

## Weekly EBook for RBI Grade B 2023 (24-30 April)

### Important Definition and full forms for RBI Grade B

1. **Held to Maturity (HTM):** HTM means the category of investment portfolio maintained by the banks with intention to hold securities upto maturity.
2. **Held for Trading (HFT):** means the category of investment portfolio maintained by the banks with intention to trade in securities by taking advantage of the short- term price/interest rate movements.
3. **Quoted Security:** it is a security for which market prices are available at exchanges / reporting platforms / trading platforms authorized by RBI / SEBI.
4. **Rated Security:** it means a security which is subjected to a detailed credit rating exercise by a credit rating agency, which is registered with SEBI and shall carry current or valid credit rating.
5. **Subsidiary General Ledger (SGL) Account:** A Subsidiary General Ledger (SGL) Account shall mean **an account opened and held with the Bank for holding or/and transacting in Government Securities.**
6. **SGL bouncing:** It shall mean failure of settlement of a Government securities transaction on account of insufficiency of funds in the current account of the buyer or insufficiency of securities in the SGL / CSGL account of the seller, maintained with the Reserve Bank of India.
7. **STRIPS (Separate Trading of Registered Interest and Principal of Securities):** STRIPS means distinct, separate securities that are created from the cash flows of a Government security and shall consist of (i) Coupon STRIPS, where the single cash flow of the STRIP represents a coupon flow of the original security; and (ii) Principal STRIP, where the single cash flow of the STRIP represents the principal cash flow of the original security,
8. **Stripping:** It means the process of separating the cash flows associated with a regular Government security i.e., each outstanding semi-annual coupon payment and the final principal payment into separate securities, as defined in circular on Government Securities - Separate Trading of Registered Interest and Principal of Securities (STRIPS)
9. **Reconstitution:** It means the reverse process of stripping, where the individual STRIPS i.e., both coupon STRIPS and Principal STRIPS are reassembled to get back the original security,.
10. **Sovereign Gold Bonds:** SGBs are government securities denominated in grams of gold. They are substitutes for holding physical gold. Investors have to pay the issue price in cash and the bonds will be redeemed in cash on maturity. The Bond is issued by Reserve Bank on behalf of Government of India.
11. **Negotiated Dealing System – Order Matching (NDS-OM):** NDS-OM is a screen based electronic anonymous order matching system for secondary market trading in Government securities owned by RBI. Presently the membership of the system is open to entities like Banks, Primary Dealers, Insurance Companies, Mutual Funds etc. i.e entities who maintain SGL accounts with RBI. These are Primary Members (PM) of NDS and are permitted by RBI to become members of NDS-OM. Gilt Account Holders which have gilt account with the PMs are permitted to have indirect access to the NDS-OM system i.e they can request their Primary Members to place orders on their behalf on the NDS-OM system

12. **Legal Tender** :Legal Tender is a coin or a banknote that is legally tenderable for discharge of debt or obligation.
13. **Currency chest**: To facilitate the distribution of banknotes and rupee coins, the Reserve Bank has authorised select scheduled banks to establish currency chests. These are storehouses where banknotes and rupee coins are stocked on behalf of the Reserve Bank for distribution to bank branches in their area of operation
14. **Soiled note**: It means a note which has become dirty due to normal wear and tear and also includes a two piece note pasted together wherein both the pieces presented belong to the same note and form the entire note with no essential feature missing.
15. **Mutilated banknote**: It is a banknote, of which a portion is missing or which is composed of more than two pieces.
16. **Imperfect banknote** : it means any banknote, which is wholly or partially, obliterated, shrunk, washed, altered or indecipherable but does not include a mutilated banknote.



# Introduction to FinTech

A linguistic blend of two individual terms 'Finance' & 'Technology', FinTech is being used to denote the wide array of technological innovations that have a bearing on financial services.

FinTech is an umbrella term coined in the recent past to denote technological innovation having a bearing on financial services. According to Financial Stability Board (FSB), of the BIS, "*FinTech is technologically enabled financial innovation that could result in new business models, applications, processes, or products with an associated material effect on financial markets and institutions and the provision of financial services*".

## Benefits of FinTech

1. **Financial inclusion:** Individuals and businesses can access appropriate and affordable financial products and services in a timely manner. Recent example is establishing of Digital Banking Units
2. **Economical:** Lower costs as there are no physical branches, hence lesser people to pay in the chain of management and services.
3. **Cost reduction:** The benefits of cost reduction can be passed on to customers in the form of low prices.
4. **Higher speed:** With speed of internet
5. **Fintech improves the efficiency by having more speed and less cost.**
6. **Flexibility:** People can carry out all kinds of operations from wherever and whenever they want in a very simple way. Personalized customer service
7. **Regtech, or regulatory technology, is primarily concerned with automating financial firms' compliance procedures. Additionally, it provides quick and affordable management of massive data sets, including transaction records and compliance records like corporate tax filings.**
8. **Fintech give the opportunity of more customization. As the use of artificial learning, chatbots give room for better customer service.**

## Limitations of FinTech

1. **Cyber security issues:** Internet connects different systems, thus threatening the surety of the systems.
2. **Data Privacy issues:** Concerns about data collecting and data privacy will emerge as a result of the integration of new technologies with conventional systems in addition to cybersecurity.
3. **Frauds and Scams:** The digital financial literacy is in younger stage and there huge variety of scams and frauds which are being done on the gullible people. So it's a dynamic problem.

## FinTech History and Evolution

1. Technology-induced financial innovation has a long history.
2. In the 1950s, credit cards appeared for the first time, followed by Automated Teller Machines (ATMs) in the 1960s.
3. Electronic stock trading and banks' new data recording systems in 1970s and 1980s
4. e-commerce and online brokering in 1990s.
5. The online revolution in the last decade of the 20th century connected the world through the Internet, and enabled e-commerce, Internet banking and pioneering online payment platforms like PayPal.

6. The next decade witnessed the emergence of smart technology. The smartphone materialised as a powerful computer in human palms, and the movement to app-based operating systems spurred innovation, unbundling and sharing of services.
  7. Bitcoin came as another important development in 2009.
  8. The present decade is dedicated to the ‘rise of the robots’, where the emergence of big and unconventional datasets has enabled AI to provide accurate predictions and personalise banking.
  9. The ‘new’ FinTech sector gained momentum in its modern incarnation after the Global Financial Crisis(GFC) as FinTech entrepreneurs realised that banking services should be transparent, facilitative and economical. After the GFC, public perception of banks had deteriorated, as savings were diverted to subprime borrowing without adequate consumer protection. Many finance professionals confronted job losses or pay cuts, which inspired enterprising innovation as FinTechs. Also, tighter regulation of traditional banking after GFC supported the growth of the FinTech sector.
- 1950s: Emergence of Credit Cards  
1960s: ATM

### Recent in news:

Reserve Bank organised its second global hackathon – “**HARBINGER 2023** – Innovation for Transformation” with the theme ‘Inclusive Digital Services’. The Hackathon invites participants to develop solutions that have the potential to make digital financial services accessible to the differently abled, facilitate efficient compliance, extend the reach of Central Bank Digital Currencies and enhance the scalability of blockchains.

**HARBINGER 2023** invites innovative ideas for the following *problem statements*:

- i. Innovative, easy-to-use, digital banking services for differently abled (Divyaang).
- ii. RegTech solutions to facilitate more efficient compliance by Regulated Entities (REs).
- iii. Exploring use cases/solutions for CBDC-Retail transactions, including transactions in offline mode.
- iv. Increasing Transactions Per Second (TPS)/ throughput and scalability of blockchains.

The Reserve Bank had announced opening of the Fourth Cohort under Regulatory Sandbox vide for theme ‘Prevention and Mitigation of Financial Frauds’.



# Introduction of Legal Entity Identifier for Cross-border Transactions

The **Legal Entity Identifier (LEI)** is a 20-digit number used to uniquely identify parties to financial transactions worldwide to improve the quality and accuracy of financial data systems. Global Legal Entity Identifier Foundation (GLEIF) handles the global database for LEI.

## **Global Legal Entity Identifier Foundation (GLEIF).**

Established by the Financial Stability Board in June 2014, the Global Legal Entity Identifier Foundation (GLEIF) is tasked to support the implementation and use of the Legal Entity Identifier (LEI). GLEIF is a supra-national not-for-profit organization headquartered in Basel, Switzerland.

GLEIF makes available the Global LEI Index; i.e. the only global online source that provides open, standardized and high quality legal entity reference data. By doing so, GLEIF enables people and businesses to make smarter, less costly and more reliable decisions about who to do business with.

## **Important FAQs fro RBI website:**

**1. Should an Authorised Dealers (AD) bank obtain a valid LEI for transactions less than INR 50 crore even if the customer has not done any transaction of INR 50 crore or above on or after October 1, 2022?**

**Ans.** An AD bank must record valid LEI for cross border transactions of INR b50 crore and more undertaken through it on or after October 01, 2022. Post this, the AD bank must report the valid LEI for all cross border transactions, irrespective of the value of the transactions. However, if the AD bank already has a valid LEI of the entity, it must report it for all transactions irrespective of whether the entity has undertaken a transaction of INR 50 crore or above through it.

**2. Is it mandatory to obtain LEI in case of transactions to and from a non-resident's account with an AD bank in India?**

**Ans.** Any debit from or credit to a non-resident's account in India as a result of a transaction with a resident will attract the provisions of Foreign Exchange Management Act, 1999 (FEMA) and hence, the provisions contained in the circular shall apply.

**3. Does the responsibility to obtain LEI lie with an AD bank acting in the capacity of a correspondent bank?**

**Ans.** The correspondent bank shall be responsible for the LEI of the non-resident counterpart.

**4. Is there any specific field in the SWIFT message where LEI needs to be captured?**

**Ans.** The circular does not prescribe any instructions with respect to SWIFT message formats.

**5. In case of non-fund facilities such as Letter of Credit, guarantee, etc., should the LEI validation be done at the issuance stage itself?**

**Ans.** In case of non-fund facilities, the AD banks need to ensure compliance with LEI requirements at the issuance stage itself.

**MCQ for practice:**

**1. The headquarters for Global Legal Entity Identifier Foundation (GLEIF) is at\_\_**

- A. New York
- B. Basel
- C. Berlin
- D. Geneva
- E. Rome

**2. What is the minimum transaction for which legal entity identifier is mandatory?**

- A. 10 crore
- B. 15 Crore
- C. 20 Crore
- D. 25 Crore
- E. 50 crore

**Ans**

**1-b, 2-e**

