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Samsung Vice-Chairman Lee receives 30-month prison term in bribery trial

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Samsung Electronics Vice Chairman, Jay Y. Lee - REUTERS

The Seoul High Court found Lee guilty of bribery, embezzlement and concealment of criminal proceeds worth $7.8 million

A South Korean court sentenced Samsung Electronics vice chairman Jay Y. Lee to two and a half years in prison, the court said on Monday, which will have major ramifications for his leadership of the tech giant and Korea's views toward big business.

With this, Lee will be sidelined for the time being from major decision making at Samsung Electronics as it strives to overtake competitors. He will also be unable to oversee the process of inheritance from his father, who died in October, crucial to keeping control of Samsung.

Lee, 52, was convicted of bribing an associate of former President Park Geun-hye and jailed for five years in 2017. He denied wrongdoing, the sentence was reduced and suspended on appeal, and he was released after serving a year.

The Supreme Court then sent the case back to the Seoul High Court, which issued Monday's ruling.

The Seoul High Court found Lee guilty of bribery, embezzlement and concealment of criminal proceeds worth about 8.6 billion won ($7.8 million), and said the independent compliance committee Samsung set up early last year has yet to become fully effective.

"(Lee) has shown willingness for management with newly stronger compliance, as he as vowed to create a transparentcompany," said Presiding Judge Jeong Jun-yeong.

"Despite some shortcomings... I hope that over time, it will be evaluated as a milestone in the history of Korean companies as a start of compliance ethics for a greater leap forward," he said.

Lee, dressed in a dark coat and silver tie and standing to hear the sentencing, sat down after it was read.

"The nature of this case is the former president's abuse of power violating corporate freedom and property rights. Given that nature, the court's decision is regrettable," Lee's lawyer,Lee In-jae, told reporters.

With Lee returning to prison, the year he already served in detention is expected to count toward the sentence - leaving 18 months of his sentence to be served.

Can appeal in SC

Monday's sentencing can be appealed to the Supreme Court within seven days, the judge said, but legal experts said that because the Supreme Court has already ruled on it once, chances are lower that its legal interpretation will change.

Shares in Samsung Electronics dropped as much as 4 pe cent after the ruling, while shares in affiliates such as Samsung C&T, Samsung Life Insurance and Samsung SDI also fell sharply.

LVB-DBS merger: Plea in Delhi HC on LVB share capital write-off

Surabhi Mumbai | January 17, 2021 BUSINESSLINE

A shareholder in Lakshmi Vilas Bank has filed a Writ Petition in the Delhi High Court challenging its amalgamation with DBS Bank India.

A clause in the scheme seeks to write off the entire share capital of the troubled lender

The petition, filed by one Sudhir Kathpalia, naming also the Union of India, Reserve Bank of India and DBS as respondents, contended that the merger would leave investors and the Centre and the RBI have failed to protect investors' rights.

Accordingly, it has sought quashing of clause 7(i) in the merger scheme, which provides for the write off of LVB's share capital states.

The petition which was listed for January 13 before a bench of Chief Justice DN Patel and Justice Jyoti Singh has been adjourned to February 19 after the Bench was informed that the RBI has moved a plea in the Supreme Court for transfer of all pleas against the amalgamation scheme to the Bombay High Court.

Kathpalia, a lawyer, holds 20,000 shares of LVB.

The petition contended that the scheme of amalgamation was "irregular, arbitrary, irrational, unreasonable, illegal and thus, void", and the respondent could have demanded protection for shareholders money by asking DBS Bank India to give the shares equivalent to the value of shares last traded on stock exchange post amalgamation.

"The Petitioner wants to categorically state that it is not against the scheme of amalgamation ***per se*** but the manner in which investors' money is being written off." The amalgamation of the banks was approved by the RBI on November 25, 2020 and the merger took place on November 27.

RBI for more measures to improve governance at banks, NBFCs: Shaktikanta Das

FE Bureau | January 17, 2021

THE FINANCIAL EXPRESS

"A good governance structure will have to be supported by effective risk management, compliance functions and assurance mechanisms"

Any discussion on a bad bank must happen between the government and private players, and the RBI will consider such a proposal once presented with it, he said in response to a question at the Nani Palkhivala memorial lecture

Integrity and quality of governance are key to good health and robustness of banks and non-banking financial companies (NBFCs), Reserve Bank of India (RBI) governor Shaktikanta Das said on Saturday, adding that the regulator plans to issue some more measures on improving governance at regulated institutions. Any discussion on a bad bank must happen between the government and private players, and the RBI will consider such a proposal once presented with it, he said in response to a question at the Nani Palkhivala memorial lecture.

Recent events in the rapidly evolving financial landscape have led to increasing scrutiny of the role of promoters, major shareholders and senior management vis-à-vis the role of the board and the RBI is constantly focused on strengthening the related regulations and deepening its supervision of financial entities, he said.

"A good governance structure will have to be supported by effective risk management, compliance functions and assurance mechanisms."

"These constitute the first line of defence in matters relating to financial sector stability," Das said, adding that the central bank is set to beef up the governance framework. "Some more measures on improving governance in banks and NBFCs are in the pipeline," he said.

Das pointed to the measures the RBI has taken to strengthen its supervisory framework over regulated entities. The supervisory functions pertaining to the scheduled commercial banks (SCB), urban cooperative bank (UCB) and NBFC sectors are now integrated, with the objective of harmonising the supervisory approach. It has developed a system for early identification of vulnerabilities to facilitate timely and proactive action. It has also been deploying advances in data analytics to offsite returns so as to provide sharper and more comprehensive inputs to the onsite supervisory teams. "The thrust of the Reserve Bank's supervision is now more on root causes of vulnerabilities rather than dealing with symptoms," the governor said.

Going ahead, financial institutions in India have to walk a tightrope in nurturing the economic recovery within the overarching objective of preserving long-term stability of the financial system, he said. The pandemic-related shock will place greater pressure on the balance sheets of banks in terms of non-performing assets, leading to erosion of capital. Building buffers and raising capital by banks – both in the public and private sector – will be crucial not only to ensure credit flow but also to build resilience in the financial system. "Preliminary estimates suggest that potential recapitalisation requirements for meeting regulatory norms as well as for supporting growth capital may be to the extent of 150 bps (basis points) of common equity tier-I capital ratio for the banking system," Das said.

While abundant capital inflows have been largely driven by accommodative global liquidity conditions and India's optimistic medium-term growth outlook, domestic financial markets must remain prepared for sudden stops and reversals, should the global risk aversion factors take hold. "Under uncertain global economic environment, EMEs (emerging market economies) typically remain at the receiving end. In order to mitigate global spillovers, they have no recourse but to build their own forex reserve buffers, even though at the cost of being included in currency manipulators list or monitoring list of the US Treasury," Das said, adding that the issue needs greater understanding on both sides so that EMEs can actively use policy tools to overcome challenges pertaining to capital flows.

The governor made a case for defining fiscal roadmaps not only in terms of quantitative parameters like fiscal balance to gross domestic product (GDP) ratio or debt to GDP ratio, but also in terms of measurable parameters relating to quality of expenditure, both for the Centre and states. While the conventional parameters of fiscal discipline will ensure medium and long-term sustainability of public finances, measurable parameters of quality of expenditure would ensure that welfarism carries significant productive outcomes and multiplier effects. Maintaining and improving the quality of expenditure would help address the objectives of fiscal sustainability while supporting growth, Das said.

On the subject of a bad bank, he said the idea has been under discussion for a very long time. "We in the RBI have provided regulatory guidelines for asset reconstruction companies and we are open to look at any proposal for setting up a bad bank. If any proposal comes, we are open to examining it and issuing regulatory guidelines, but then it's for the government and private-sector players to really plan for it," Das said.

Finmin looks at BIC model after RBI raises concern over zero coupon bonds for PSBs recap

PTI New Delhi | January 16, 2021

BusinessLine

P J Nayak Committee report recommended transferring shares of the government in the banks to the BIC

With the RBI raising concern over the issuance of zero coupon bonds for recapitalisation of public sector banks (PSBs), the Finance Ministry is examining other avenues for affordable capital infusion including setting up of a Bank Investment Company (BIC), sources said.

Setting up a BIC as a holding company or a core investment company was suggested by the P J Nayak Committee in its report on 'Governance of Boards of Banks in India'.

The report recommended transferring shares of the government in the banks to the BIC which would become the parent holding company of all these banks, as a result of this, all the PSBs would become 'limited' banks. BIC will be autonomous and it will have the power to appoint the board of directors and make other policy decisions about subsidiaries.

Capital infusion

The idea of BIC, which will serve as a super holding company, was also discussed at the first Gyan Sangam bankers' retreat organised in 2014, sources said, adding it was proposed that the holding company would look into the capital needs of banks and arrange funds for them without government support.

It would also look at alternative ways of raising capital such as the sale of non-voting shares in a bid to garner affordable capital.

With this in place, the dependence of PSBs on government support would also come down and ease fiscal pressure.

To save interest burden and ease the fiscal pressure, the government decided to issue zero-coupon bonds for meeting the capital needs of the banks.

The first test case of the new mechanism was a capital infusion of Rs. 5,500 crore into Punjab & Sind Bank by issuing zero-coupon bonds of six different maturities last year. These special securities with tenure of 10-15 years are non-interest bearing and valued at par.

However, the RBI expressed concerns over zero-coupon bonds for the recapitalisation of PSBs. The RBI has raised some issues with regard to calculation of an effective capital infusion made in any bank through this instrument issued at par, the sources said.

Since such bonds usually are non-interest bearing but issued at a deep discount to the face value, it is difficult to ascertain net present value, they added.

As these special bonds are non-interest bearing and issued at par to a bank, it would be an investment, which would not earn any return but rather depreciate with each passing year.

Parliament had in September 2020 approved Rs. 20,000 crore to be made available for the recapitalisation of PSBs. Of this, Rs. 5,500 crore was issued to Punjab & Sind Bank and the Finance Ministry will take a call on the remaining Rs. 14,500 crore during this quarter.

Recapitalisation bonds

With mounting capital requirement owing to rising NPAs, the government resorted to recapitalisation bonds with a coupon rate for capital infusion into PSBs during 2017-18 and interest payment to banks for holding such bonds started from the next financial year.

This mechanism helped the government from making capital infusion from its own resources rather utilised banks' money for the financial assistance.

However, the mechanism had a cost of interest payment towards the recapitalisation bonds for PSBs. During 2018-19, the government paid Rs.

5,800.55 crore as interest on such bonds issued to public sector banks for pumping in the capital so that they could meet the regulatory norms under the Basel-III guidelines.

In the subsequent year, according to the official document, the interest payment by the government surged three times to Rs. 16,285.99 crore to PSBs as they have been holding these papers.

Under this mechanism, the government issues recapitalisation bonds to a public sector bank which needs capital. The said bank subscribes to the paper against which the government receives the money. Now, the money received goes as equity capital of the bank.

So the government doesn't have to pay anything from its pocket. However, the money invested by banks in recapitalisation bonds is classified as an investment which earns them an interest.

In all, the government has issued about Rs. 2.5 lakh crore recapitalisation in the last three financial years. In the first year, the government issued Rs. 80,000 crore recapitalisation bonds, followed by Rs. 1.06 lakh crore in 2018-19. During the last financial year, the capital infusion through bonds was Rs. 65,443 crore.

What has the RBI cautioned against in its latest Financial Stability Report?

Suresh Seshadri
JANUARY 17, 2021
THE HINDU

What prompted the RBI Governor's warning? Why is the RBI concerned?

The story so far: On Monday, the Reserve Bank of India (RBI) released the 22nd issue of its biannual Financial Stability Report outlining the risks to financial stability as well as the resilience of the financial system in the contemporary context. In his foreword, RBI Governor Shaktikanta Das flagged the many risks ahead, including the recent, accentuating "disconnect between certain segments of financial markets and the real economy". Mr. Das warned, "Stretched valuations of financial assets pose risks to financial stability," adding, "banks and financial intermediaries need to be cognisant of these risks and spillovers in an interconnected financial system."

What prompted the RBI Governor's warning?

While Mr. Das did not explicitly name the stock markets, the RBI is unequivocal in the report's chapter titled 'Macrofinancial Risks' in identifying the asset class triggering major concern among central bankers. The RBI noted that measures taken to support the economy and safeguard the financial system during the COVID-19 pandemic "may have unintended consequences as reflected, for instance, in the soaring equity valuations disconnected from economic performance".

The backdrop to the RBI's comments is this: while the imposition in March of the initial nationwide lockdown to curb the pandemic and subsequent State-level restrictions pushed the economy into one of its deepest contractions in the April-June quarter (initial estimates show GDP shrank 23.9% in the period), which then extended into a technical recession as GDP contracted 7.5% in the July-September period, India's equity markets rallied sharply after plunging to more than three-year lows on March 23. As of the close of trading on January 11 (the day the RBI released its report), the benchmark S&P BSE Sensex had appreciated almost 90% from its closing level on March 23, 2020. So, while the country's economic output as a whole has been contracting — the government's official advance estimates show GDP shrinking by 7.7% in the 2020-21 financial year — the stock markets have been seemingly disconnected and soaring to record highs.

How did this situation arise?

The onset of the pandemic saw monetary and fiscal authorities worldwide, including in India, introducing a slew of support measures to ensure that the restrictions imposed on economic activity did not completely devastate national economies and household incomes. The measures, which included interest rate cuts and infusion of liquidity, have driven a substantial surge in funds in the financial system, including in India's case from overseas investors. The RBI noted in the report, "surges of capital flows are being experienced, with the return of risk appetite and a renewed search for yield. Financial markets and asset prices have been lifted by this resurgence of foreign portfolio investment to India."

Latest data from the National Securities Depository Ltd. show that net foreign portfolio investments into equities in the current fiscal year had surged more than 38-fold to Rs.2,36,781 crore (as on January 16), from the meagre Rs.6,153-crore inflow in the preceding year. Worldwide, easy money conditions have in the past invariably spurred stock market rallies as investors seek higher returns at a time when interest rates on fixed income assets such as deposits and bonds decline. Expectations of an economic recovery undergirded by supportive measures and the availability of lower-cost borrowings also spur people to borrow money to invest in stocks.

Why is the RBI concerned?

The central bank is wary of the risk that a sudden sharp reversal in the trend could cause the asset bubble to pop, triggering wider contagion effects. The 2001 recession in the U.S., for instance, was sparked by the bursting of the dotcom bubble, which, coupled with the September 11 terrorist attacks and a series of accounting scandals at major companies, including energy firm Enron Corporation, pushed the economy into a contraction. In RBI's own words, "active intervention by central banks and fiscal authorities has been able to stabilise financial markets but there are risks of spillovers ... In a period of continued uncertainty, this has implications for the banking sector as its balance sheet is linked with corporate and household sector vulnerabilities."