Risk numerical/Beta

- Beta is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. Beta is used in the capital asset pricing model (CAPM), which calculates the expected return of an asset based on its beta and expected market returns
- Beta represents the tendency of a security's returns to respond to swings in the market. A security's beta is calculated by dividing the covariance the security's returns and the benchmark's returns by the variance of the benchmark's returns over a specified period.
- A beta of 1 indicates that the security's price moves with the market. A beta of less than 1 means that the security is theoretically less volatile than the market. A beta of greater than 1 indicates that the security's price is theoretically more volatile than the market.
- Capital Asset Pricing Model – describes the relationship between systematic risk and expected return for assets, particularly stocks.
- The formula for calculating the expected return of an asset given its risk is as follows:

$$\overline{r_a} = r_f + \beta_a(\overline{r_m} - r_f)$$

Where:
r_f = Risk free rate
β_a = Beta of the security
$\overline{r_m}$ = Expected market return

Risk management in banking sector

- CAMELS framework
    - Capital Adequacy
    - Asset Quality
    - Management
    - Earnings Quality
    - Liquidity
    - System and control/sensitivity to market risk
- Basel II pillars
    - Minimum capital requirement – capital, risk coverage, leverage
    - Supervisory review process
    - Market discipline
- Basel III norms are to be fully implemented in India by Mar 31, 2019
    - Indian banks need to maintain Minimum Total Capital (MTC) of 9% (as against 8% prescribed by the Basel Committee) of Total Risk Weighted assets (RWAs)
    - Of the above, Common Equity Tier 1 (CET1) must be at least 5.5% (4.5% as per Basel) of RWAs
    - In addition to above, Capital Conservation Buffer(CCB) of 2.5% of RWAs in the form of CET1 capital => total CET1 to be held by banks = 8% (7% under Basel III)
    - Minimum Tier 1 capital – 7% of banks risks (6% under Basel III = 4.5% CET1 + 1.5% Additional Tier 1)
    - Discretionary Countercyclical Capital Buffer (CCCB) between 0-2.5% of RWAs to be met by CET1 capital
        - Lower threshold where the CCCB would be activated would be credit-to-GDP gap of 3%
        - Upper threshold where CCCB reaches its maximum (2.5% of RWAs) would be 15% credit-to-GDP gap
        - Credit-to-GDP gap is the difference between credit-to-GDP ratio and its long term trend
    - Leverage Ratio set to 4.5% by RBI (3% under Basel III) = Tier 1 capital/Total exposure
    - Liquidity Coverage Ratio (LCR) – ratio of liquid money to total assets; should equal the bank's net outflows during a 30-day stress period
        - => High quality liquid assets >= Total net liquidity outflows over 30 days
        - New provision in Basel III
    - Net Stable Funding Ratio (NSFR)
        - Available stable funding >= Required stable funding

        - Available stable funding includes customer deposits, long-term wholesale funding and equity
        - New provision in Basel III
    - India banks have to meet LCR as well as SLR and CRR norms
    - CET1 – common shares, retained earnings and other reserves
    - Additional Tier 1 – capital instruments with no fixed maturity
    - Tier 2 – subordinated debt and general loan-loss reserves
- Domestic Systemically Important Banks
    - Assessment based on
        - Size
        - Interconectedness
        - Lack of readily available substitutes or financial institution infra
        - Complexity
    - Currently, ICICI and HDFC are in Bucket 1 with Additional CET1 = 0.15% from Apr1, 18
    - SBI is in Bucket 3 with Additional CET1 = 0.45% from Apr1, 18
    - From Apr 1, 19, Additional CET1 requirements would be 0.2%, 0.4%...for Buckets 1, 2...

Corporate governance

- Companies Act, 2013, SEBI Guidelines and Clause 49 of Listing Agreement contain provisions
- Kotak committee recommendations accepted by SEBI(out of 80, 40 accepted without modifications, 15 with modifications, 8 referred to govt)
    - Splitting of post of Chairman(leader of the Board) and MD/CEO (leader of mgt) from 1st Apr 2020 for top 500 companies
    - At least 1 woman independent director to be appointed by 1st April 2019
    - Min. 6 Directors on Board (currently only 3 required)
    - Quorum will be 1/3rd of total strength of Board or 3, whichever is higher
    - Director should attend at least half the meetings over a 2-year period
    - Min number of meetings of Board be increased from 4 to 5
    - Shareholder approval will be needed for making royalty or brand payments to related parties exceeding 2% of consolidated turnover
    - Disclosure of auditor credentials, auditor fees and reasons for resignations of auditors
    - Reduced max no. of listed company directorship from 10 to 8
    - Disclosure of utilization of funds from QIP/preferential issue
    - Increased max investment amount in VC undertakings by an angel fund to 10cr from 5cr
    - Imposed restrictions on algo trading by introducing a congestion charge for a prescribed slab on trades
    - Disclosure of expertise/skills of Directors
    - Enhanced disclosure of Related Party Txns
- Other recommendations of Kotak committee
    - At least half directors should be Independent Directors in all cases (currently only 1/3rd are required to be Independent and half in case Chairman is related to promoters)
- Banking sector
    - P J Nayak committee recommended Mission Indradhanush of which 2 components are Appointments and Bank Boards Bureau
    - Appointments – separation of post of CEO and MD
    - Bank Boards Bureau
        - To advice banks on how to raise funds and how to go ahead with mergers and acquisitions
        - Hold bad assets of PSBs
        - Recommend for selection of heads of PSBs
        - Chairman + 3 ex-officio members + 3 expert members

ETF Bharat-22

- open-ended mutual fund scheme with an objective to track and reflect the performance of its underlying index
- underlying index (S&P BSE Bharat 22 index) is collectively comprised of 22 stocks of Central Public Sector Enterprises (CPSE), Public Sector Banks and private companies which are Strategic Holding of Specified Undertaking of Unit Trust of India (SUUTI). The said 22 stocks are spread across six sectors (Basic Materials, Energy, Finance, FMCG, Industrials and Utilities).
- The index invests a maximum of 15 per cent in a single stock and 20 per cent in a particular sector
- government of India has appointed ICICI Prudential AMC to create, launch and manage Bharat 22 ETF. Kayzad Eghlim will manage the fund