IN BRIEF

GAIL to get 90 LNG cargoes a year from U.S.

India's state-owned GAIL (India) Ltd. on Friday said it would be annually receiving about 90 cargoes of liquefied natural gas (LNG) from Sabine Pass and Cove Point LNG terminals in the U.S. GAIL has long-term deals to annually buy 5.8 million tonne of U.S. LNG. GAIL would be procuring about $2 billion worth of LNG per annum from the U.S. from fiscal year 2018/19. GAIL on Friday received its first consignment of LNG from the U.S. REUTERS

NBCC eyes 35% revenue growth from next fiscal

NEW DELHI

State-owned construction firm NBCC Ltd. is targeting to achieve a higher growth of 30-35% from next fiscal on the back of a ₹1 lakh-crore order book, said its CMD Anoop Kumar Mittal. NBCC would soon unveil a five-year growth vision. "We are currently undertaking 345 projects with an order book of about ₹1 lakh crore. Our revenue in the current fiscal may remain at last year's level of about ₹6,500 crore," he said. PTI

IFCI plans to dilute stake in NSE, Clearing Corp.

NEW DELHI

The country's oldest public sector financial institution IFCI proposes to further offload its stake in the National Stock Exchange (NSE) to help raise funds to fuel its operations, a top company official said. Besides, IFCI is also planning to dilute stake in Clearing Corporation of India (CCIL). "IFCI plans to reduce stake in some companies like the NSE while plans are afoot to sell its stake in CCIL," IFCI MD E.S. Rao said. PTI

SEBI mulls 'concentration margin' in derivatives

Move aimed at strengthening risk management norms to minimise the threat of widespread default during excess volatility

ASHISH RUKHAIYAR
MUMBAI

Traders with a very high or significant exposure to commodity and equity derivatives market may soon have to pay a higher margin compared with other traders as the Securities and Exchange Board of India (SEBI) is planning to create a structured framework for levying a 'concentration margin,' according to a person familiar with the development.

This is part of the regulator's attempts to strengthen the risk management norms to ensure that during excess volatility or massive fall in the markets, the probability of a systemic risk in the form of widespread defaults is minimised with adequate margins, he said.

Simply put, a concentration margin would be levied on individuals and institutions whose exposure account for a major chunk of the total exposure in that respective equity or commodity derivative contract.

Regulatory firewall: SEBI's aim is to focus on traders having large concentrated positions. ▪REUTERS

The issue was discussed recently during a meeting of the risk management review committee set up by SEBI. The regulator had sought the views of all the exchanges before deciding on the manner and structure in which the margin can be introduced, the person said.

Incidentally, 'concentration margin' is a normal practice in many exchanges globally, including the NASDAQ.

Global practice

"Concentration margin is a global practice with many exchanges levying it," said Arun Kejriwal of Kejriwal Research & Investment Services. "A concentration risk is a bigger risk than normal volatility risk because that can bring down the individual or the institution concerned thereby affecting the market integrity as a whole," he said. "There could be a short term impact on volume in the derivatives market," he added.

"The aim is to strengthen the margining system by not increasing the overall margin requirements but focussing on those that have a large concentrated position," said the person who spoke on the condition of anonymity.

"Stress tests have been done to evaluate the risks and the possible impact on the settlement guarantee fund in various scenarios. For instance, what happens if the top 10 or 20 clients default. The structure has not yet been formalised as SEBI has sought feedback in the form of data and suggestions from the exchanges," he added.

Back-testing data

It is believed that the exchanges have back-tested the market data over the last 5-10 years with scenarios of default by large members and the potential impact on the overall market. Incidentally, commodity exchanges levy such additional margin in certain commodities during periods of excessive volatility but the regulator is looking at a formal structure that could be followed by both, equity and commodity exchanges. Further, the quantum of 'concentration margin' will be based on factors like total open interest position, individual concentration, time-to-expiry, overall liquidity in the contract and also the stress level in the overall market liquidity.

The risk management review committee, which is looking into this issue, has received representations from clearing corporations, exchanges and other market participants like banks and corporates.

Numetal buys 70% in pipeline firm

PRESS TRUST OF INDIA
NEW DELHI

Days before the second round of bids come in for the takeover of Essar Steel, Russia's VTB Capital-backed Numetal has snapped up a 70% stake in Odisha Slurry Pipeline Infrastructure Ltd., which feeds raw material to Essar's Paradip steel plant.

Numetal, the Mauritius-based investment vehicle where Russia's second largest bank VTB Group is a majority shareholder, will repay all of the about ₹2,200 crore debt of OSPIL to get 70% stake from the firm's current promoter, SREI Infrastructure Ltd., sources privy to the development said. OSPIL is India's largest slurry pipeline and is strategic to the Essar Steel plant in Paradip.

'SEBI looking into ICICI Bank matter'

Watchdog to assess bank's disclosures

PRESS TRUST OF INDIA
NEW DELHI

With ICICI Bank embroiled in a controversy over alleged conflict of interest involving its CEO Chanda Kochhar, market regulator SEBI has begun looking into the matter for any possible disclosure and corporate governance-related lapses.

Besides, Videocon Industries and its promoters have come under the regulator's scanner as the matter relates to alleged "quid pro quo" involving loans to the firm by a group of lenders, including ICICI Bank.

The markets watchdog has begun a preliminary enquiry into various disclosures by the top private sector bank over the last few years while stock exchanges may seek additional clarification regarding recent reports in this regard relating to dealings that took place in 2012, a senior official said.

Sources said the RBI had sought clarification from the bank in 2016 on the issue to which the bank had given its response at the time.

'Monetary policy not apt to ensure financial stability'

Greater financial inclusion helps reduce friction boosting policy transmission, RBI research group says

K.T. JAGANNATHAN
CHENNAI

Monetary policy transmission improves if friction in the financial system diminishes, according to the findings of a study by the Development Research Group (DRG) of the Reserve Bank of India (RBI).

This is possible with greater financial inclusion in terms of depositors' base and easing of the collateral constraints of the households, the DRG said in its report. "Easier norms for collateral are likely to enable households to increase their borrowings which, in turn, may improve the transmission," it added.

The DRG is constituted by the apex bank in its Department of Economic and Policy Research to carry out quick policy-oriented research on subjects of current interest.

Raison d'etre: The DRG is constituted by the apex bank to carry out policy-oriented research. ▪KAMAL NARANG

Study model

The DRG study – 'Role of financial frictions in monetary policy transmission in India' – developed a New Keynesian Dynamic Stochastic General Equilibrium (NK-DSGE) model with an imperfectly competitive banking sector and examined the role of various financial frictions in monetary policy transmission (MPT) in India.

The credit channel-based explanation of MPT attributes weak transmission of monetary policy in emerging market and developing economies to the predominance of financial market frictions.

Credit market friction

"Presence of information asymmetries, limited enforceability of contracts and heterogeneity among the economic agents give rise to frictions in the financial market transactions, which play a crucial role in determining the degree of pass-through and speed of adjustments in the MPT mechanism," the DRG said.

Focusing on the credit market friction parameters, the study undertook counter-factual experiments and evaluated the responsiveness of MPT using the accumulated effects over a time horizon of eight quarters. The study findings show MPT improved as friction in the financial system diminished.

The study also undertook simulation experiments with respect to a set of alternative policy rules.

"Adjusting the policy interest rate to smooth out the credit cycle exacerbates volatility of inflation and output," the DRG said. It suggested that inflation stabilisation was the most desirable policy option for the RBI as it minimised the welfare loss irrespective of policy rules. "Overall, it appears that targeting financial stability through monetary policy rule may not be appropriate for the purpose of economic stabilisation."