Foreign Exchange Dealers' Association of India
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January 2022
FEDAI NEWS LETTER

Curtain dropped on LIBOR

December 31, 2021, sun finally set on LIBOR as far as new transactions are concerned though few select maturities and currencies would continue for some more time to help legacy trades. The cessation announced by Financial Conduct Authority, UK in summer of 2017 and corresponding transition from interbank offered rates (IBORs, LIBOR was one of that), to alternate risk free rates (RFRs) was one of the most important & critical challenge. Various 'Alternate Reference Rate Committees' were constituted in respective jurisdictions to recommend a roadmap for the transition. Two such committees formed and working under aegis of IBA in India, where FEDAI was a member, made recommendations to RBI, based on which an advisory was issued by the RBI on 08th July 2021 on Roadmap for LIBOR Transition.

FBIL to announce base rate for FCNR(B) deposits

https://www.fbil.org.in/uploads/Press_Release_Publication_of_Base_Rates_of_Alternative_Reference_Rates_ARR_s_6414c408ac.pdf

Starting 31 Jan.'2022 base rate for FCNR(B) deposits shall be announced by FBIL. The rates shall be announced on last day of every month as being done by FEDAI hitherto. As per revised guidelines, in line with shift away from LIBOR, the base rates are now linked to overnight alternate reference rates for respective currencies.

FOMC indicates FED rate hike starting March'2022

With labor demand continuing to remain historically high, CPI at levels not seen in last 4 decades & proving to be stickier than initially expected Federal Open Market Committee (FOMC) at the end of its 2 days meeting on 26th January 2022 reiterated its commitment to achieving the monetary policy goals of maximum employment and price stability. FED announced to keep its policy interest rate near zero, while also stating its expectation that an increase in this rate would soon be appropriate. The Committee also agreed to continue reducing its net asset purchases on the schedule announced in December 2021, bringing them to an end in early March. Market expecting 3-4 FED rate hikes in current year, starting in March 2022 while UK is expected to hike the rates again in February meeting.

Economic Survey 2022, IMF forecast

Advance estimates suggest that the Indian economy is expected to witness real GDP expansion of 9.2 per cent in 2021-22 after contracting in 2020-21, the Indian economy is in a good position to witness GDP growth of 8.0-8.5 per cent in F.Y. 2022-23.

As per latest World Economic Outlook (WEO) by IMF global growth is expected to moderate from 5.9 in 2021 to 4.4 percent in 2022 - half a percentage point lower for 2022 than in the October WEO, largely reflecting forecast markdowns in the two largest economies. Forecast for India is revised upward by 50 BPS for year 2022 and 2023 to 9.0% and 7.1% respectively.

Prudential Norms for Investment Portfolio of Commercial Banks

https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=20993

RBI issued 'Discussion Paper on Review of Prudential Norms for Classification, Valuation and Operations of Investment Portfolio of Commercial Banks' on 14th January 2022. The discussion paper proposes to categorise Investment Portfolio into three categories namely Held to Maturity (HTM), Available for Sale (AFS) and Fair Value through Profit and Loss Account (FVTPL).

Subject to feedback, it is proposed to revise the current framework with effect from 01st April, 2023 with banks being allowed to make the transitional adjustments based on the MTM position as at that date in the balance of 'Reserves and Surplus'.

ICC News

- ICC has published a report setting out proposals to tackle the longstanding challenge of defining and setting common standards for sustainable trade and associated financing
- The ICC Academy organised a session on Uniform Rules for Digital Trade Transactions (URDTT) on 27 January 2022.
- ICC is planning to consult on the appetite of members to initiate revisions of any ICC rules/guidance that might warrant revision in light of market developments in recent years.

FEDAI workshops & training activities

- 08th–11th February 2022 - Online Workshop on "Foreign Trade and Foreign Exchange Business
- 22nd–23rd February 2022- Online Workshop on "Basics of Exports and Export Finance"
- **Monthly Discussion** –27th January 2022 Shri Ashutosh Khajuria, Executive Director, The Federal Bank Limited discussed and delivered a talk on topic "Review, Introspect, Predict & Prepare (RIPP)" for the future.

Upcoming Market Events

- RBI MPC Meeting7th-9th February'2022
- FOMC Meeting 15th-16th March'2022
- ECB Monetary Policy Meeting 03rd February'2022

Market News

- Dr V. Anantha Nageswaran, an IIM, Ahmedabad alumni, noted writer, author, teacher, and economic consultant is appointed as the India's 18th Chief Economic Adviser for 3 years. He also earned Doctor of Philosophy in finance from Isenberg School of Management at University of Massachusetts Amherst in 1994.
- Reserve Bank of India has approved the appointment of Mr. Ittira Davis as Managing Chief Executive Officer (MD & CEO) of Ujjivan Small Finance Bank.
- Mr. Urjit Patel, former RBI Governor, has been appointed as Vice President of Asian Infrastructure Investment Bank (AIIB) for a period of three years. He will be one of the five Vice Presidents of the AIIB and expected to take charge from February 2022.
- Shri. Baldev Prakash has been appointed as the Managing Director & Chief Executive Officer (MD & CEO) of Jammu & Kashmir Bank for three years.
- Shri Ajay Kumar Choudhary and Dr. Deepak Kumar have been elevated and appointed as Executive Director, RBI with effect from January 03, 2022.
- Government of India has notified the Scheme for the amalgamation of the Punjab and Maharashtra Co-operative Bank Ltd. (PMC Bank) with Unity Small Finance Bank Ltd. on 25th January 2022.
- All IECs which have not been updated after 01st July 2020 shall be de-activated with effect from 01st February 2022.
- On 1st January 2022, the Regional Comprehensive Economic Partnership (RCEP) came into effect. The new trade agreement aims to create a better business environment with fewer investment barriers and lower tariffs. India opted out from RCEP in 2019, claiming that some of its main concerns were not being addressed.

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Good Bye

The origin of LIBOR can be traced to the need of a trusted interest rate benchmark as Eurodollar market (USD denominated deposits held outside of the USA) grew in the 1960s. The origin of the term 'LIBOR' has been credited to a Greek banker called Minos Zombanakis. In 1969, he organised USD 80 million syndicated loan for the Shah of Iran, from Manufacturers Hanover Corp. (A bank holding company) referenced to what he called a London interbank offered rate. These rates were initially computed through a 'trimmed mean' of polled rates elicited from major banks based on responses to the question: 'At what rate could you borrow funds were you to do so by asking for and then accepting interbank offers in a reasonable market size just prior to 11 a.m.?' The subjective nature of the question, left LIBOR vulnerable to manipulation right from beginning and due to similar concerns, the British Bankers' Association took over the governance process of LIBOR in 1986.

Over period of time, the LIBOR was established as a standardized bench-mark for the pricing of floating-rate corporate loans. However, its introduction coincided with the growth of new interest rate based financial instruments, such as FRA and interest rate swaps; that also require standardized and transparent interest rate benchmarks.

However, LIBOR had long been dogged by perceptions that the method for setting the rates is flawed and prone to distorted results. Conflicts of interest were inherent; the polling banks had significant presence in related markets, but they also held large derivative & loan contracts priced by using LIBOR. An article in Wall Street Journal & few research papers in 2008 triggered off investigations into the LIBOR fixation process which finally culminated in to FCA announcement on 17 July 2017 that LIBOR shall be ceased at the end of 2021. The rest is history which will never be forgotten by world of finance.

-:STAY SAFE:-