penetration. During a review meeting with chairpersons of RRBs and CEOs of their sponsored bank, the finance minister emphasised active outreach by the RRB branches located in MSME clusters to ensure credit to small and micro enterprises in areas like textile, wooden furniture, leather, food processing, packing materials etc. that hold immense potential for increasing the loan portfolio. Sitharaman also asked sponsor banks and RRBs to recognise the challenges ahead and continue focusing on maintaining asset quality, expanding digital services, and ensuring robust corporate governance.

(Business Standard)

Slice gets NCLT nod for its merger with North East Small Finance Bank: Fintech major Slice has received the National Company Law Tribunal's (NCLT) approval for its merger with North East Small Finance Bank, the company said in a release on Monday. The Guwahati bench of the NCLT has sanctioned the scheme of arrangement and amalgamation involving Garagepreneurs Internet, Quadrillion Finance, Intergalactory Foundry, RGVN (North East) Microfinance, and North East Small Finance Bank, the release states.

(Business Standard)



REGULATION & DEVELOPMENT

SEBI mulls measures to curb intermingling of IPO bids: The Securities and Exchange Board of India (SEBI) plans to take measures to prevent inter-bidding between different investor categories during initial public offerings (IPOs). Several offerings in the past have seen a high number of applications getting rejected during allotment, especially in the employee category. This could be because several investors from the retail or non-institutional quota are placing their bids in the employee category inadvertently or to inflate subscription numbers. A number of applications could be from mule accounts. At present, stock exchanges accept all applications as there is no real-time mechanism to verify whether the person applying is an employee or not. At the time of allotment, however, a lot of these applications get rejected. For instance, the Ideaforge Technology IPO saw its employee quota get subscribed over 95 times. This later came down to 2.36 times at the time of allotment (see table). "A lot of non-employees put in applications in the employee category which results in inflated figures and bids getting rejected at the time of allotment. This is a bit puzzling; it can't be that so many retail or wealthy investors are bidding in the wrong category," said Pranav Haldea, Managing Director, PRIME Database. SEBI may ask companies to provide for employee data



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prior to issue opening so that only eligible employees can bid for the particular category, said an official who tracks the IPO process.

(Business Line)

RBI releases framework for financial market self-regulatory organisations: The Reserve Bank of India on Monday issued a framework for recognition of self-regulatory organisations in the financial markets setting a minimum ₹10 crore eligibility threshold to help strengthen compliance culture and provide a consultative platform for policy making. The proposed self-regulatory organisations (SROs) can play a vital role in developing industry standards and best practices and ensuring that members adhere to these, according to the central bank. SROs will have to meet a set of overarching objectives for betterment of the sector they represent and address critical industry concerns. They will also establish minimum benchmarks and conventions for professional market conduct. The SROs will be expected to ally with the RBI in ensuring better compliance with regulatory guidelines and for detection of early warning signals, among other things.

(Economic Times)

Sebi releases guidelines for market borrowing by Category I, II AIFs: Capital markets regulator Sebi on Monday came out with guidelines for borrowing by Category I and Category II alternative investment funds (AIFs), along with the maximum permissible limit for extension of tenure by Large Value Fund for Accredited Investors (LVFs). Under the rule, Category I and II AIFs are not allowed to borrow or use leverage for investments, except in limited cases for temporary needs. These AIFs are allowed to borrow funds to address temporary funding needs or manage day-to-day operational expenses, with specific limitations. Such borrowing is permitted for up to 30 days, can occur no more than four times in a calendar year, and must not exceed 10 per cent of the investable funds. To facilitate ease of doing business and provide operational flexibility, Sebi has allowed Category I and Category II AIFs to borrow for the purpose of meeting temporary shortfall in amount called from investors for making investments in investee companies ('drawdown amount'), according to a circular. On conditions for borrowing, Sebi said borrowing must be disclosed in the Private Placement Memorandum (PPM) of the scheme. Borrowing is only allowed in emergencies as a last resort.

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FINANCIAL TERMINOLOGY

PRICE ELASTICITY OF DEMAND

- ❖ Price elasticity of demand is a measurement of the change in the demand for a product as a result of a change in its price. If a price change creates a large change in demand, that is known as elastic demand. If a price change creates a small change in demand, that is an inelastic demand.
- ❖ A good or service is considered perfectly elastic if the price elasticity is infinite, meaning demand changes substantially even with minimal price change.
- ❖ If price elasticity is greater than 1, the good is elastic; if less than 1, it is inelastic.
- ❖ If a good's price elasticity is 0, there is no amount of price change that produces a change in demand, and it is perfectly inelastic.
- ❖ If a price change leads to an equal percentage change in demand, the price elasticity is exactly 1, known as unitary elasticity.
- ❖ If there are no good substitutes and the product is necessary, demand won't change when the price goes up, making it inelastic.



RBI KEY RATES

Repo Rate: 6.50%
SDF: 6.25%
MSF & Bank Rate: 6.75%
CRR: 4.50%
SLR: 18.00%
Fixed Reverse Repo: 3.35%

FOREX (FBIL 1.30 PM)

INR / 1 USD : 83.9201
INR / 1 GBP : 108.7985
INR / 1 EUR : 92.6909
INR /100 JPY: 57.7000

EQUITY MARKET

Sensex: 80424.68 (-12.16)
NIFTY: 24572.65 (+31.50)
Bnk NIFTY: 50368.35 (-148.55)

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