

Roll No.

OPEN BOOK EXAMINATION

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 6

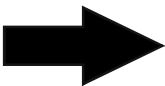
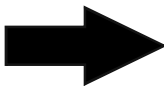
Total number of printed pages : 11

NOTE : Answer **ALL** Questions.

1. Read the following and answer the questions that follow :

International Trade Settlement in Indian Rupees (INR)

Given the current Geo-Political and Economic Situation prevalent across the Globe, US Sanctions on use of US Dollar for Transactions with Iran & Russia and considering the continuous weakening of the Indian Rupee (INR), and to promote growth of global trade with emphasis on exports from India and to support the increasing interest of global trading community in INR, the Reserve Bank of India (RBI) vide A.P. (DIR Series) Circular No. 10, dated 11 July, 2022 has allowed International Settlement of Trade in INR for export and/or import of goods and services as an additional arrangement for Invoicing, Payment and Settlement of Exports/Imports in INR.

Exports or Imports  Invoice Payment Settlement  In INR

International Trade Settlement in Indian Rupees (INR) : It is a Right Step taken by the Government of India to Internationalization of the Indian Rupee.

The following are the benefits to the country :

- The Settlement in Indian Rupees (INR) is a right step aiming to internationalization of the Indian Rupee and to promote growth of global trade with emphasis on exports from India and to support the increasing interest of global trading community in INR.

: 2 :

- Specially keeping in view of the Restrictions for trade settlements in US Dollar for Transactions with Iran & Russia and to address strained situations like scarcity of Forex Reserves in case of Countries like Sri Lanka, the decision is an important step rightly taken to facilitate trade in INR.
- This would ease India's hard currency outflow substantially, reduce the dependency on US dollar requirements and strengthen Rupee. This mechanism also may Reduce Cost of Conversion Charges of Exporters and Importers.
- This is an additional arrangement for invoicing payment, and settlement of exports/ imports and would co-exist with the current practice of trade settlement in freely convertible foreign exchange (FOREX).

International Trade Settlement-Current Practices :

- At present, all export contracts and invoices shall be denominated either in freely convertible currency or Indian rupees but export proceeds shall be realized in freely convertible currency.
- The Practice of Export invoicing in INR is already existing. However, the payment must come through Vostro Accounts maintained by foreign banks with a bank in India.
- Trade with Nepal and Bhutan in INR is covered by special arrangements which is existing for a long time.

: 3 :

- Also, Asian Clearing Union (ACU) Transactions which shall be denominated in ACU Dollar are existing for promoting regional co-operation and with the objective to facilitate payments among member countries (Bangladesh, Bhutan, India, Iran, Maldives, Myanmar, Nepal, Pakistan and Sri Lanka) for eligible transactions on a multilateral basis, thereby economizing on the use of foreign exchange reserves and transfer costs, as well as promoting trade among the participating countries.
- India had a barter-like mechanism for trade settlement with Iran, wherein Indian oil refiners were paying in Rupees to a local Iranian bank and the funds were used by Iran to pay for imports from India.

Salient Features of RBI Circular :

Reserve Bank of India (RBI) issued A.P. (DIR Series) Circular No. 10, dated 11 July, 2022, under Foreign Exchange Management Act, 1999 (FEMA). Some of the Salient Features of the said Circular are :

- All Exports and Imports under this arrangement may be denominated and invoiced in Rupee (INR).
- Exchange Rate between the currencies of the two trading partner countries may be market determined.
- The settlement of trade transactions under this arrangement shall take place in INR.
- An Authorized Bank would require an approval from the RBI to implement this arrangement.
- Indian Banks will be permitted to open a Special Vostro Account (SV Account) of the correspondent bank of the trading country.

: 4 :

- Indian Importers undertaking imports through this mechanism shall make payment in INR which shall be credited into the 'Special Vostro Account' of the correspondent bank of the partner country, against the invoices for the supply of goods or services from the overseas seller / supplier.
- Indian Exporters, undertaking exports of goods and services through this mechanism, shall be paid the export proceeds in INR from the balances in the designated Special Vostro account of the correspondent bank of the partner country.
- Payment towards advance for exports from SV Account is, however, subject to the availability of funds, executed export orders / export payments in the pipeline.
- Advance against export may also be received in INR.
- Set-off of Export Receivables shall also be permitted subject to existing RBI master directions.

Trade Settlement through INR Denominated Special Vostro Account (SV Account) by RBI is a welcome move that would facilitate trade with sanctioned countries like Iran and Russia wherein it has increasingly become difficult to use United States Dollar (US\$) or Euro denominated correspondence account for Trade Settlement.

Rupee Settlement mechanism introduced amid a steadily falling rupee, would help India pay for its imports using rupees instead of U.S. dollars from its foreign exchange reserves. This will to some extent lessen draining of Forex and reduce the dependency on US Dollar requirements and strengthen Rupee. This mechanism also may Reduce Cost of Conversion Charges for Exporters and Importers.

: 5 :

India has received responses from four to five countries for its mechanism for international trade settlement in rupees, while other nations have also shown interest, according to Deputy Governor of Reserve Bank of India.

As per reliable sources, Russia is the only country that has shown interest in the new arrangement for now and Nine Russian Banks have been permitted to set up Vostro accounts to facilitate rupee-based trade. In 2021-22, India's Exports to Russia stood at \$ 3,254.68 million, while imports from Moscow were valued at \$ 9,869.99 million. If Rupee Settlement mechanism goes well to convert trade with Russia under this route, it can potentially pay for a chunk of its oil and defence imports in INR. This would ease India's hard currency outflow substantially.

However, it is expected that Trade Settlement in INR with countries where India has trade surplus will be successful, but settlement with trade deficit countries would be difficult unless a strong line of credit mechanism is also put in place.

Several Asian economies such as Indonesia, Sri Lanka, Myanmar, and India are also in discussion with each other to settle trade in their domestic currencies. The United Arab Emirates (UAE) and India moved a step closer to increasing circulation of the rupee in the Gulf region with the signing of two memoranda of understanding (MoU) between the Reserve Bank of India and the Central Bank of the United Arab Emirates.

Though proper amendments are suitably made in respect of Export Incentives and Refunds, certain other Mandatory provisions of Achieving Positive Net Foreign Exchange Earnings (NFE) under Special Economic Zones — SEZ Act, 2005 & SEZ Rules, 2006 and also

: 6 :

corresponding provisions of Foreign Trade Agreement (FTA) in respect of EOU need to be suitably amended for allowing Export Proceeds Received through Special Vostro Account (SVA) in INR.

Based on the above information, answer the following questions :

- (a) Whether RBI approval is required for opening Special Rupee Vostro Accounts ?
(6 marks)
- (b) What is Correspondent Banking ?
(6 marks)
- (c) What is the procedure for opening a Special Rupee Vostro Account with an Indian Authorized Dealer Bank ?
(10 marks)
- (d) How would the Exchange Rate between INR and the Currency of the trading partner country be market-determined in the absence of Direct Quote for the pair of Currencies ?
(6 marks)
- (e) Can balances in Special Rupee Vostro Account be repatriated ?
(6 marks)
- (f) What are the different types of Investment where surplus balance can be invested ?
(6 marks)

: 7 :

2. (a) “As per the Reserve Bank of India (Financial Statements-Presentation and Disclosures) Directions, 2021, Commercial Banks have to report “Reverse Repos Transactions” on their Bank’s Balance Sheet”. Explain the relevant directions of RBI in this regard.
- (b) Despite its disadvantages as compared to Forward Contracts as a Hedging instrument in International Transactions, why should firms use Futures Contracts in International Transactions ?

(6 marks each)

3. (a) A Bank’s exposures to its counterparties may result in concentration of its assets to a Single Counterparty or a Group of connected Counterparties. As a first step to address the Concentration Risk, Reserve Bank, in March 1989, fixed limits on Bank Exposures to an Individual Business concern and to Business concerns of a Group. RBI’s Prudential exposure norms have evolved since then and a Bank’s exposure to a Single Borrower and a Borrower Group was restricted to 15 percent and 40 percent of Capital Funds respectively”.

In this connection, explain the definition of a ‘Large Exposure of Banks’, ‘Single Counterparty’ and ‘Groups of Connected Counterparties’ and its reporting system to the Reserve Bank of India.

(6 marks)

- (b) “Reserve Bank of India will initiate certain Structured Actions in respect of the Banks which have hit the ‘Trigger Points’ in terms of Capital to Risk Assets Ratio (CRAR), Net NPA and Return on Assets (ROA) etc.” The PCA (Prompt Corrective Action) framework is an RBI initiative with which it can intervene with the Banks that are getting financially weaker. It is also meant for the banks that are vulnerable due to loss of profitability or are undercapitalized due to poor asset quality. Under the PCA Regulations, numerous restrictions are put on the Banks in terms of Lending, Management Compensation, Directors’ Fees, and more. As such, the Prompt Corrective Action is intended to improve the ‘Financial Health of the Banks’ that have weak financial metrics. It is done by keeping a watch on such banks”.

Explain RBI’s Common menu for selection of ‘Discretionary Corrective Actions’ in respect of the following areas :

- (i) Governance related Actions.
- (ii) Capital related Actions.
- (iii) Credit Risk related Actions.

(3×2=6 marks)

4. (a) From the following information, calculate the Yield Rate of ‘Commercial Paper’.

Face Value ₹ 6,00,000

Sale Price ₹ 5,70,000

Maturity Period-120 days

Brokerage and other Charges-4%

Assume that Number of Days per annum is 360 days.

(4 marks)

: 9 :

(b) “Leverage Ratio, Loan to Value Ratio and Debt Service Coverage Ratio are the three important Ratios while analysing “Term Loan Proposals” of Business Firms by the Banks. Explain the importance of these Three Ratios.

(4 marks)

(c) “An offline payment means a transaction which does not require internet or telecom connectivity to take effect. Authorised Payment System Operators (PSOs) and Payment System participants (PSPs)-Acquirers and Issuers (Banks and Non-banks)-desirous to provide / enable payment solutions that facilitate Small Value Digital Payments in offline mode”.

To popularise the offline payment transactions under Financial Inclusion, Reserve Bank of India issued guidelines to the Service Providers. Explain RBI Guidelines in this regard.

(4 marks)

5. (a) Reserve Bank of India introduced the Digital Rupee-Wholesale Segment (e₹-W) on November 1, 2022 and Retail digital Rupee (e₹-R) on December 01, 2022. “Digital Rupee” or “e₹” is a legal tender, similar to sovereign paper currency and is issued in digital form by the Reserve Bank of India. e₹ will offer features of physical cash like trust, safety and settlement finality with atomicity (i.e., immediate settlement of transactions) in digital mode. e₹ represents a direct claim on the central bank. It can be used to carry out transactions or store value digitally, similar to the manner in which currency notes can be used in physical form. e₹ can be held in an e₹ wallet issued by banks. This wallet can be linked to customers’ existing Bank (Savings /

: 10 :

Current) account. The wallet is a digital representation of Customer physical wallet and e₹ can be withdrawn / deposited from customers' existing bank account into this wallet.

Based on the above information, answer the following questions :

(i) How e₹ is different from UPI or other fund transfer mode (NEFT/RTGS/IMPS) ?

(3 marks)

(ii) Is e₹ same as Cryptocurrency such as Bitcoin ?

(3 marks)

(b) “On August 10, 2022, the RBI issued a press release on implementation of the recommendations of the Working Group (WG) on Digital Lending. The press release contains three annexures that are either applicable immediately or may be applicable in due course. Further, the RBI has issued the Guidelines on Digital Lending on September 2, 2022. The text of the Guidelines is largely similar to the press release, with certain modifications and insertions of footnotes.”

Based on the above information, answer the following questions.

(i) What exactly is the meaning of “Digital Lending” for the purposes of the regulatory framework ?

(ii) Are all types of financial facilities of the Banks are covered under Digital Lending ?

(4+2=6 marks)

6. The emergence of New Models of governing the enterprises, a subtle shift towards controls and strategic decision making, identification and Assessment of Risk has become one focal point. In recent times, the Risk-based Internal Audit is being viewed by the Banks as an important Tool to assess the management of the Risks that are barriers to the objectives and success of the Banks. Risk-based Internal Audit involves the assessment of the risks' maturity level, expressing opinion on adequacy of the policies and processes established by the management to manage the risks. Risk-based Internal Audit mainly reports on the risk management that includes identification, evaluation, control and monitoring of the risk. A risk-based internal audit mainly focuses on the objectives rather than looking at the controls and transactions.

In view of the above, answer the following questions :

- (a) Explain the eligibility criteria to implement Risk Based Internal Audit (RBIA) of NBFCs, UCBs and HFCs.
- (b) Explain in detail the objectives and scope of Risk Based Internal Audit of NBFCs, UCBs and HFCs.
- (c) "Board of Directors, Audit Committee of Board" play a Key Role in implementation of Risk Based Internal Audit of NBFCs / UCBs / HFCs". Explain the statement.

(4 marks each)