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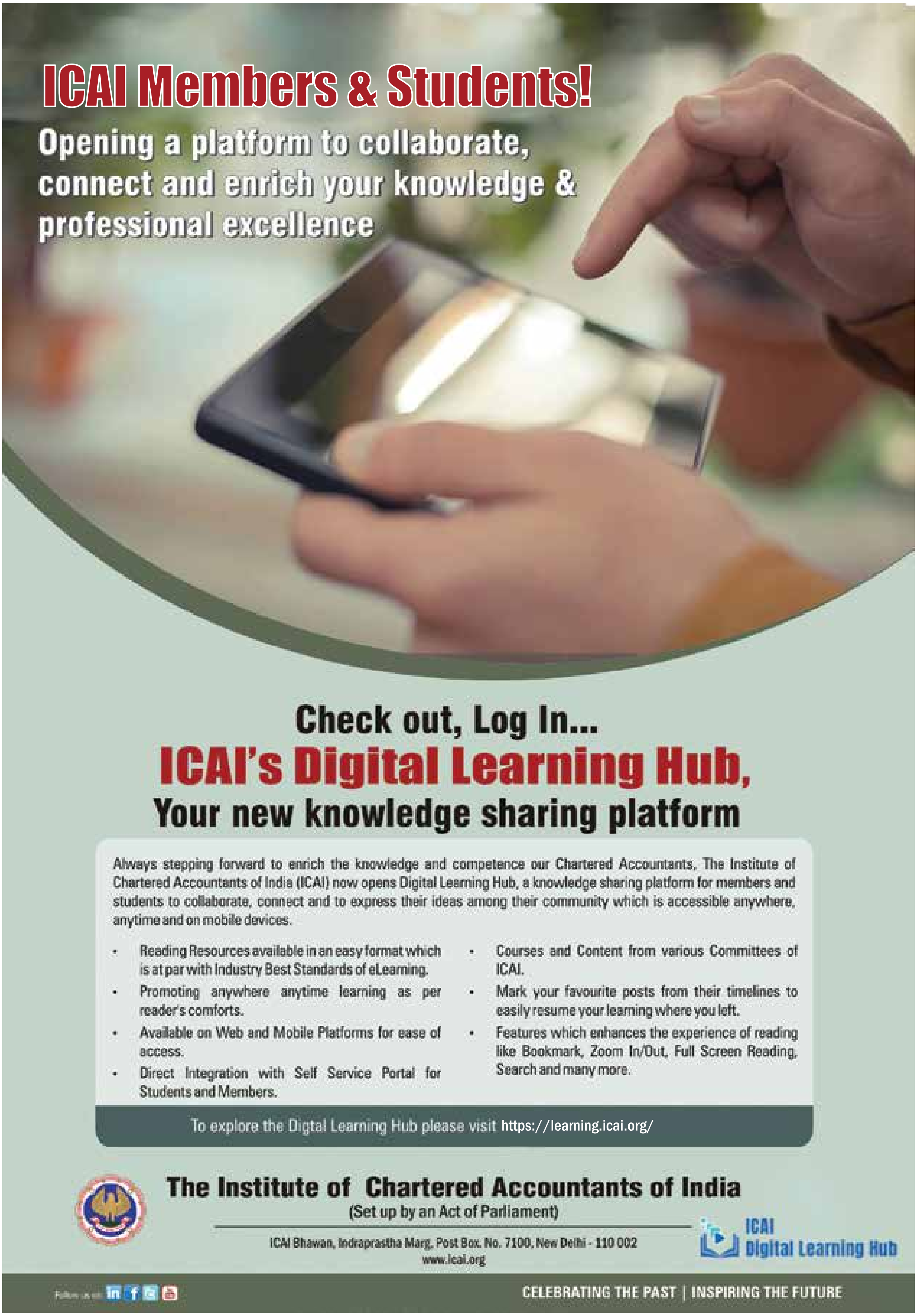
THE CHARTERED ACCOUNTANT

JOURNAL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

Accounting Profession for Resilient Economy

ICAI – SET UP BY AN ACT OF PARLIAMENT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Accounting Profession for Resilient Economy

Accountancy profession plays an essential role in economic development of any country as it provides quality information on the economic trends. From a historical perspective, such pieces of information are quintessential for internal management of businesses and the external stakeholders. Nevertheless, with the complex nature of the economies, the information is useful to several players including academia, trade associations and government. The virtues of independence, integrity and excellence, the hallmarks of Indian accounting profession bring credibility to the wealth of information created by accounting profession. The transparency in the information and the ethical practices followed promote confidence of investors and help in facilitating mobilisation of domestic and international investments. The sound financial architectures built within the economic systems assure productivity and bring sustainability to the investors. The profession promotes financial stability and thus helps in creating a conducive investment environment particularly in emerging economies like India.

Businesses that conduct transactions ethically and process information using established standards open-up their country to the vast pool of foreign investors and thereby give a boost to economic growth. ICAI comprehensively creates a favourable business environment by developing sound standards and systems in the economy. The implementation of high quality standards for accounting, auditing, valuation, engagement and quality are vital for development of emerging Indian economy.

The knowledge and skills possessed by accounting professionals are deep rooted and surpass any other profession in the matters of business and economy. The expertise of professional accountants in the matters of finance, laws, taxation, systems and strategy make them an integral part of management of businesses. The accounting professionals can also bring strength to the business to face big and small challenges. While they can easily handle minor day to day issues and concern, they can also work on major business setbacks to identify solutions to big problems. A sustainable business needs resilience particularly in the present times of pandemic as this year has witnessed unrelenting change and uncertainty. Resilience is emerging as one of the most valuable attribute that needs to be cultivated in organisations.

Accounting professionals can help businesses to weather the adversities and bounce back from the setbacks. The elements of resilience are ingrained in the Indian accountancy profession right from the inception. CA. Bansi S. Mehta, ICAI Past-president once noted *"When the institute was founded…, its founding fathers visualised, with considerable sagacity, the eventual role of the profession and provided a foundation of such immense strength and, at the same time, resilience that, despite fast changing environment, the basic structure of the profession continues to be guided by its overriding quest for development with dignity."*

Cultivating resilience in the business should be part of the overall vision of all organisations and should be given due importance while formulating strategy. Management needs organisation wide concerted efforts for achieving resilience. The process of creating a resilient organisation is dynamic and never-ending through genuine assessment of the risks. A resilient business can proactively plan for the expected events and reactively manage the unexpected events that have taken place. The professional accountants can improve organisational abilities to bring financial and systemic robustness and help in achieving increased resilience. They can help organisations to gain in strength and prepare well to reduce the likelihood of adverse events that are beyond their control and protect the businesses from harmful consequences. They are also well suited to review, respond and recover as a reactive strategy to any unforeseen eventuality that has taken place.

Professional accountants can promote an integrated approach to make organisations both compliant to the risk as well as responsive to the risks. They can assist business organisations to be more enterprising and successful. The incentive for business to be resilient goes much beyond building abilities to avoid or respond to disasters. Businesses confident of manging their risk better can respond to the hardships and at the same time identify and seize opportunities emerging out of these unfavourable events. Winston S. Churchill said *"A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty."*

-Editorial Board ICAI: Partner in Nation Building

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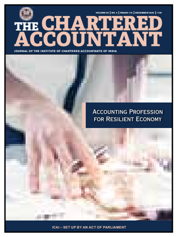

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ICAI Bhawan, Post Box No.7100, Indraprastha Marg,
New Delhi-110002, Tel: +91 (11) 39893989.
E-mail: eboard@icai.in, Website: **www.icai.org**

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From the President

CA. Atul Kumar Gupta
President, ICAI

Dear Professional Colleagues,

"When you have exhausted all possibilities, remember this: you haven't." – said Thomas A. Edison. With the chequered past sprawling over more than seven decades, ICAI has consistently overcome all the challenges and is playing a leading role in Indian growth story. Undeterred by the present challenges being faced globally due to pandemic, ICAI has been taking different steps to safeguard the business world. ICAI firmly believes that life does not alter its predesigned course to become simpler; it expects us to change our attitude and inculcate strength and resilience in our disposition in order to attain success. The same is true for the business processes, activities and manner in which transaction takes place which keep on changing with the time. ICAI has always encouraged its members and stakeholders to be resilient and take obstacles in their stride as challenges are an invariable and inevitable consequence of life. Maintaining resilience in times of adversity and looking at challenges in the eye with indomitable strength pushes people to emerge as admirably indestructible, akin to how carbon turns into diamond under extreme pressure. Under the current pressures of the pandemic, the accounting profession and all its stakeholders must take utmost care in its conduct and actions. After all, it is an active choice to be identified in misery and not be brought down by it.

Resilience allows one to wholesomely embrace the vast realm of human experience by building implicit and undying faith in oneself to overcome the unexpected. Helen Keller once remarked, *"Character cannot be developed in ease and quiet. Only through experience of trial and suffering can the soul be strengthened, vision cleared, ambition inspired, and success achieved."* In these times, the skills that the accountancy professional develops and applies are fundamental to build a better world with resilience in business. A resilient business understands that it was created to pursue and achieve certain objectives by taking risks and deliver results in form of returns to stakeholders and thereby contribute to the economic development. The business needs to be aware that while risk cannot to be eliminated, it can be managed and mitigated by careful planning. The business needs to understand that future is uncertain and it is not possible to plan all the actions and activities that are yet to take place with certainty as the business has no idea how future will shape up.

Professional accountants, with their deeper understanding of the processes, procedures and systems, can help business to build early warning structures within the organisations to forewarn about the threats and mitigate the risk. Unforeseen challenges such as the ongoing pandemic present unpredictable circumstances, yet a resilient organisation must possess enough resources and financial strength to withstand these hard times, the strengths that will give sufficient time to the organisation to recoup and react before the effects

FROM THE PRESIDENT

become insurmountable. Professional accountants may not possibly manage each and every risk as they also have their own human limitations, they can certainly bring adaptability in the business and make it more agile and responsive. They can help business to minimise the harmful effects of hostile environment and more importantly, take advantage of the situation, as it changes. Things may be difficult but certainly not impossible to manage.

Opening of ICAI Representative office in Leh

As a true partner in nation building, the Institute opened a representative office of the ICAI at Eliezer Joldan Memorial College, Leh, Capital of Union Territory of Ladakh. The initiative will contribute to the development of the newly formed Union Territory and act as a support to Government initiatives, besides spreading knowledge in the field of accountancy and facilitating services to the upcoming and existing members and students. Shri Jamyang Tsering Namgyal, Hon'ble Member of Parliament, Ladakh Parliamentary Constituency inaugurated the ICAI Representative Office on November 17, 2020. With the opening of the representative office, the CA course, one among the most economical courses, will be accessible to the interested candidates at their doorstep and thus empower the youth through skill development and will also equip them to be a part of the mainstream economy. Towards the cause of development of accountancy profession in the area, there will be 75% waiver in the registration fee for the students pursuing Chartered Accountancy course from the Union Territory of Ladakh.

ICAI Awards, 2020 – The Legacy Continues

While many Chartered Accountants choose to take up practising the profession, majority of young members are moving to industry to take up jobs. With multiple skills, financial expertise, ability to deal with an array of problems and take quick decisions, our members are preferred professionals in the business. With the skills possessed by them, they are easily absorbed by business organisations and quickly rise in the corporate ladder. The Committee for Members in Industry & Business, instituted ICAI Awards to recognise the professionals who possess excellent skills, dedication, enthusiasm, leadership, and the ability to deliver towards the objectives of business in a sustainable manner. ICAI, continuing this legacy to honour exemplary performance of stellar individuals, is organising 14th ICAI Awards in January, 2021. Members may visit https://awards.icai.org/ for nominations forms and other details.

Pre-Budget Memorandum-2021 – ICAI Participates in the Process

Over the years, the Finance Ministry has been holding pre-budget and post-budget consultations with the ICAI and other industry associations, trade bodies and experts to seek ideas for the annual budgets. The forthcoming Union Budget – 2021 is special in the sense that it is the first budget after the challenges of pandemic have impacted the Indian economy. The budget will surely seek to reverse the negative impacts on the otherwise burgeoning Indian economy that has been achieving high growth rates, one of the best in the emerging markets. To tap the knowledge and skills of members emanating out of their rich experience, the Direct Taxes Committee, GST & Indirect Taxes Committee and Committee on International Taxation of ICAI had invited suggestions from the fraternity that can form part of Pre-Budget Memoranda - 2021 for submission to the Ministry of Finance or respective State Ministries. These suggestions were considered by the committees, finalised with their own experience and submitted to the Government for appropriate consideration.

From the President

Futuristic Programmes for Skill Building and Development

Global Management Development Program: On the occasion of the World Accountant's Day, ICAI launched a Global Management Development Programme: Leadership Beyond Boundaries from its Centre of Excellence Hyderabad in line with the continuous thrust of ICAI towards knowledge upgradation and professional enrichment even during these pandemic times. The program received immense response and 75 participants from all over the world including Australia, Singapore and Middle East countries, besides all parts of India joined for this programme. The course is intended to inculcate the competencies and skill sets that are considered as essential to success in the current environment. This pandemic has affected the businesses and economic activities throughout the world in a manner that was not seen or heard in the last hundred years. These challenges have taught the industry leaders to think out of the box, innovate and prepare for any kind of disruption. The programme would go a long way in inculcating desired skill sets to face hard times to bring resiliency.

Centre for Audit Quality of ICAI - Launch of Virtual Executive Master Program: The future of the profession lies in its ability to change, evolve, and adapt to the changing environment, which is a central element of the various reforms. To make available conducive environment for research and develop a systematic audit quality framework, ICAI recently established Centre for Audit Quality ('CAQ') as a Special Purpose Directorate. Audit quality is the hallmark of the audit profession. The Directorate endeavours to help consistent improvement in audit quality and boost position of Indian profession in the world economic map. To be future ready, professional accountants need to learn and equip themselves in new age technology skills, acquire strategic managerial skills besides continuing their prowess in accountancy, finance, taxation and business laws. Auditors today need to reinvent themselves. Keeping these aspects in mind, ICAI launched 1st batch of the "Virtual Executive Master Program – New Age" at CAQ. Such programs would help the members to remain updated and equip themselves with the skillsets required in the global environment for organization sustainability and learn new age professional practices. The CAQ can play an important role that would further build Investor's confidence and develop public trust, at large

MCA-21 E-Governance Portal – Opportunity to Provide Suggestions

The Ministry of Corporate Affairs (MCA) has taken up to build a new MCA21 v3 system – upgraded version of MCA- 21 portal to enable easy and secure access of MCA services. The new portal is expected to be equipped with latest features and technology. The core objectives of MCA21 v3 system are promoting automation, integration with external regulatory, and to aid *'ease of doing business.'* In this regard, the Corporate Laws & Corporate Governance Committee of ICAI invited members to provide suggestions out of their experiences to capture the issues that are being faced by the stakeholders pertaining to MCA 21. The issues will be forwarded to MCA to be looked into while developing the new version-3 of MCA-21 E-Governance Portal. Further details in this regard are available on ICAI website.

Moving Ahead in a Borderless World – Developments on Account of Changes in IBOR

In the year 1957, CA. S.P. Chopra, the then President, ICAI, observed at the 8th International Congress of Accountants held in 1957 in Amsterdam – *"Of late the element of uncertainty in forecasting has become more complex, for the bank rates in certain European countries have been rising unexpectedly. It almost looks as if the bank rate is losing its sanctity. A large number of contracts were based on the prevailing English* *bank rate but as a result of the sudden rise in the bank rate, the cost of supply from Britain and some other countries went up unexpectedly."* The challenge of benchmark rates continues to be mind boggling and tricky. In India, the banks have been using different benchmarks and RBI has been continuously evolving the systems for overall benefit. Today, in this backdrop, the world is facing a critical challenge – imminent fall of LIBOR. LIBOR which is widely used internationally is not guaranteed to continue to remain available after 2021 end.

Typically, the financial world uses some or other Interbank offered rates (IBORs) as benchmarks. Today, as a result of recommendations of Financial Stability Board, many jurisdictions are taking steps for replacing existing IBORs with some alternate benchmark rates. In this regard, International Accounting Standards Board has identified two groups of accounting issues that could affect financial reporting due to these reforms. These groups relate to pre-replacement issues and replacement issues with effects on different IFRSs and IASs. In tandem, Accounting Standards Board of ICAI is also moving ahead, identifying relevant changes in Indian Standards. Recently, ASB released an Exposure Draft on Interest Rate Benchmark Reform – Phase 2 (Amendments to Ind AS 109, Ind AS 107 and Ind AS 116) which is available on ICAI website.

MCA Extends Last Date for Filing Document

Considering the difficulties faced by the corporates and professionals and to provide greater ease of doing business, a request was submitted to extend the timelines for the stakeholders who are struggling with their day to day activities of completing their books of accounts appropriately. In this regard, we are glad that the Ministry of Corporate Affairs has considered the request of the Institute and issued General Circular, wherein the timeline for filing belated documents has been extended from 31st August, 2020 to 30th November, 2020. Accordingly, extension is also available for furnishing of financial statements for the F.Y. 2019-20. Further, the statement of account and solvency for the financial year 2019-2020 which has been signed beyond the period of six months from the end of financial year but not later than 30thNovember, 2020, will not be deemed as non-compliance.

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The year 2020 has been an unprecedented and unpredictable year strewn with numerous ebbs and flows, yet the lessons we learnt from it are far greater in degree of significance and magnitude than the curveballs it threw. After all, every night is inevitably followed by a bright sunrise. This year taught us that no obstacle is bigger than us as long as we are equipped with positivity and faith as our armour. A consistent belief in the best helps us defy the trying tests of time and align the odds in our favour. Positive thoughts manifest into a positive reality; thus, by deploying the invincible strength and robust prowess of our mind, we can actualise our goals and ambitions. The entire humanity has cheered the news of successful trials of various vaccines. Every dark cloud has a silver lining and every disaster has an opportunity. But the opportunities come wearing the overalls of hard work. As the economies emerge from hibernation, the accounting community should strive to find innovative solutions to combat the aftermath of the things that have taken place this year. To quote Martin Luther King Jr, *"If you can't fly then run, if you can't run then walk, if you can't walk then crawl, but whatever you do, you have to keep moving forward."*

Stay safe and healthy.

Jai Hind, Jai ICAI,

CA. Atul Kumar Gupta
President, ICAI
New Delhi, 28th November, 2020

ICAI in Action

Guidance Note on Share Based Payments

In recent times there has been increase in the transactions that involve share-based payments. Share-based payments are often used by employers as a part of remuneration package to the employees for their services. These payments are being used extensively to incentivise employees and reward them for better performance and elicit commitment. There are also cases where organisations offer share-based payments to non-employees, including vendors. The concept of share-based payments is broader than employee share options. Indian Accounting Standard 102 covers the share based payments to non-employees. Recognising the need for establishing uniform accounting principles and practices for all types of share-based payments for the companies following Accounting Standards under Companies (Accounting Standards) Rules, 2006, as amended under Section 133 of Companies Act, 2013, the Research Committee of the Institute has come out with a 'Guidance Note on Accounting for Sharebased Payments'. A copy of the document is available at https://resource.cdn.icai.org/61670research50201gn-sbp.pdf. The document will help in establishing sound principles for Accounting for Share-based Payments and providing guidance to the members as well as others interested stakeholders.

Guidance Note on Applicability of AS 25 and Measurement of Income Tax Expense for Interim Financial Reporting

Various stakeholders such as banks, investors, government authorities, credit rating agencies, etc. need timely and reliable financial information to base their important operational, funding and investment decisions. In this regard, Interim Financial Reporting provides frequent and timely updates of an entity's performance at a given point in time and thus are of crucial importance to the stakeholders. The Research Committee of ICAI in order to felicitate users with financial information has revised 'Guidance Note on Applicability of AS 25 to Interim Financial Results', which was issued in the year 2008 and 'Guidance Note on Measurement of Income Tax Expense for Interim Financial Reporting in the context of AS 25' which was issued in the year 2006 to issue as 'Guidance Note on Applicability of AS 25 and Measurement of Income Tax Expense for Interim Financial Reporting'. The revised Guidance Note incorporates updated references used in the earlier Guidance Notes and relevant examples. A copy of the guidance note can be accessed at https://resource.cdn.icai.org/61671research50201gnas25.pdf.

Exposure Draft of upgraded Accounting Standards

The Indian Accounting Standards (Ind AS), as notified by the Ministry of Corporate Affairs in February, 2015, and as amended from time to time are applicable to the specified class of companies as per Ind AS Roadmap. Accounting Standards notified under Companies (Accounting Standards) Rules 2006 and those issued by the ICAI are applicable to entities to whom Ind AS are not applicable. However, on the basis of the discussions held at various standard setting forums, such as, NACAS (now replaced by NFRA), Ministry of Corporate Affairs, and Accounting Standards Board (ASB) of ICAI, it has been decided to revise Accounting Standards (AS). Accordingly, ASB has initiated the process of revision of these standards which will be applicable to all entities to which Ind AS are not applicable. While formulating these Accounting Standards, the ASB decided to maintain the consistency with the numbering of Standards of Ind AS numbering. In this direction, the Exposure Draft of revised AS 21, The Effects of Changes in Foreign Exchange Rates, has been issued by the ASB for comments with the last date being December 3, 2020. For details and copy of the exposure draft, please visit https://www.icai.org/post/ed-revised-as-21-the-effects-of-changes-in-foreign-exchange-rates.

Further extension in the last date for Waiving-off Condonation fees due to late filing of various application Forms related to Students, Articled Assistants, Members & Firms amidst COVID-19 Pandemic

Amid the current situation arising out of COVID-19, it has been observed that some of the students, articled assistants, members & firms are still facing difficulties in online filing of prescribed applications Forms for various activities due to unfavorable situation. The delay in submission of online application Forms is attracting levy of Condonation fee under the relevant Regulatory Provisions creating hardship for them. Considering the difficulties being faced, it has been decided to waive-off condonation fees w.e.f. 1st November till 31st December 2020. While the said relaxation has been made applicable w.e.f. 1st November 2020; all transactions bearing transactions date falling between1st April 2020 to 31st December 2020 shall also be considered under this scheme. This period includes one-month prescribed time limit given in general.

Towards Better Health

Health Care Services by Medanta

The Committee for Members in Practice of the ICAI has arranged Health Care Services for the Members of the Institute and their dependents by Medanta at discount. The discount can be availed by the members of ICAI by showing their membership identity card issued by the Institute. In case of dependent family member the Membership ID Card of the member and an identity card issued by government (like PAN Card, Election ID Card, Passport) of the dependent will additionally be required. Discount can be availed at the time of availing services at the service counter. This Scheme will cover the members of ICAI including the dependent family members, viz., father, mother, spouse and children up to the age of twenty five years. For details members may visit https://www.icai.org/post/cmp-discounted-health-care-services-medanta.

Diagnostic and Related Healthcare Tests

In an another initiative the Committee for Members in Practice of ICAI has made arrangements for Diagnostic and Related Healthcare Tests for the Members of ICAI & their dependents at discounted rates through Dr. Lal Path Labs Limited. Fifteen percent discount is available by showing membership card with client code and the name of Institute. For further details members may visit https://www.icai.org/post/cmp-discounted-diagnostic-related-healthcare-tests

ICAI Examinations Started Successfully

Amid the present times of pandemic and lockdown, the examinations were not held in the month May, 2020 in the overall interest and wellbeing of the students. However, as there has been opening of the lockdown, with better control measures over the spread as well as increased sensitivity on the measures to be adopted to safeguard ourselves from the deadly virus, the Institute decided to conduct the examinations in the months of November and December, 2020. The Institute has left no stone unturned for the smooth conduction of examinations as the exhaustive ICAI machinery was deployed to manage examination process. The number of centres were increased substantially to ensure social distancing and enable adherence to pandemic related guidelines.

At the same time, students are also given option to opt-out of the examination process at any time up to the conclusion of exams in case they themselves or if their family members turn COVID-19 positive or have its symptoms of COVID-19. In the Opt Out Scheme the students were allowed to opt out for the various reasons due to COVID-19 and such opt out was permitted without production of any supporting documents. Opt out can also be availed in case student's residence is located in a Containment Zone as declared by the Central Government/State Government/Local Authorities at any time up to the conclusion of exams. Further, on account of *Nivar* cyclone examinations in some subjects at affected locations were also rescheduled.

While the students, in general, wanted timely examinations so as to move ahead, there have been some efforts to scuttle the good efforts being made for the benefit of students. While the Institute welcomes the quality feedback, there were instances that were not in overall interest such as threats to the centres or fake announcement in the social media. Such misdemeanour were taken very seriously by the Institute. The students and public at large were advised not to get swayed by the mischievous agenda perpetrated by certain vested interest which disrupt the preparation of students and others who are associated in the Examination activities. It was also clarified that spreading rumours and canards of the Examination activity is being referred to the Cyber Crime Cell to bring such elements to be dealt with under the provisions of Law.

ICAI VIRTUAL INTERNATIONAL CONFERENCE

2020 | 17-19 DECEMBER

14 CPE HRS

ACCOUNTANCY PROFESSION: AUGMENTING ECONOMIC SUSTAINABILITY

http://ic.icai.org

#ICAIIC2020

ABOUT THE CONFERENCE

The ICAI has played a pivotal role in developing a resilient reporting framework for sustained economic growth of the nation in the last seven decades. The accountancy profession has endeavored to bring in the best global practices and standards for a robust financial reporting and assurance framework, inspiriting trust and confidence amongst the stakeholders.

The ICAI, recognizing its role and responsibilities to the stakeholder community and contributing in promoting public interest through resilient practices for a vibrant economy, organizes an ICAI International Conference every year.

However, in view of the situation posed by the pandemic, ICAI is organizing its flagship event through virtual mode on the theme **"Accountancy Profession: Augmenting Economic Sustainability"** with the pandemic enforcing the new normal, the conference would dwell deeper on various strategies, innovation and initiatives, through which the profession can support the economy.

The International Conference would be an apt platform for exchange of ideas through interactive discussion amongst the global and local stakeholders and is likely to see participation of more than 10,000 professionals from across the Globe and is recommended to be attended by all those who wish to remain updated with the current issues and crisis.

REGISTRATION FEES

Avail Early Bird benefits till 10th Dec, 2020	
For Members	**₹500 + GST**
For Non-Members	**₹1000 + GST**
For Foreign Delegates	**USD 50 + GST**

From 11th Dec, 2020 onwards	
For Members	**₹1000 + GST**
For Non-Members	**₹2000 + GST**
For Foreign Delegates	**USD 100 + GST**

The Institute of Chartered Accountants of India

THEMATIC AREAS

- Accountancy Profession : Role in Accelerating Global Economic Growth
- Motivational : Aspiring Minds, Inspiring Lives
- Rethinking Governance and Ethics in Digital Paradigm
- Future of Work – Technology and Analytics
- Confluence – Profession and Beyond
- Unlocking Professional Opportunities in USA & Canada
- Transforming the Future : Enabling Excellence, Augmenting Trust
- Tax, Technology and Transformation
- Aatmanirbhar Bharat – Enhancing MSME Competitiveness
- Start-Ups and Value Creation
- Unlocking Professional Opportunities in Australia, New Zealand & South East Asia
- Unlocking Professional Opportunities in Middle East & Africa

EMINENT SPEAKERS

Mr. Alan Johnson
President IFAC

Prof. Mervyn E King
Chairman Emeritus, IIRC

CA. T V Mohandas Pai
Chairman Aarin Capital & Manipal Global Education

CA. Keki Mistry
Vice Chairman & CEO, HDFC Ltd.

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For further queries please contact:
ICAI Virtual International Conference Secretariat The Institute of Chartered Accountants of India
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Classification of Spares

A. Facts of the Case

1. A company (hereinafter referred to as 'the company') was incorporated on 2nd April 1976 as the country's prestigious 100% Export Oriented Unit (EOU) with head quarter at Bengaluru, Karnataka and was originally engaged in the mining and beneficiation of low-grade magnetite ore into high grade iron ore concentrate and export of the same. Subsequently, as per the Supreme Court Order, mining operation and beneficiation at XYZ mine site was stopped with effect from 01.01.2006.

2. At present, pelletisation and blast furnace units of the company are in operation at its Mangaluru establishment. The company is having facilities to operate 3.5 metric tonnes per annum (MTPA) iron-oxide pellet plant, blast furnace unit to manufacture 2.16 lakh tons per annum pig iron at Mangaluru. In view of the iron ore being sold in Karnataka only through e-auction mode as per the Supreme Court's order, the input, hematite iron ore fines, as raw material for the manufacture of pellets and iron ore lumps for pig iron, is being procured mainly from Bailadila sector of one of the public sector undertakings, through road (railway rakes) cum sea route. Efforts are also on to procure iron ore from other sources including imported sources. The pellets are exported and also sold in the Domestic Tariff Area (DTA) market.

3. As a part of its operations, the company procures stores and spares from time to time and is maintaining the stock of spares in anticipation of requirement at any time during operation of the plant. Upto the financial year 2016-17 till the adoption of Ind AS, these spares were classified as 'Inventory'.

4. During the financial year 2017-18, the company reviewed stock of all the stores and spares based on their usage, quality and present physical condition. A technical committee was constituted to examine all the stores and spares and to recommend about their usability, retention as 'Inventory' etc. The Committee after reviewing all the items of stores and spares, recommended that the spares worth ₹ 1,331.43 lakhs as on 31.03.2018 which are directly attributable to any particular plant & machinery should be classified as 'capital spares', thereby segregating these from normal inventories, towards better disclosure. Based on the said technical assessment, Spares usable only for any particular plant & machinery were categorised as 'capital spares' and were disclosed in the financial statements separately under the head 'Inventory'. The total value of spares consumed during the financial year were charged off as expenses.

5. From the financial year 2015-16, the Companies Act, 2013 mandated application of 'Component Accounting' whenever relevant and material. As per Note 4 of Notes to Schedule II to the Companies Act, 2013:

   > "Useful life specified in Part C of the Schedule is for whole of the asset. Where cost of a part of the asset is significant to total cost of the asset and useful life of that part is different from the useful life of the remaining asset, useful life of that significant part shall be determined separately."

Thus, as per the querist, under 'Component Accounting', companies will need to identify and depreciate significant components with different useful lives separately. The querist has mentioned in this context that the spares mentioned above cannot be classified as 'Component' as per the above criteria of 'Component Accounting'.

6. Further, the querist has stated that there is no specified useful life of these spares and these are not frequent in usage. The use of these spares towards replacement of damaged/broken down parts of the relevant plant and machinery is not likely to increase the future benefits from the said plant and machinery. Whenever spares are used to replace any parts, the useful life of the original plant and machinery does not change. The

removed parts are sold as scrap in the normal course of business.

7. The company followed the said practice during the subsequent financial year 2018-19 also as per the principle of consistency. Accordingly, as on 31.03.2019, capital spares worth ₹ 1,093 lakh (634 items, list supplied by the querist for the perusal of the Committee) was disclosed as a separate line item as 'Capital Spares' under the head 'Inventory' in the financial statements for the financial year 2018-19.

8. During the audit of annual accounts for the said year, Director General of Commercial Audit (CAG) has made the observation that there was incorrect classification of capital spares under the head 'Inventories'. The same should be classified under 'Property, Plant and Equipment' as per the provisions under paragraphs 7 and 8 of Ind AS 16, 'Property, Plant and Equipment'.

9. Provisional Comments of CAG

   "Inventories (Note 7.a) ₹ 30886.63 Lakh

   The above is overstated by ₹1093.00 Lakh due to incorrect classification of Capital Spares under inventories instead of classifying the same under Property, Plant and Equipment (Note 3.1) as per the provisions under para 7 and 8 of Ind AS 16 Property, Plant and Equipment. Further, as per the Accounting Policy no 1.12 on Inventories, "Capital Spares are valued at Cost". The same is also not in line with provisions of Ind AS 16 Property, Plant and Equipment. This has also resulted in understatement of Property, Plant and Equipment (Note 3.1) by ₹1093.00 Lakh and non-compliance to the provisions of Ind AS 16 Property, Plant and Equipment. The impact on account of depreciation could not be quantified due to non-availability of data."

10. Reply given by the company to CAG:

   "During the year Capital Spares amounting to ₹ 1,093.00 Lakh (Previous Year ₹ 1,331.43 Lakhs) are classified as Capital Spares and shown in the Balance Sheet as "Inventories". As per Ind AS 16, property, plant and equipment are tangible items that:

   (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

   (b) are expected to be used during more than one period.

   These Spares to be used for maintenance of assets, stand-by equipment and life of spares cannot be ascertained. Accordingly, Capital Spares/Stand by Equipment is not Property, Plant and Equipment.

   As per paragraph 8 of Ind AS 16 "Items such as spare parts, stand-by equipment and servicing equipment are recognised in accordance with this Ind AS when they meet the definition of property, plant and equipment. Otherwise, such items are classified as Inventory."

   As Capital Spares are not Property, Plant and Equipment, meant for use as servicing equipment and charged to revenue in the year of use, classified under 'Inventory'."

11. The querist has stated that CAG after perusal of reply given by the company, decided to retain their observation under section 143(6)(b) of the Companies Act, 2013 on the accounts of the company for the year ending 31st March, 2019. Since the company differed with the comment given by CAG, it was decided that the issue would be examined during the financial year 2019-20 by external consultants/professional bodies like Expert Advisory Committee of the Institute of Chartered Accountants of India (ICAI). Based on the opinion obtained from such external experts, the appropriate accounting adjustment if required would be made in the books of account.

B. Query

12. In view of the above, the querist has sought the opinion of the Expert Advisory Committee of the ICAI on the following issues:

   (a) Whether the practice followed by the company to classify such spares as 'capital spares' and disclosed as separate line item under 'Inventories' under the head 'Current Assets' is correct.

   or

   (b) Such capital spares should be classified under 'Property, Plant and Equipment' as commented by CAG.

C. Points considered by the Committee

13. The Committee notes that the basic issue raised in the query relates to classification of spares worth ₹ 1093 lakhs as 'Inventory' or 'Property, Plant and Equipment' in the books of account of the company. The Committee has, therefore,

considered only this issue and has not examined any other issue that may arise from the Facts of the Case, such as, accounting for transition to Indian Accounting Standards, depreciation on spares if these qualify as 'property, plant and equipment', accounting treatment of any other item of property, plant and equipment or inventory, component accounting, etc. The Committee wishes to point out that the opinion expressed hereinafter, is in the context of Indian Accounting Standards (Ind ASs), notified under Companies (Indian Accounting Standards) Rules, 2015, as amended from time to time. At the outset, the Committee wishes to point out that the querist has classified some spares as 'capital spares' under the head 'Inventory', which term is no longer used under Ind AS Framework; therefore the Committee has not examined the appropriateness of using such term and also the said classification made by the company. Accordingly, the opinion expressed hereinafter, covers all types of spare parts, as covered under the Ind AS framework.

14. With regard to accounting for spares, the Committee notes the following requirements of Ind AS 16, 'Property, Plant and Equipment':

"*Property, plant and equipment* are tangible items that:

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) are expected to be used during more than one period."

"7 The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

(a) it is probable that future economic benefits associated with the item will flow to the entity; and

(b) the cost of the item can be measured reliably.

8 Items such as spare parts, stand-by equipment and servicing equipment are recognised in accordance with this Ind AS when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.

9 This Standard does not prescribe the unit of measure for recognition, ie what constitutes an item of property, plant and equipment. Thus, judgement is required in applying the recognition criteria to an entity's specific circumstances. It may be appropriate to aggregate individually insignificant items, such as moulds, tools and dies, and to apply the criteria to the aggregate value.

10 An entity evaluates under this recognition principle all its property, plant and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. The cost of an item of property, plant and equipment may include costs incurred relating to leases of assets that are used to construct, add to, replace part of or service an item of property, plant and equipment, such as depreciation of right-of-use assets."

"12 Under the recognition principle in paragraph 7, an entity does not recognise in the carrying amount of an item of property, plant and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognised in profit or loss as incurred. Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the item of property, plant and equipment.

13 Parts of some items of property, plant and equipment may require replacement at regular intervals. For example, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. Items of property, plant and equipment may also be acquired to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a nonrecurring replacement. Under the recognition principle in paragraph 7, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of this Standard (see paragraphs 67–72)."

From the above, the Committee notes that spare parts are recognised as an item of property plant and equipment only if they meet the definition of property, plant and equipment otherwise, these are classified as Inventory. The Committee further notes that as per the requirements under Ind AS 16, for the purpose of classification of spares as 'inventory' or 'property, plant and equipment', one has to determine the nature of the spares and the purpose for which these are held; and the useful life of the spares. As far as nature and purpose is concerned, the company should first identify whether the spares are small parts which are required for day-to day servicing or repairs and maintenance of an item of property, plant and equipment (PPE) or whether these are held for replacement of significant components of PPE. If these are acquired for day-to-day servicing or repairs and maintenance, these should not be recognised in the carrying amount of the PPE. Further, a judgement is required in applying the recognition criteria to an entity's specific circumstances and sometimes it may be appropriate to aggregate individually insignificant items and to apply the recognition criteria to the aggregate value. Accordingly, in the extant case, the company should evaluate the nature of the spare parts and the purpose for which these are acquired or held. On the basis of such evaluation, if these spares are not for day-to day servicing or repair and maintenance, and if they meet the definition of PPE, these should be classified as property, plant and equipment', assuming that their cost can be measured reliably. Further, the company should also evaluate whether in the facts and circumstances of the company, it is appropriate to aggregate these spares which are not individually significant (considering the aggregate value in relation to the overall related assets for which these are to be used) and apply the recognition criteria to the aggregate value.

15. As far as useful life is concerned, the Committee notes that the querist has stated that there is no specified useful life of the spares and that the life of spares cannot be determined. In this context, the Committee wishes to mention that the useful life of a spare part is normally linked to the useful life of the asset/part for which it is kept and may be determined on the basis of its frequency of replacement. Thus, howsoever long or short it may be, the company should determine the useful life of the spares. If the spares are expected to be used for more than one period, then, assuming that their cost can be measured reliably, the same should be classified as 'Property, Plant and Equipment'; otherwise, such items should be classified as 'inventory'.

D. Opinion

16. On the basis of the above, the Committee is of the opinion that the company should evaluate in its own facts and circumstances the nature of the spares and the purpose for which these are held; and determine the useful life of the spares, as discussed in paragraphs 14 and 15 above. On the basis of such evaluation, if these spares are not for day-to day servicing or repairs and maintenance and if they meet the definition of 'Property, plant and equipment', these should be classified as 'Property, plant and equipment', assuming that their cost can be measured reliably. Further, the company should also evaluate whether in the facts and circumstances of the company, it is appropriate to aggregate these spares which are not individually significant (considering the aggregate value in relation to the overall related assets for which these are to be used) and apply the recognition criteria to the aggregate value.

1.	The Opinion is only that of the Expert Advisory Committee and does not necessarily represent the Opinion of the Council of the Institute.
2.	The Opinion is based on the facts supplied and in the specific circumstances of the querist. The Committee finalised the Opinion on November 21, 2019. The Opinion must, therefore, be read in the light of any amendments and/or other developments subsequent to the issuance of Opinion by the Committee.
3.	The Compendium of Opinions containing the Opinions of Expert Advisory Committee has been published in thirty six volumes. A CD of Compendium of Opinions containing thirty six volumes has also been released by the Committee. These are available for sale at the Institute›s office at New Delhi and its regional council offices at Mumbai, Chennai, Kolkata and Kanpur.
4.	Recent opinions of the Committee are available on the website of the Institute under the head 'Resources'.
5.	Opinions can be obtained from EAC as per its Advisory Service Rules which are available on the website of the ICAI, under the head 'Resources'. For further information, write to eac@icai.in.

Business Resilience Facilitated by Accounting Standards

A business is created to run forever, unless it has been started with some specific task that is to be completed within a time frame. Corporate enterprises are incorporated with the principle of perpetual succession, i.e., they do not cease to exist unless they are specifically wound up or the task for which they are formed has been completed. Businesses function within diverse and varied environment that may be favourable or unfavourable. Unfavourable environmental factors can be sometimes very hostile such that they may challenge the very existence of the business on a going concern basis. Businesses need to build resilience in their functioning so that they are able to function through the difficult times in a sustainable manner. This article looks at various requirements of Indian Accounting Standards that contribute towards providing information about business resilience aspects of an enterprise in its financial statements. Read on…

CA. Santosh Maller
The author is a member of the Institute. He can be reached at santoshmaller@gmail.com and eboard@icai.in.

The world is going through unprecedented challenges in form of COVID 19 pandemic. The World Bank and the International Monetary Fund have warned that the pandemic is pushing the world economy into a recession worse than that after the 2008 financial crisis. Several studies have downgraded the country's GDP growth rate forecast. Amidst these extremely challenging times in business, one of the major traits that an enterprise needs to survive is resilience. Business resilience is the ability an enterprise has to adapt to disruptions while carrying on its business operations and safeguarding people, resources and overall brand.

Per se, Accounting Standards are formulated to bring credibility in the financial statements and allow the stakeholders to take decisions based on accurate and consistent information. By very nature, elements of the resilience is inherent within the standards. Financial reporting helps to track the financial performance of a company on a regular basis with the help of various financial reports. The information provided in financial statements is important for the stakeholders

of an enterprise to take key decisions about its future. Business resilience of an enterprise's management is one of the vital information that the financial statements, if prepared and presented appropriately, would provide to the users.

Stewardship: One of the Objectives of Financial Statements

The Framework makes similar inferences when discussing stewardship or accountability. Paragraph 14 of the Framework notes:

"Financial statements also show the results of the stewardship of management, or the accountability of management for the resources entrusted to it. Those users who wish to assess the stewardship or accountability of management do so in order that they make economic decisions; these decisions may include, for example, whether to hold or sell their investment in the enterprise or whether to reappoint or replace the management."

The stewardship objective has been portrayed as being about information that provides a foundation for a constructive dialogue between the management of an entity and its stakeholders. This is deemed to be a fundamental building block of corporate governance.

Management Judgement and Accounting Estimates

Entities makes many accounting judgements and estimates in preparing financial statements, some of which will have a significant effect on the reported results and financial position.

Ind AS 1.122 requires disclosure of the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

Ind AS 1.125 requires disclosure of information about the assumptions the entity makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes to the financial statements include details of their: nature; and carrying amount at the end of the reporting period.

Information about the key judgements and estimates made is of value to investors as it helps them to assess an entity's financial position and performance and understand the sensitivities to changes in assumptions. Transparent disclosure in this area, including quantified information such as, sensitivities or a range of possible outcomes, on how changes to estimates could affect the following year's results enables users to assess the quality of management's accounting policy decisions and

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the likelihood of future changes in a way that generic disclosures do not.

Going Concern Assumption

The financial statements are normally prepared on the assumption that an entity is a going concern and will continue to be in operation for the foreseeable future. For the purpose of assessment whether an entity is a going concern paragraphs 25-26 of Ind AS 1, *Presentation of Financial Statements*, provide guidance. As per paragraph 25 of Ind AS 1, the management of an entity shall make an assessment of an entity's ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

> Information about the key judgements and estimates made is of value to investors as it helps them to assess an entity's financial position and performance and understand the sensitivities to changes in assumptions.

Further, as per paragraph 26 of Ind AS 1, to assess whether the going concern assumption is appropriate, management should consider all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management typically relies upon historical financial results, known changes in the business and competitor and industry data to provide evidence of the reasonableness of the assumptions used in its assessment. However, given current economic and market conditions, historical results may be unlikely to provide a basis for future cash flows and therefore management may need to consider additional sources of information when evaluating the reasonableness of the assumptions used in its assessment. Management is expected to prepare a range of scenarios based on different dates till which the COVID-19 impact will prevail to determine the potential impact on underlying performance and future funding requirements.

Impairment Headroom Disclosures

Ind AS 36 *Impairment of Assets* require following disclosures

134 An entity shall disclose the information required by (a)–(f) for each cash generating unit (group of units) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (group of units) is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives:

(a) the carrying amount of goodwill allocated to the unit (group of units).

(b) the carrying amount of intangible assets with indefinite useful lives allocated to the unit (group of units).

(c) the basis on which the unit's (group of units') recoverable amount has been determined (ie value in use or fair value less costs to sell).

(d) if the unit's (group of units') recoverable amount is based on value in use:

(i) a description of each key assumption on which management has based its cash flow projections for the period covered by the most recent budgets/forecasts. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive.

(ii) a description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.

(iii) the period over which management has projected cash flows based on financial budgets/forecasts approved by management and, when a period greater than five years is used for a cash generating unit (group of units), an explanation of why that longer period is justified.

(iv) the growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/forecasts, and the justification for using any growth rate that exceeds the long term average growth rate for the products, industries, or country or countries in

> The financial statements are normally prepared on the assumption that an entity is a going concern and will continue to be in operation for the foreseeable future.

which the entity operates, or for the market to which the unit (group of units) is dedicated.

(v) the discount rate(s) applied to the cash flow projections.

(e) if the unit's (group of units') recoverable amount is based on fair value less costs to sell, the methodology used to determine fair value less costs to sell. If fair value less costs to sell is not determined using an observable market price for the unit (group of units), the following information shall also be disclosed:

(i) a description of each key assumption on which management has based its determination of fair value less costs to sell. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive.

(ii) a description of management's approach to determining the value (or values) assigned to each key assumption, whether those values reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information. If fair value less costs to sell is determined using discounted cash flow projections, the following information shall also be disclosed:

(iii) the period over which management has projected cash flows.

(iv) the growth rate used to extrapolate cash flow projections.

(v) the discount rate(s) applied to the cash flow projections.

(f) if a reasonably possible change in a key assumption on which management has based its determination of the unit's (group of units') recoverable amount would cause the unit's (group of units') carrying amount to exceed its recoverable amount:

(i) the amount by which the unit's (group of units') recoverable amount exceeds its carrying amount.

(ii) the value assigned to the key assumption.

(iii) the amount by which the value assigned to the key assumption must change, after incorporating any consequential effects of that change on the other variables used to measure recoverable amount, in order for the unit's (group of units') recoverable amount to be equal to its carrying amount.

135 If some or all of the carrying amount of goodwill or intangible assets with indefinite useful lives is allocated across multiple cash-generating units (groups of units), and the amount so allocated to each unit (group of units) is not significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives, that fact shall be disclosed, together with the aggregate carrying amount of goodwill or intangible assets with indefinite useful lives allocated to those units (groups of units). In addition, if the recoverable amounts of any of those units (groups of units) are based on the same key assumption(s) and the aggregate carrying amount of goodwill or intangible

> "Management typically relies upon historical financial results, known changes in the business and competitor and industry data to provide evidence of the reasonableness of the assumptions used in its assessment. However, given current economic and market conditions, historical results may be unlikely to provide a basis for future cash flows and therefore management may need to consider additional sources of information when evaluating the reasonableness of the assumptions used in its assessment.

assets with indefinite useful lives allocated to them is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives, an entity shall disclose that fact, together with:

(a) the aggregate carrying amount of goodwill allocated to those units (groups of units). (b) the aggregate carrying amount of intangible assets with indefinite useful lives allocated to those units (groups of units).

(c) a description of the key assumption(s).

(d) a description of management's approach to determining the value(s) assigned to the key assumption(s), whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.

(e) if a reasonably possible change in the key assumption(s) would cause the aggregate of the units' (groups of units') carrying amounts to exceed the aggregate of their recoverable amounts:

(i) the amount by which the aggregate of the units' (groups of units') recoverable amounts exceeds the aggregate of their carrying amounts.

(ii) the value(s) assigned to the key assumption(s).

(iii) the amount by which the value(s) assigned to the key assumption(s) must change, after incorporating any consequential effects of the change on the other variables used to measure recoverable amount, in order for the aggregate of the units' (groups of units') recoverable amounts to be equal to the aggregate of their carrying amounts.

The above disclosures of paragraphs 134 and 135 of Ind AS 36 kick in to inform the users of the financial statements of the risk associated with a reduced headroom for impairment.

Ind AS 36 includes disclosures about impairments and reversals of impairments that have arisen during the period. These impairment or reversal events are the result of either:

- indications of impairment (ad hoc events arising during the period relating to all assets, including goodwill and certain intangibles); or
- annual estimation of recoverable amount (required whenever the financial statements include goodwill and certain intangibles)

These disclosures are only needed when an impairment (or reversal) has taken place during the period. Hence many people will feel that if there are no impairments during the period, then there are no disclosures triggered by Ind AS 36.

But paragraphs 134 and 135 and highlight the phrase during the period. You discover that the phrase is not there at all, for the disclosures required concerning goodwill and/or intangible assets with indefinite useful lives. Therefore, if financial statements include goodwill and/or intangible assets with indefinite useful lives, which are tested for impairment routinely annually, then certain disclosure must be made each year.

The disclosures in paragraph 134 (f) and paragraph 135 (e) represents "headroom" disclosures. By how much could the inputs used in estimating recoverable amount change, before the resulting figure for recoverable amount becomes perilously close to the current carrying amount? Or, put another way, what is the existing headroom, and how close is the entity to finding that the headroom has reduced, triggering an impairment loss as a result of a routine annual estimate of recoverable amount?

Financial Risk Management Disclosures

Ind AS 107 provides following disclosures that can depict the business resilience by the entity's management.

Qualitative disclosures [Ind AS 107.33]

The qualitative disclosures describe:

- risk exposures for each type of financial instrument
- management's objectives, policies, and processes for managing those risks changes from the prior period

Quantitative disclosures

The quantitative disclosures provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. These disclosures include: [Ind AS 107.34]

- summary quantitative data about exposure to each risk at the reporting date
- disclosures about credit risk, liquidity risk, and market risk and how these risks are managed as further described below
- concentrations of risk

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a loss for the other party by failing to pay for its obligation. [Ind AS 107. Appendix A]

Disclosures about credit risk include: [Ind AS 107.36-38]

- maximum amount of exposure, description of collateral, information about credit quality of financial assets that are neither past due nor impaired, and information about credit quality of financial assets whose terms have been renegotiated [Ind AS 107.36]
- for financial assets that are past due or impaired, analytical disclosures are required [Ind AS 107.37]
- information about collateral or other credit enhancements obtained or called [Ind AS 107.38]

> The quantitative disclosures provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel.

Liquidity risk

Liquidity risk is the risk that an entity will have difficulties in paying its financial liabilities. [Ind AS 107. Appendix A]

Disclosures about liquidity risk include: [Ind AS 107.39]

- a maturity analysis of financial liabilities
- description of approach to risk management

Market risk [Ind AS 107.40-42]

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risks. [Ind AS 107. Appendix A]

Disclosures about market risk include:

- a sensitivity analysis of each type of market risk to which the entity is exposed
- additional information if the sensitivity analysis is not representative of the entity's risk exposure (for example because exposures during the year were different to exposures at year-end).
- Ind AS 107 provides that if an entity prepares a sensitivity analysis such as value-at-risk for management purposes that reflects interdependencies of more than one component of market risk (for instance, interest risk and foreign currency risk combined), it may disclose that analysis instead of a separate sensitivity analysis for each type of market risk

> Appropriate and timely financial reporting would ensure maintaining a sense of integrity and transparency as the basis for trustworthy and ethical decision-making.

Endnote

The primary responsibility for preparing financial statements and overseeing financial reporting is with the management of an enterprise. They will have to exercise significant judgement in the current business environment in demonstrating how resilient is their business. Of particular importance is appropriately assessing going concern and disclosures of substantial doubt/ material uncertainty when it exists and providing a fair view and presentation of the performance and position of the enterprise, which is likely to require comprehensive disclosure of forward-looking information and cash flow impacts. Appropriate and timely financial reporting would ensure maintaining a sense of integrity and transparency as the basis for trustworthy and ethical decision-making. ■■■

Role of 'Auditor' and 'Standards on Auditing', in Building Resilience

Building the resiliency of the economy is a collective responsibility of companies, regulators, stakeholders and industry associations. Within each organisation, operational resilience calls for stakeholders to promote a culture of resiliency through training and awareness, constant oversight, timely communications and board reporting. The key components of business resilience, which include defining and understanding critical business needs, going concern and impairment assessment, risk assessment, internal control deficiencies are essential guideposts on the road to resiliency.

This article is an attempt to highlight the role of audit and underlying Standards on Auditing issued by the ICAI in developing a more resilient organization by providing assurance on financial information and valuable insights in various areas to the stakeholders and regulators. Read on...

CA. Deepa Agarwal

The author is a member of the Institute. She can be reached at deepa2580@gmail.com and eboard@icai.in

Recently, there has been manifold increase in the usage of the term *resilience*. The British Standards Institution published a guidance Standard, BS 65000 – Organisational Resilience, which has attempted to define the term and the principles and attributes associated with it. In essence, this standard calls for much closer integration and alignment of risk management, disaster recovery, crisis management and security. It enables senior management to describe a strategy for the organizational resilience which identifies benefits, behaviours of resilient organizations. Being able to continue critical business functions while responding to a major disaster, and then to return to normal operations efficiently and cohesively afterward, is a critical success factor for all organizations.

What is happening around us now due to COVID 19 has proved beyond any doubt that we live in an uncertain, volatile and complex world. Businesses around the world are facing challenges on handling disruption of such a high magnitude. This disruption has warranted a change in technology, information security norms, the work environment, people management, process engineering, risk management and so on. Auditors have used technology and their creativity while exercising their professional skepticism to maintain high quality in audits and issuing an opinion that is

relied upon by stakeholders and regulators. Auditors have also shared knowledge and experiences with audit committees facing new and complex accounting issues, all while investing time and resources in businesses hit hard by the pandemic.

Auditors play a vital role in assessing various components of Business and providing assurance to stakeholders that financial statements provide a true and fair view of the state of affairs of the entity. Auditors contribute to business in varied ways, for example, through timely communication of issues which requires urgent attention of the board of directors/audit committee and reporting to point out the deficiencies and weaknesses in internal control systems. While conventional auditing based on sampling techniques is followed, it is imperative that auditors provide value beyond audit by use of technology and data analytics. Investors and other stakeholders are looking for

"Auditors have used technology and their creativity while exercising their professional skepticism to maintain high quality in audits and issuing an opinion that is relied upon by stakeholders and regulators.

more and different information because traditional book value can be an incomplete measure of corporate value in today's economy. With data analytics, auditors can test complete sets of data, rather than just testing samples to meet increasing expectations of stakeholders and regulators. The auditing profession has the capabilities to bring its expertise, building trust and confidence in information into new areas to enhance the reliability of information for stakeholders through the assurance services they provide. Investors, lenders, and other users of audited financial statements can more confidently use this information because auditors have provided an independent perspective. This assessment, in other words, builds trust and confidence.

The key areas wherein audit, and auditors play a significant role in times of disruption and developing resilience in organisations are discussed below:

Evaluation of Going Concern

The Board and management need assurance regarding the future viability of their business, assessment of the financial position and health of the company, and an assurance that disaster will not impact the continuity of the business. **SA 570, Going Concern** requires an auditor to make an assessment and conclude on the appropriateness of management's use of the going concern basis of accounting.

"While conventional auditing based on sampling techniques is followed, it is imperative that auditors provide value beyond audit by use of technology and data analytics.

Robust going concern analysis by the auditor will highlight the sensitive areas for board to focus on and to assess whether the business can continue as a going concern for the next 12 months. Section 134(5) of the Companies Act, 2013 requires directors to affirm that annual accounts have been prepared on a going concern basis, i.e., whether the Board has a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment. As part of a going concern assessment, management can assess what impact the current events and conditions have on the entity's operations and forecasted cash flows, with a focus on whether the entity will have sufficient liquidity to continue to meet its obligations as they fall due. The businesses can be prepared to deal with the liquidity and operational issues by evaluating various options of restructuring of debt arrangements, capital expenditure reduction etc.

Assessing level of preparedness to deal with Uncertainties

The key principles of resilience is the ability to anticipate & assess, plan & prepare, protect & control, and respond & recover in the situation of major disruptive or catastrophic risk, whether they are internal or external, known or unknown, in addition to the ability to adapt & reform in the light of long term strategic risk such as climate change, pandemics or changing markets. **SA 260, Communication to Those Charged With Governance** requires auditor to communicate with board of directors/audit committees about significant findings, difficulties in conducting audit and matters, arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

Audit committee members are the proper channel for communicating audit findings, as well as the right filter for choosing which information goes to investors and taking corrective actions. Unexpected events like COVID 19 can disrupt or slow down business activity significantly. Historically, audit rely upon traditional auditing strategies, working within the same parameters and procedures. Using technology and analytics to drive the risk assessment, performing audit procedures (sampling, estimation, electronic confirmations) can help auditors to be more proactive and help businesses in taking proactive measures to deal with disruptions.

Use of Technology and Data Analytics

Auditors as well as the companies have extensively used technology, particularly in recent years, to facilitate a smooth transition to a remote working environment. During the pandemic, auditors have really leveraged the technology that they have already been implementing. Cloud-based audit platforms and videoconferencing technology have been particularly valuable during the pandemic both for the auditors and the companies.

Better decisions make better businesses and having the right data at the right time is critical for management to be able to address the changing demands of their key stakeholders. Auditing standards are written on the assumption that it is rarely possible to test 100% of the transactions entered by any entity. This is no longer true with the use of data analytics. By integrating this innovative approach into audit — identifying and capturing the right data, analysing, interpreting and presenting it in a more meaningful way, auditors can provide a valuable independent perspective that will support not only the integrity of the financial statements, but also management and audit committees to become pro-active. This will enable them to address issues important to the business and its stakeholders with fact-based answers.

Data analytics enables the organisations to experience an audit that moves beyond the "*traditional*" approach, addressing the increasing role of IT systems and mass data, and delivering even more relevance, assurance and quality. New age auditors are leveraging data analytics to provide new approaches to enhance risk identification, obtain better quality audit evidence more effectively, highlight internal control deficiencies, or identify opportunities for improvement. Auditors by virtue of their audit experience and with use of analytics can provide useful information for comparisons with prior years and (potentially) other businesses, predict market trends, help in internal benchmarking and better focus on risk.

> "SA 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment, requires the auditor to consider the implication of such events when obtaining an understanding of the entity and its environment, in light of its objectives, strategies and other business risks.

Risk Assessment

Risk assessment is critical for every organisation. Management could benefit by taking a clue from auditor's strategy in assessing risks from such events. For example, adhering to sound internal controls principles and practices, employing robust systems of quality control, and embedding a culture of ethics and integrity can go a long way to helping an organization to remain resilient in times of crisis. The outbreak of COVID-19 can have a number of potential issues for entities, particularly entities that operate in geographies that are significantly exposed to the outbreak. In addition, there could also be impact on those entities whose vendors/ bankers/ suppliers/ service providers are in geographies that are exposed. SA 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment, requires the auditor to consider the implication of such events when obtaining an understanding of the entity and its environment, in light of its objectives, strategies and other business risks. Auditor is required to discuss with those charged with governance and management whether the impact of the COVID 19 has been incorporated into their risk assessment processes and how they have identified and assessed the significance of the emerging business risks.

Fraud Prevention and Detection

The professional skepticism of the auditor acts as an early warning signal for the audit committees/board of directors in various areas like ratio analysis, fraud prevention and detection, liquidity and solvency issues faced by the companies. Audit serves an important role for companies in fraud prevention and detection. Recurring analysis of a company's operations and maintaining rigorous systems of internal controls can prevent and detect various forms of fraud and other accounting irregularities. SA 240,— The Auditor's Responsibilities Relating to Fraud in an audit of financial statements provides that an auditor conducting an audit in accordance with SAs is responsible for obtaining reasonable assurance that the financial statements taken are free from material misstatement, whether caused by fraud or error. Auditors are also expected to inquire more closely into reasons behind such matters as, for example, errors in accounting estimates, unusual transactions that appear to lack business rationale, and a reluctance to correct immaterial errors discovered by the audit. If the auditor has identified a fraud or has obtained information that indicates that a fraud may exist, the auditor shall communicate these matters on a timely basis to the appropriate level of management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. An important part of prevention can be deterrence, and if a company is known to have an active and diligent audit system in place, by reputation alone it may prevent an employee or vendor from attempting a scheme to defraud the company.

Internal Control Considerations

An audit does not only examine whether a company's financial statements gives a true and fair view, but it also tests that the company's systems are operating as part of testing of internal controls. The systems an auditor examines include the company's internal controls, or the measures taken to reduce or eliminate accounting errors or fraud. Based on the results of an audit, the auditors recommend changes the company should make to its processes or systems to eliminate problems and reduce future errors. Companies can improve their financial processes and controls, remedying issues before they become major financial concerns.

The auditor needs to reassess the risk, evaluate the design and operating effectiveness of key processes and controls and support remediation. Companies may need to implement new

> SA 240, — The Auditor's Responsibilities Relating to Fraud in an audit of financial statements provides that an auditor conducting an audit in accordance with SAs is responsible for obtaining reasonable assurance that the financial statements taken are free from material misstatement, whether caused by fraud or error.

internal controls or modify existing internal controls over financial reporting. SA 265, Communicating Deficiencies in Internal Control to those charged with governance and management requires the auditor to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified during the audit and that, in the auditor's professional judgment, are of sufficient importance to merit their respective attentions. Without a system of internal controls or an audit system, a company would not be able to create reliable financial reports for internal or external purposes. Thus, it would not be able to determine how to allocate its resources and would be unable to know which of its segments or product lines are profitable and which are not. The deficiencies identified in control environment and fraud risk assessments will enable management to be cautious as changes in operational management needs to be implemented to deal with the situation.

Use the Work of Internal Auditor

SA 610, Using the work of internal auditors permit the external auditor to use the work of internal auditor. Internal audit expertise will help the organisation to become resilient in coming out from the COVID 19 impact or any business disruptions. It will not only help to monitor the ongoing practices of the company and reporting the same to the senior management but shall also strive to provide invaluable recommendations in such times. As described in SA 315, the entity's internal audit function is likely to be relevant to the audit if the nature of the internal audit function's responsibilities and activities are related to the entity's financial reporting, and the auditor expects to use the work of the internal auditors to modify the nature or timing, or reduce the extent, of audit procedures to be performed.

Internal audits of the Business Continuing Programmes and Disaster Recovery programs are highly recommended. The audit committees and the Board need assurance regarding the effectiveness of these programmes since it helps to minimize the impact of disruption. Plans should be practiced and focused on recovering what is most important to the business. Internal audits can explore the alignment between capability and the organization's recovery requirements, the usability of plans and the extent to which critical resource dependencies can be recovered in an incident.

Looking Forward

As businesses continue to adjust to the new normal, understanding the long-term effects of the pandemic/disruptions and determining what actions needed is critical. COVID-19 has revealed just how disruptive events can be on "business as usual" and emphasized the need for better future planning. With threats like climate change ramping up there is a lot to be considered and planned for. Further, the pandemic has brought into sharper focus the need for transparent and reliable information beyond historical financial statements.

Doing business has been changed significantly, including how auditors operate. It is clear that the auditing profession has an important role to play in advancing economic recovery. Investor protection is critical to efficient capital formation to fund Innovation and entrepreneurial risk taking. It is the flow of audited information in the marketplace that, when perceived as both reliable and relevant to investment decisions, gives investors the confidence to participate in a market. The auditing profession has steadily developed, systemized, and strengthened this trust and confidence-building role by following professional standards, principles and with robust regulatory oversight.

> "SA 265, Communicating Deficiencies in Internal Control to those charged with governance and management requires the auditor to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified during the audit and that, in the auditor's professional judgment, are of sufficient importance to merit their respective attentions.

Reinforcing market confidence through audit reliability, supporting the effectiveness of audit committees, increasing audit transparency — these are real challenges for a profession to stay relevant in this agile environment. ■■■

Resilience of Indian Financial Market

Sudden financial crises which have struck many parts of the world due to pandemic Covid-19, with extensive consequences for the countries concerned and the global financial system, have prompted attempts to identify ways of preventing unexpected shocks of Covid-19 in national and global finances. It is considered important to ensure effective supervision of financial institutions' operations and monitor the stability of the financial system as a whole due to standstill of the Economic Activities for a period of 4 to 6 months due to Pandemic. Central Banks have increasingly begun to monitor in particular factors which concern the stability of the financial system as a whole. Read on…

Dr. P. Siva Rama Prasad **Dr. Sai Sudha Dasari**

The authors are experts in the area of Finance. They can be reached at cma.psrprasad@gmail.com and eboard@icai.in

The soundness of the financial system is a necessary pre-condition for favourable economic developments and effective monetary Policy. Central banks are turning their attention to the strength and efficiency of the Financial System, the macroeconomic environment and the risks to financial stability that may be concealed in it. It is crucial for Central Banks and financial supervisory agencies to collaborate closely in promoting a solid foundation for the Financial System and its healthy operations in view of challenges such as Covid-19 disaster. As of 22 November 2020, there have been 57,882,183 confirmed cases of COVID-19, including 1,377,395 deaths, worldwide (World Health Organization website, https://covid19.who.int/). This pandemic has severely impacted the world's economies including Indian Economy with second largest number of cases.

The Indian Financial System is having capacity to recover quickly from difficulties. A brief on Market-wise of Indian Financial System, measures taken by the Regulators and Government of India due to Covid-19 and its impact mentioned below:

Selected Economic Indicators of India like Primary, Secondary and Tertiary Sectors for the Financial Year 2019-2020, Last Quarter of Financial Year 2019-2020 and the First Quarter of Financial Year 2021 (Lockdown Period) is mentioned below:

Selected Economic Indicators of India

Economic Indicator	2019-2020	Q4 (2019-2020)	Q1 (2020-2021)
Real Sector (% Change)			
Gross Value Add (GVA) at Basic Prices	3.90	3.00	-22.80
Agriculture	4.00	5.90	3.40
Industry	0.80	-0.01	-33.80
Services	5.00	3.50	-24.30
Final Consumption Expenditure	6.30	4.20	-19.20
Gross Fixed Capital Formation	-2.80	-6.50	-47.10

(Source: RBI Bulletin)

Economic Indicator	2020						
	Jan	Feb	Mar	Apr	Jun	Jul	Aug
Index of Industrial Production	2.00	4.50	-16.70	-55.50	-16.60	-10.40	-
Inflation (%)							
All India Consumer Price Index	7.60	6.60	5.80	-	6.20	6.70	6.70
Consumer Price Index for Industrial Workers	7.50	6.80	5.50	5.40	5.10	5.30	5.60
Wholesale Price Index	3.10	2.30	1.00	-	-1.80	-0.60	0.20
Primary Articles	10.00	6.70	3.70	-0.80	-1.20	0.60	1.60
Fuel and Power	3.40	3.40	-1.80	-10.10	-13.60	-9.80	-9.70
Manufactured Products	0.30	0.40	0.30	-	0.01	0.50	1.30

(Source: RBI Bulletin)

Financial markets in India comprise in the main, the credit market, the money market, the foreign exchange market, the debt market and the capital market. Most of the financial markets were characterised till the early 'nineties by controls over the pricing of financial assets, restrictions on flows or transactions, barriers to entry, low liquidity and high transaction costs. These characteristics came in the way of developments of the markets and allocative efficiency of resources channelled through them.

Actions undertaken by financial sector regulators and the government to mitigate the impact of Covid-19 eased operational constraints and helped in maintaining market integrity and resilience in the face of severe risk aversion.

a) Credit market structure:

In the context of relatively underdeveloped capital market and with little internal resources, firms or economic entities depend largely on financial intermediaries for their fund requirements. In terms of sources of credit, they could be broadly categorised as institutional and non-institutional.

The major institutional purveyors of credit in India are banks and nonbanking financial institutions, i.e., development financial institutions (DFIs) and other financial institutions (FIs) and non-banking financial companies (NBFCs) including housing finance companies (HFCs).

While banks and NBFCs predominantly cater to short-term needs, FIs provide mostly medium and long-term funds. However, the actual time-length of the credit availed would depend, inter alia, on the production-sale cycle.

The Credit Market: Steps taken by RBI to counter the Coronavirus Impact on Economy

Repo Rate: RBI announced that it was cutting the Repo Rate by 75 Basis Points or 0.75% to 4.40%. The Repo Rate was earlier 5.15, last being cut in October 2019.

Reverse Repo: The Regulator also announced that it would cut the Reverse Repo rate by 90 bps, or 0.90%. On a daily average, Banks had been parking ₹ 3 lakh crore with the RBI.

Loan Moratorium: In a massive relief for the middle class, the RBI Governor also announced the lenders could give a moratorium of 3 months on term loans, outstanding as on 1 March, 2020.

CRR: The RBI also announced that the Cash Reserve Ratio (CRR) would be reduced by 100 bps, or 1%, to 3%. This would be applicable from March 28, and would inject ₹1,37,000 Crores.

LTRO: The RBI will also undertake Long Term Repo Operations (LTRO) allowing further liquidity with the Banks. The Banks however are specified that this liquidity will be deployed in in Commercial Papers, investment grade Corporate Bonds and Non-convertible Debentures.

> While banks and NBFCs predominantly cater to short-term needs, FIs provide mostly medium and long-term funds. However, the actual time-length of the credit availed would depend, inter alia, on the production-sale cycle.

Ease of Working Capital financing: Lenders were allowed lending to recalculate drawing power by reducing margins and / or by reassessing the working capital cycle for the borrowers. The RBI also specified that such a move would not result in asset classification downgrade.

Working Capital Interest: A Three-month interest moratorium shall also be permitted to all lending institutions.

Deferment of NSFR- The Net Stable Funding Ratio (NSFR), which reduces funding Risk by requiring Banks to fund their activities with sufficiently stable sources of funding was postponed to October 1, 2020. The NSFR was earlier supposed to be implemented by April 1, 2020.

MSF – Marginal Standing Facility (MSF) has also been increased to 3% of SLR, available till June 30, 2020. “This measure should provide comfort to the banking system by allowing it to avail an additional ₹1,37,000 crore of liquidity under the LAF window in times of stress at the reduced”.

Fresh Liquidity: The RBI also added that since February 2020 it had injected ₹2.8 lakhs crore of liquidity, equivalent to 1.4 percent of GDP.

Economic Indicator	2020						
	Jan	Feb	Mar	Apr	Jun	Jul	Aug
Money and Banking (% Change- Scheduled Commercial Banks)							
Deposits	9.90	9.00	7.90	7.90	9.60	12.10	10.90
Credit	7.20	6.10	6.10	6.80	5.60	6.40	5.50
Non-food Credit	7.10	6.10	6.10	6.70	5.40	6.30	5.50
Investment in Govt. Securities	11.20	10.60	9.10	14.90	18.90	22.50	21.80
Money Stock Measures							
Reserve Money (M0)	12.30	11.30	9.40	9.10	11.80	14.90	14.70
Broad Money (M3)	11.20	10.20	8.90	10.80	12.30	13.20	12.60

(Source: RBI Bulletin)

Economic Indicator	2020						
	Jan	Feb	Mar	Apr	Jun	Jul	Aug
Ratios (%)							
Cash Reserve Ratio	4.00	4.00	3.00	3.00	3.00	3.00	3.00
Statutory Liquidity Ratio	18.25	18.25	18.25	18.00	18.00	18.00	18.00
Cash-Deposit Ratio	4.70	4.70	4.60	3.70	3.70	3.70	3.70
Credit-Deposit Ratio	75.80	75.80	76.40	74.90	73.60	72.60	72.10

Incremental Credit-Deposit Ratio	44.40	44.30	60.30	-62.60	-37.50	-15.00	-25.40
Investment-Deposit Ratio	28.00	28.30	27.20	28.90	29.90	30.30	30.70
Incremental Investment-Deposit Ratio	46.90	51.80	30.80	182.10	122.80	93.10	101.90

(Source: RBI Bulletin)

India Domestic Credit Growth

India's Domestic Credit increased 8.4 % YoY in Sep 2020, compared with an increase of 9.9 % YoY in the Previous Month. It averaged 15.2 %, available from Mar 2000 to Sep 2020. The data reached an all-time high of 27.1 % in Jul 2009 and a record low of 5.6 % in Nov 2017.

In the latest reports, India's Domestic Credit reached 2,370.7 USD bn in Sep 2020. Money Supply M2 in India increased 18.0 % YoY in Sep 2020. The country's Non-Performing Loans Ratio stood at 9.1 % in Mar 2019, compared with the ratio of 11.2 % in the previous year.

India's Domestic Credit increased 8.4 % YoY in Sep 2020, compared with an increase of 9.9 % YoY in the Previous Month. It averaged 15.2 %, available from Mar 2000 to Sep 2020. The data reached an all-time high of 27.1 % in Jul 2009 and a record low of 5.6 % in Nov 2017.

What was India's Domestic Credit Growth in Sep 2020?

Last	Previous	Minimum	Maximum	Unit	Frequency	Range
8.40% September, 2020	9.90% August, 2020	5.60% November, 2017	27.10 July 2009	Percentage (%)	Monthly	March, 200- to September, 2020 Updated on 09.11.2020

Source: *Census and Economic Information Center (CEIC Data)*

b) Money Market Structure

Money markets perform the crucial role of providing a conduit for equilibrating short-term demand for and supply of funds, thereby facilitating the conduct of monetary policy.

While inter-bank money markets and central bank lending via repo operations or discounting provide liquidity for banks, private non-bank money market instruments, such as, commercial bills and commercial paper provide liquidity to the commercial sector. Unlike in developed economies where money markets are promoted by financial intermediaries out of efficiency considerations, in India, as in many other developing countries, the evolution of the money market and its structure has been integrated into the overall deregulation process of the financial sector.

The Money Market: Steps taken by RBI to counter the Coronavirus Impact on Economy

i) The RBI has been injecting additional Liquidity in the Banking system to keep down Bond yields.

ii) In its February Policy Review, the RBI said it will provide ₹1 Trillion of one- and three-year cash at the Policy Rate via long-term Repo Operations to help Monetary Transmission (Feb. 6)

iii) Two variable rate Repo operations of 500 billion Rupees to fine-tune liquidity at the financial year end.

iv) Enhanced a Temporary Liquidity tap for Primary Bond underwriters to

₹10,000 Crores from ₹2,800 Crores.

v) ₹1 Lakh Crore of LTROs.

vi) Open market purchase of govt bonds worth ₹100 Billion March 20, another total ₹30,000 Crores of OMO Purchases March 24 and March 26.

vii) ₹1 Trillion via 16-Day Variable Rate Repos.

Economic Indicator	2020						
	Jan	Feb	Mar	Apr	Jun	Jul	Aug
Interest Rates (%)							
Policy Repo Rate	5.15	5.15	4.40	4.40	4.00	4.00	4.00
Reverse Repo Rate	4.90	4.90	4.00	3.75	3.35	3.35	3.35
Marginal Standing Facility (MSF) Rate	5.40	5.40	4.65	4.65	4.25	4.25	4.25
Bank Rate	5.40	5.40	4.65	4.65	4.25	4.25	4.25
Base Rate	8.45/9.40	8.45/9.40	8.15/9.40	8.15/9.40	7.40/9.00	7.40/9.00	7.40/9.00
MCLR (Overnight)	7.50/7.95	7.50/7.90	7.40/7.90	7.10/7.75	6.70/7.45	6.65/7.30	6.65/7.20
Term Deposit Rate >1 Year	6.10/6.40	6.00/6.40	5.90/6.40	5.70/6.00	5.10/5.65	5.10/5.50	5.00/5.50
Savings Deposit Rate	3.25/3.50	3.25/3.50	3.00/4.00	2.75/3.50	2.70/3.50	2.70/3.00	2.70/3.00
Call Money Rate (Weighted Average)	4.94	4.96	5.05	4.09	3.54	3.46	3.43
91-Day Treasury Bill (Primary) Yield	5.13	5.08	4.36	3.64	3.19	3.30	3.24
182-Day Treasury Bill (Primary) Yield	5.24	5.18	4.97	3.66	3.42	3.39	3.49
364-Day Treasury Bill (Primary) Yield	5.29	5.16	4.94	3.70	3.54	3.52	3.59
10-Year G-Sec Par Yield (FBIL)	6.86	6.65	6.71	6.55	5.90	5.78	6.12

(Source: RBI Bulletin)

> Unlike in developed economies where money markets are promoted by financial intermediaries out of efficiency considerations, in India, as in many other developing countries, the evolution of the money market and its structure has been integrated into the overall deregulation process of the financial sector.

Call Money Market Growth

Call Money amount data was reported at ₹82,596.300 mn in 12 Nov 2020. This records a decrease from the previous number of ₹85,770.500 mn for 11 Nov 2020. Averaging ₹120,850.950 mn from Apr, 2006 to 12 Nov, 2020, with 4208 observations. The data reached an all-time high of ₹410,780.000 mn in 09 Dec 2016 and a record low of 0.000 INR mn in 08 Nov 2020.

What was India's Call Money Market-12 Nov 2020?

Last	Previous	Minimum	Maximum	Unit	Frequency	Range
82,596.300 12th November, 2020	85,770.500 11th November, 2020	0.000 8th November, 2020	410,780.000 9th December, 2016	₹. (INR) mn	Daily	24th April, 2006 to 12th Novrember, 2020 Updated on 13th November, 2020

Source: Census and Economic Information Center (CEIC Data)

c) Foreign Exchange Market Structure

The Foreign Exchange Market in India Comprises Customers, Authorised Dealers (ADs) and the Reserve Bank. With the transition to a market determined Exchange Rate system in March 1993 and the subsequent gradual but significant Liberalisation of restrictions on various external transactions, the Forex Market in India has acquired more depth.

Foreign Exchange Market: Steps taken by RBI to counter the Coronavirus Impact on Economy

- 'Voluntary Retention Route' (VRR) for Foreign Portfolio Investors (FPIs) Investment in Debt Relaxations.

- Foreign Portfolio Investors (FPIs) shall invest at least 75% of their 'Committed Portfolio Size' (CPS) within three months from the date of allotment. In view of the disruptions caused by COVID-19, it has been decided to allow FPIs that have been allotted investment limits, between January 24, 2020 (the date of reopening of allotment of investment limits) and April 30, 2020, an additional time of three months to invest 75% of their CPS.

- Directions on the participation of Banks in Offshore Non-deliverable Rupee Derivative Markets issued vide will come into effect from June 1, 2020.

- The time period for realization and repatriation of export proceeds for shipments before July 31 extended to 15 months to provide greater flexibility to exporters in negotiating future export contracts with buyers abroad.

- India opened up a wide swath of its Sovereign Bond Market to Overseas Investors, taking its biggest step yet to secure access to Global Indexes as the Government embarks on a record borrowing plan.

- More Dollars: RBI pledged to inject Dollars through Dollar-Rupee Swaps-Two $2 Billion Swap Lines each for March 16 and March 23 provided $2.7 billion.

Economic Indicator	2020						
	Jan	Feb	Mar	Apr	Jun	Jul	Aug
Reference Rate and Forward Premia							
INR-US$ Spot Rate (₹ Per Foreign Currency)	71.51	72.19	74.84	76.42	75.48	74.77	73.35
INR-Euro Spot Rate (₹ Per Foreign Currency)	78.82	79.44	82.64	82.21	84.63	88.87	87.07
Forward Premia of US$ 1-month (%)	3.52	3.82	8.98	3.93	3.66	3.61	3.76
3-month (%)	4.25	3.93	5.93	3.85	3.66	3.74	3.90
6-month (%)	4.21	3.91	5.05	3.93	3.82	3.80	4.01

(Source: RBI Bulletin)

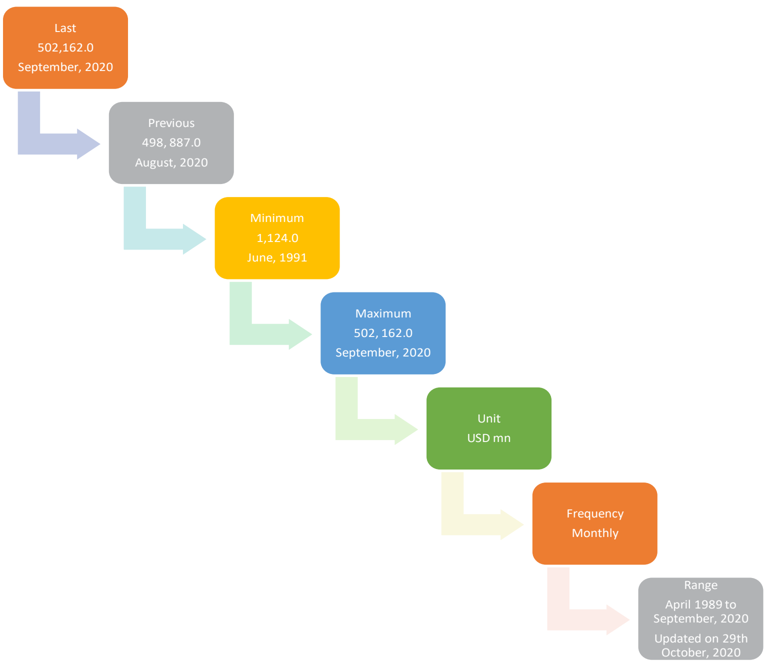
Economic Indicator	2020						
	Jan	Feb	Mar	Apr	Jun	Jul	Aug
Foreign Trade (% Change)							
Imports	-0.70	2.50	-28.70	-58.60	-48.50	-29.60	26.00
Exports	-1.70	2.90	-34.60	-60.30	-12.50	-9.90	-12.70

(Source: RBI Bulletin)

India Foreign Exchange Reserves

India's Foreign Exchange Reserves was measured at 502.2 USD bn in Sep 2020, compared with 498.9 USD bn in the Previous Month. The data reached an all-time high of 502.2 USD bn in Sep 2020 and a record low of 1.1 USD bn in Jun 1991. The Reserve Bank of India provides monthly Foreign Exchange Reserves in USD. The Foreign Exchange Reserves equalled 16.6 Months of Import in Sep 2020.

What was India's Foreign Exchange Reserves in Sep 2020?



Source: *Census and Economic Information Center (CEIC Data)*

d) Structure of Debt Market

The domestic debt market comprises two main segments, viz., the Government securities and other (mainly corporate) securities comprising private corporate debt, PSU bonds and DFIs bonds. The government securities market is pre-dominant, while the other segment is not very deep and liquid.

The Debt Market: Steps taken by Government of India to counter the Coronavirus Impact on Economy

- State administrations have been permitted to borrow as much as half their annual target for the year starting April 1 whenever they choose. In a typical year, strict rules would govern the timetable, which would include cash transfers from the federal government that are now under threat as the lockdown erodes revenue.
- RBI decided to increase the Ways and Means limit -- short term funding cap -- by 60% for all States to enable them to "Tide over the Situation." Revised limits came into effect in April, and will be valid for Six Months.
- Eases States' Overdraft Rules through 30th Sept. to handle Cashflow mismatches.
- Shorter Trading Hours: Trading in sovereign debt and the rupee will be held from 10 a.m. to 2 p.m. Mumbai time starting April 7 through April 30. These markets normally worked from 9 a.m. to 5 p.m.

India National Government Debt

India's National Government Debt reached 1,336.4 USD bn in Jun 2020, compared with 1,306.0 USD bn in the previous quarter. The data reached an all-time high of 1,336.4 USD bn in Jun 2020 and a record low of 233.0 USD bn in Dec 1998. CEIC converts quarterly Government Debt into USD. The Ministry of Finance provides Government Debt in local currency. Federal Reserve Board average market exchange rate is used for currency conversions. Government Debt covers Central Government only. India's Nominal GDP reached 502.1 USD bn in Jun 2020.

What was India's National Government Debt in June 2020?

Last	Previous	Minimum	Maximum	Unit	Frequency	Range
1,336.4 June, 2020	1,306.0 March, 2020	233.0 December, 2020	1,336.4 June, 2020	USD mn	Quarterly	December, 1998 to June, 2020 Updated on 18th September, 2020

Source: *Census and Economic Information Center (CEIC Data)*

e) Capital Market Structure

Capital market structure has evolved over time with the market practices and conditions generally reflecting the policies put in place. As the process of price formation has to be efficient for the growth and stability of the market, it was considered necessary to orient the Securities and Exchange Board of India (SEBI) to undertake the tasks of regulation and supervision.

The Capital Market: Steps taken by Securities Exchange Board of India to counter the Coronavirus Impact on Economy

- Allows Companies additional 45 days for declaring their quarterly and annual results; extends the date for submission of corporate governance report by a month; Company Boards exempted from provision of maximum time gap between two meetings (March 19).
- Trading Margin in Stocks increased, market-wide position reduced to ease volatility in Stocks (March 20).
- Compliance requirements relaxed for ReITs, InVITS, extends deadline for Risk management rules for liquid mutual funds; timeline for filing debenture and preference share issues extended (March 23).
- Raised the threshold of defaults needed to trigger insolvency proceedings to 10 million rupees from 100,000 rupees (March 24).
- Capital, Debt market services exempt from lockdown (March 25).
- Allows Top 100 listed Companies another month to comply with the requirements of holding Annual General Meeting (March 26).
- Shareholders allowed 45 more days to disclose their consolidated shareholding in Companies for the Financial year ending March 31 (March 27).
- Relaxed the recognition of default by local credit rating companies if a delay in payment of interest or principal is due; allows foreign portfolio investors relaxation in document processing (March 30).
- Eased rules to fast-track Rights Issues, and also extended the validity of its observations on public issues by six months from the date of expiry to help companies raise funds amid the coronavirus pandemic (April 17).

India Market Capitalization Capital Market

India's Market Capitalization accounted for 75.8 % of its Nominal GDP in Dec 2019, compared with a percentage of 76.8 % in the previous year. The data reached an all-time high of 149.5 % in Dec 2007 and a record low of 45.9 % in Dec 2003.

In the latest reports, SENSEX recorded a daily P/E ratio of 29.5 in Oct 2020. SENSEX closed at 38,067.9 points in Sep 2020.

What was India's Market Capitalization: % of GDP in 2019?

Last	Previous	Minimum	Maximum
75.8	76.8	45.90	149.50
2019	2018	2003	2007

Unit	Frequency	Range
Percentage (%)	Yearly	2003-2019 Updated on 1st July, 2020

Source: *Census and Economic Information Center (CEIC Data)*

Conclusion:

Various positive factors characterize the Icelandic Financial System at the moment. Economic growth is slowly increasing and profitability of industries generally appears to be average even though the months of shutdown of some sectors. Defaults with credit institutions appear to have increased considerably. Asset prices have fallen but there seems to be little probability of a sudden general reversal this year. Credit institutions therefore do not appear to face any particular risk. The financial system would be better equipped to tackle sudden changes.

Lastly "***every cloud has a silver lining***", the world has recovered its economy from various past crisis and this will hopefully be no exception ■■■

Corporate Boards in India and Gender Diversity

Reports and various codes proposed across the world endorse research on the impact of board gender diversity on performance and governance of corporate sector. Urge for promoting women on corporate boards are based on the principles of fairness and equality as women comprise of half the population and workforce. Further heterogeneity at board level in terms of gender leads to unique and valuable contribution to the board dynamics empirically proven by the studies conducted across the globe. Therefore there is a need to have gender diversity of corporate boards in spirit. India still needs to follow a combination of measures at government as well as corporate leaders level as no "one size fits all" is an enduring solution.

Dr. Gunjan Khanna
The author is Assistant Professor, University of Delhi.
She can be reached at gunjank_cs@yahoo.com
and eboard@icai.in

"*Women on Boards Not Just the Right Thing ... But the Bright Thing*" - Brown et al. (2002)

Introduction

Forward looking companies may be putting policies and practices in place to promote women on corporate boards but there's still a long way to go. Legal mandate has been imposed on certain specified corporate boards in India to appoint at least one woman with effect from 1st April, 2015. India pioneered in the category of developing nations to introduce mandatory provision for having gender diverse boards. In spite of almost five years have been completed since the legitimate necessity was instituted, still its implementation has been found wanting. As per the data available on the website of Indian Boards Database: 1792 companies listed on NSE directorship held by women limits to 15.97% only, out of which only 61.89% women are independent. In case of mandatory provision of section 149 of The companies Act, 2013 for having at least one woman on corporate boards of certain class of companies with effect from April 1, 2015

leads to a fiasco that many companies have appointed one woman who are directly or indirectly related to promoter group to comply the letters of law and not in spirit. The Securities Exchange Board of India (SEBI) had bought certain amendments in its Listing Obligations and Disclosure Requirements (LODR) based on the Report of the committee on corporate governance under the chairmanship of Mr. Uday Kotak. According to 1st proviso to Regulation 17 (1) (a) of LODR amendment regulation board shall consist of at least 1 woman independent director to board, top 500 listed entities on the basis of market capitalisation, as at the end of the immediate previous financial year have to comply w.e.f 1st April, 2019 and top 1000 listed entities on the basis of market capitalisation, as at the end of the immediate previous financial year have to comply w.e.f 1st April, 2020. This stringent regulation making it mandatory for companies to appoint an independent person as woman director as it is not enough to appoint symbolic representatives of women in order to marginalize their views. Qualified and competent women should be appointed so that they can actively contribute towards the board effectiveness.

Empirical Research Related to Women on Corporate Boards in India

Sen and Mukherjee (2019) explored the linkage between gender diversity of the corporate board and its performance. They considered a sample of 139 non financial companies listed in NSE over a period of five years (2011-12 to 2015-16). Random-Effect GLS Regression Model has been applied and it uncovers that there is a positive relationship between proportion of independent women directors on the board and the firm's performance (MVANW) after controlling the factors board size, firm size, and leverage (DER). Das (2019) investigated the relationship between participation of women on board with the financial performance of corporate and found that there is a positive and significant impact of women directors on financial performance (ROCE) of Indian listed companies. Empirically it has been inferred that women affect financial viability and social outreach which helps the company in its sustainable development.

Women representation on corporate boards in India varies in terms of characteristics of the company (Sikand et. al. 2013, Jonge 2014). Study conducted by Kanojia and Khanna (2019) revealed that in context of India, participation of women is negligible. Their result highlighted that the mandatory provision under the Companies Act, 2013 must be necessary for changing the homogeneous board composition. Further it has been found that women in India face substantial number of hindrances while climbing the corporate ladder. Empirically it has been found in the study that women exhibit diverse leadership style, her presence leads to qualitative advancement, vigilant about all stakeholders' interest and are risk averse. Study revealed that boards with women members have proved competence Mahalakshmi and Reddy (2017). It has been highlighted in the study of Kaur and Singh (2017) woman on the board is perceived as a positive quality signal so as to enhance corporate reputation.

Initiatives to Place Women on Corporate Boards in India

Timeline of Initiatives to Place Women on Corporate Boards in India

- **2009** — **Companies Bill 2009:** Clause 132 proposed appointment of at least one woman director in prescribed class of companies.
- **2011** — **Companies Bill, 2011:** Section 149(1) 2nd proviso proposed appointment of at least one woman director in prescribed class of companies.
- **2012** — **Companies Bill, 2012:** Proposed appointment of at least one woman director in prescribed class of companies.
- **The Companies Act, 2013** — Section 149 (1) of The Companies Act, 2013: Certain specified companies must appoint at least one woman director.
- **2014** — 2nd Proviso to Section 149(1) read with Rule 3 of The Companies (Appointment and Qualification of directors) Rules, 2014 (Chapter 11) mandates "every listed company and every other public company having (a) paid up share capital ≥ Rs. 100 crore; or (b) turnover ≥ Rs. 300 crore shall appoint at least one woman director".
- **2015** — The provision related to appointment of women director as provided in Clause 49 (II) (A) (1) of the listing agreement became applicable with effect from April 01, 2015.
- **2018** — SEBI amended its LODR based on recommendations of Uday Kotak committee on corporate governance. According to 1st proviso to Regulation 17 (1) (a) of LODR amendment regulation board shall consist of at least 1 woman independent director to board, top 500 listed entities to comply w.e.f 1st April, 2019 and top 1000 listed entities to comply w.e.f 1st April, 2020.

Measures to be Undertaken to Increase Professional Women Representation on Corporate Boards

Set internal quotas for women in workforce not only at higher echelon of the company but also at all the levels within the company. The only way to increase women representation on corporate boards is to track it like any other performance and governance parameter. Quota for women on corporate boards can be perceived as a means for empowerment of women, better functioning of the board which may further lead to better efficiency of the company. On the other side, reservation of women *ipso facto* is a matter of disadvantage. Reason for introducing quota for women was primarily the better representation of women in the corporate sector along with their social upliftment.

Responsibility of making appointment of one woman director is of the promoters and directors so they must be held personally liable for all the penalties so that they must realize the need to comply with the provision. In addition to financial penalties there is a need to restrain the companies (not having at least one professional woman on their boards) from entering into new ventures and accessing the capital market.

Rather than adopting negative measures government must declare board diversity to be a necessary component of good governance. Successful implementation of gender diversity programmes requires a combination of constructive leadership and innovative practices from the government and corporate leaders. It is also necessary to have a key result area for all corporate leaders to attain certain ratio of men to women employees over the middle level, in the managerial levels and at the board level.

Public Policy frameworks that support labour market participation of women are important for the success of gender diversity strategies. A productive discourse among all stakeholders is a prerequisite. There is a need that companies must extend diversity initiatives to the society and not only confined that to their organisation only. As those initiative benefits the potential employees, potential consumers and potential investors etc. External initiatives must be under taken by the company with the help of advocates of diversity and social leaders. Further companies must endorse public policy measures which can positively impact the women employees at all the levels of the organisation. Despite the Maternity Benefit Act, 1961 stipulating a maximum of 12 weeks of paid maternity leave, companies are allowing beyond the statutory minimum. Accenture India has increased the maternity leave to 22 weeks with an additional 4 weeks in case of illness related to the pregnancy. According to a research, companies can save upto US$ 19 billion annually through the provision of 16 weeks of fully paid maternity leave as recruitment and training cost to replace woman after delivery is upto US$ 47 billion every year and offering 16 weeks fully paid leave will cost US$ 28 billion.

> “Corporate commitment to workforce diversity is measured by the extent to which company endorses the diversity at all the levels.

Corporate commitment to workforce diversity is measured by the extent to which company endorses the diversity at all the levels. Diversity council is a medium through which companies convey their commitment towards diversity. These councils generally advices top management to adopt practices, policies and strategies for promoting diversity.

Disclosure of comprehensive diversity practices publicly must be encouraged; further companies must report the issues they are facing in the implementation of the diversity. These disclosures reflect the positive attitude of the company towards the employees. So the external diversity initiatives disclosures are crucial to the success of the company in constructing and sustaining a fair and equitable working environment.

> Since corporations say they value "outside the box" thinking, they need to look outside the box to recruit women, who bring a diverse perspective and style that augments the quality of discussions in the boardroom.

Women today are increasingly challenged in work life balance. These challenges are prominent everywhere as often it is required for the employees to be present anytime and anywhere. As a result there must be a focus on corporate cultures that would accommodate flexible schedules for women employees.

Boards with negligible number of women directors even including wives, daughters or sisters of the top management are male dominated, so negligible number of professional women directors feel marginalised among other members of the board and are perceived as a symbolic of diversity. To encounter the tokenism effect, corporations move towards a "critical mass of three or more women directors", so that boardroom dynamics are more open and collaborative and add value to the corporate governance structure.

To improve board governance, boards should actively seek qualified women board members and not be satisfied with just token women on their boards. Nomination committee should not try to be "gender-biased." Rather they should mandate recruiting agency partners to have sufficient women representation at the interview stage for top positions. They must consider increasing the number of women an important part of their role and should insist that search firms bring them diverse slates of candidates that always include qualified women. Since corporations say they value "outside the box" thinking, they need to look outside the box to recruit women, who bring a diverse perspective and style that augments the quality of discussions in the boardroom.

Pay equity is another area where companies can internally regulate for gender parity. In the era when world celebrates equal pay day the number speaks otherwise. According to the report, in May 2016, the gender pay gap in India stands at 27%. In India men earn a median gross hourly salary of ₹ 288.68 while women get ₹ 207.85 per hour. The reasons highlighted by the report behind the gender pay gap could be the preference for men workers over women employees and persistence of same when it comes to promotions to supervisory positions. Further career breaks that women take for parenthood duties and other socio-cultural factors are the reasons for the pay gap. Some companies voluntarily assess their pay and workplace policies, agreeing to an evaluation by a third party. After an assessment, they are granted or denied certification for granting equal pay for equal work and for policies deemed "gender friendly." The audit helps a company in identifying the areas that need improvement and can shape corporate workplace policies. The World Bank, non-profits, private companies and even governments offer gender certification. Some governments, including Switzerland, require pay equity certification for their procurement contractors. "Talent to the Top" pledge requires public corporations to add women to their board if the corporations voluntarily subscribe to the pledge. There is a need that corporates at large embrace the practice of conducting annual salary audits to ensure equal salary for equal work among its employees. If inconsistencies are discovered based on gender rather than performance, corrections are made to grant equitable pay. In addition to monitoring

At the outset, there is a need to raise consciousness of gender diversity at board level as a business issue and encourage business leaders to think about the compositions of their boards so that they may more precisely reflect the marketplaces and stakeholders that they serve.

for equal salary, there should be opportunities to have an increasing number of women leaders creating family-friendly policies and work environment.

Several independent agencies and organisations have established awards to recognise company excellence in diversity management. In 2001, the US-based diversity-consulting firm Diversity Inc began surveying companies to assess their diversity management initiatives. Four categories are assessed in the survey (CEO Commitment, Human Capital, Corporate Communications and Supplier Diversity). Companies within the same industry compete against one another to receive top marks. Evaluation is based on firm-submitted data, which allows Diversity Inc to assess diversity performances of all competitors. There is a need for such initiatives which boosts the morale of the companies adopting gender diversity initiatives.

Despite the presence of substantial number of women at lower and middle level, the number of women on corporate boards is negligible such that there is definite need for promotion of qualified women to reach the top echelon of corporate sector.

There is also a need to reform the education system which is also biased towards gender. It only focuses on the women's role as home maker while men shouldering more challenging tasks. Government and people in the civil society should to keep a constant vigil to ensure that gender biased views do not persist.

Conclusion

Though most of the companies have development programmes for women, still women representation on corporate boards is poor as accountability to diversity is poor in corporate sector. Contemporary dialogues on corporate governance have made gender diversity of the corporate boards as focal point as board rooms continue to be monopolized by men. Natural trends of women representation on corporate boards show positive augmentation. However, without strenuous efforts progress may be slow and government as well as companies need to take more vigorous steps. At the outset, there is a need to raise consciousness of gender diversity at board level as a business issue and encourage business leaders to think about the compositions of their boards so that they may more precisely reflect the marketplaces and stakeholders that they serve. Further, as in other areas of corporate governance, the government should take more steps to find enduring solutions to the problem of imbalance representation of professional women on corporate boards.

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Shareholders' say on Executive Compensation is on Rise in India!

Executive compensation issue is one of the areas of concern for shareholders' in India. High pay inequity in terms of median pay differences between the executives and non-executives, gender pay gap, are some of the dominant issues on executive compensation. Another emerging issue is shareholders' exercise of voting power for or against executive compensation, as new Companies Act today require companies to disclose executive compensation details in proxy note. In India shareholders now can influence companies' decisions on diversity in board, issues on re-appointment of directors, terms of stock options, environment issues, etc. All these are happening despite we do not have any Dodd Frank type Act in India. Read on...

Dr. Dipak Kumar Bhattacharyya

The author is faculty in Xavier Institute of Management. He can be reached at eboard@icai.in

Rising shareholders' participation for exercising their 'say-on-pay' on executive compensation in India are attributable to regulatory and institutional support, and for proxy advisory firms. Proxy advisory firms' can recommend their paid members (mostly institutional shareholders) to exercise their voting power either for or against the executive compensation, based on their analysis. They even make their basis of analysis transparent, so that shareholders' can make an informed choice. However, recent filing of a defamation suit against a proxy advisory firm in India by century old company is likely to gag the spirit of corporate governance. This paper examines important issues on executive compensation, regulatory and institutional frameworks, and role of proxy advisory firms.

Dark side of Indian corporate governance practices since 2007 onwards primarily revolves on rising executive compensation. Unlike in other countries, Indian companies whose shares are publicly traded are mostly closely held. Founder promoters and their families largely held majority stake of companies, which

typically indicates concentrated ownerships. Obviously, these promoters and their family members represent in the Board of such companies, and key executive positions are also held by them. Minority shareholders hardly get opportunity to represent in the Board and vent their concerns on executive compensation in the annual general meetings. Moreover, in India, we do not have the US type Dodd Frank Act (2010) and consequent institutionalized approach on 'say-on-pay' (SOP). In line with the USA and other countries, some proxy advisory firms have been started in India to offer paid services to institutional shareholders on important agenda points of proxy notes, circulated by the companies before their annual general meeting. Recommending institutional shareholders to exercise their options on SOP pertaining to executive compensation has now started getting prominence. Initial response of corporate India on such move was not encouraging. But of-late adverse reporting on corporate governance issues, more particularly on rising executive compensation, are being taken seriously for several ramifications. Proxy advisory firms' critical notes get widely published in social media, and this dampens the spirit of investors with immediate consequence of reduced share prices and falling market capitalisation. Worst affected in this process are majority shareholders, i.e., founder promoters and their families.

Typical syndromes of executive compensation trend in India are; delinking of executive compensation from companies' performance, widening gap between executive compensation and other employees, and propensity to pay more to promoter-affiliate CEOs than non-promoter-affiliate CEOs, etc. In India, the term compensation and benefits are defined as remuneration as provided in The Companies Act, 2013, and The Income Tax Act, 1961. The Income Tax Act, 1961 is more inclusive, as it considers any perquisites (weather monetary or non-monetary) within the purview of remuneration, or compensation and benefits per se.

Some reviews in the USA indicate growing awareness on corporate governance issues even encompassing environmental, social, climate change, board diversity, etc. In India also we find similar shift for institutional and partly for legal pressures. Companies in India have now started disclosing these aspects in their proxy notes. Again, the report says over all shareholders' support for SOP in the USA is as high as 91% in year 2017, indicating companies growing awareness on rationalization of executive compensation. Another proxy season review of 2017 by Sullivan & Cromwell of the USA also captures shift on corporate governance issues on the above listed areas, rather than SOP alone.

Importance of Executive Compensation in India

Balanced approach to executive compensation helps companies in attracting and retaining top talent and at the same time in protecting their interest, benefiting all the stakeholders. It fosters a win-win situation both in terms of increased value proposition for the executives and for the companies. Satisfied executives can perform better, and thus can help companies to achieve their business goals and strategies. The role of executive compensation is to attract and retain top talent at executive position and incentivize them in the way, so that they work for the benefit of the company, furthering the objectives of the company and increasing the business value. Balanced approach to executive compensation requires decision on balanced compensation-mix, suitably delineating fixed and variable components. Variable components are performance aligned with substantial focus on stock options with multiple riders. Typically, in India fixed component of executive compensation is substantially higher. In some organisations it is even more than fifty percent of total pay. Such culture of high fixed compensation even reflects on choosing the variables, which in most of the cases are used as top-ups. For example, Performance Related Pay (PRP) formula is so crafted in India, executives in general get a substantial portion of their total pay as incentives. Culture of putting pay at risk even for executives is yet to get institutionalized in India. Therefore, issues of executive compensation substantially affect the interests of other stakeholders, more particularly investors, whose dividend payouts decreases with the increase in executive compensation. Theoretically such syndrome signifies high agency costs in India, i.e., high cost of executive compensation.

Regulatory and Institutional Pressures

Regulatory and institutional

pressures on executive compensation in India are mounting. For example, The Companies Act, 2013 provide for maximum ceiling on executive compensation, restricting it to 11% of the net profit of the company in a year. When executive compensation exceeds prescribed ceiling, it needs shareholders' approval in the general meeting. For compensation and benefits plan of CEOs, often companies go for disproportionately higher compensation. To check such propensity, The Companies Act in India also stipulated no individual compensation in a company can exceed 5% of the net profits. Similar cap on sitting fees of the directors (maximum ₹ 1 lakh per meeting), can also be construed as another important move in regulating executive compensation. Some of the mandatory disclosures on executive compensation in proxy statement for companies in India are:

- Ratio of executive compensation in comparison with the median compensation of the employees
- Percentage of increase in CEO compensation vis-à-vis Directors
- Percentage increase in compensation of employees
- Percentage increase of company's performance vis-à-vis executive compensation
- Variation in the share price of the company (when the company is listed) or net worth (when the company is not listed)
- Logic behind increase in executive compensation
- List of employees (NEOs, i.e., non-executive officers) whose compensation exceeds ₹ 60 lakhs per year, including specific mention when they are related to any Director or Manager.

> "The Companies Act, 2013 provide for maximum ceiling on executive compensation, restricting it to 11% of the net profit of the company in a year.

Regulatory provisions provided in The Indian Companies Act emphasized on linking executive compensation to performance, stipulating ceiling, based on company's net worth. The Act further provides the need for shareholders' approval, when companies decide to pay more, i.e., above the stipulated limit. Central Government approval is also necessary when companies pay more than the stipulated limit even when profits are adequate. But with slackened control, for obvious majority stake of owners' promoters; such provisions are easily flouted. Hence concentrated ownership can be attributed as major reasons for undeterred growth of executive compensation, rising disparities, and affecting the interests of minority stakeholders. Security and Exchange Board of India's (SEBI) analysis indicates even loss-making companies in India raised executive compensation and widened the gap between compensation of top executives and the median compensation of other employees.

> "Regulatory provisions provided in The Indian Companies Act emphasized on linking executive compensation to performance, stipulating ceiling, based on company's net worth. The Act further provides the need for shareholders' approval, when companies decide to pay more, i.e., above the stipulated limit.

Problems of Executive Compensation in India

Unlike other countries, in India, we do not have any strict separation of control and ownership of companies. This is also valid in case of listed companies, which are by nature closely held. This indicates managerial positions, more particularly key managerial positions, are mostly staffed by friends and relatives of the promoters. Rising executive compensation for such category of employees obviously conflicts with other stakeholders' interests. However, such trend is not in the USA and UK for typical distributed ownership of companies, i.e., typical nature of widely held companies. On the one hand agency problem in closely held companies in India does not impair the strategic and business interests, managers and owners being the same; but on the other hand, this affects other stakeholders' interests, particularly minority shareholders. Although minority shareholders' vote on SOP cannot be binding on companies, but their negative voting has far reaching implications. Some of the recent cases in India corroborate this.

Another important aspect in executive compensation is choosing of appropriate yardstick for executive compensation. In true sense pay for performance as a model has been embraced by Indian companies. However, such practices are strictly enforced for executives who are not part of promoters' families. For non-family executives, PRP serves as good incentive plan, and this can act as an effective instrument for attracting and retaining talent. From stakeholders' point of view also PRP model does not invite any criticism, as companies can reduce compensation pay-outs for executives when they fail to perform. But real challenge here is appropriate selection of KPIs (key performance indicators). Both internationally and in India, it is observed that to dole out incentives to executives, performance standards are deliberately kept low. This has reduced the sanctity of PRP, and in India particularly it has now become an additional top-up. Good example is public sector enterprises in India. All executives get some PRP amount at the end of the year, more as additional benefits. Although it is also the responsibility of the compensation committee to guard against such malice, for companies in private sector also, both in India and in abroad, performance standards for PRP have often become an issue for discussion in shareholders' meetings. Proxy advisory firms also, in many cases, through their critical analysis and research, recommended for negative voting. Despite this, in many companies' shareholders still nurture their grievances on executive compensation.

Other important aspect of executive compensation in India, and so also in abroad, is the propensity to dole out stock options with minimum riders. In most of the cases, other than the minimum period of vesting; executives can enjoy the benefit of stock options, without even committing them to performance achievement. Some good organisations, however, provide restricted stock units (RSUs) with multiple riders, one of which obviously is performance achievement at pre-determined level. However, more important factor is balanced compensation-mix strategies, sustaining maximum stress on variables. While deciding on variables, companies also emphasize on certain other KPIs like; executives' value addition to the company, ethics and diversity inclusivity, commitment to social responsibility, etc. Therefore, weather executive compensation plan is win-win or not, depends on multiple factors.

Institutional and Regulatory Support

To curb such trend, SEBI's consultative paper on Review of Corporate Governance Norms in India suggested mandatory formation of compensation committee and emphasized on the need for enhanced disclosure of compensation policies. However, such disclosure requirements are still considered inadequate, mostly because these are open-ended in respect of valuation of perks and bonus payouts. Institutional Investors Advisory Services (IiAS) in India also recommend the need for compulsory shareholders' voting on bonus payouts. Fixed components of executive compensation can however be put to vote right in the beginning. There exists immense need for standardized disclosure norms. SEBI's proposals are in alignment with the Companies Act, 2013. Compensation Committee when constituted in line with SEBI's proposal with representation of non-executive directors, including those who are independent directors, can enforce proper internal control on executive compensation, protecting the interests of different stakeholders. Such committee can ensure executive compensation and benefits are properly aligned with performance benchmarks and business goals of the companies and can ensure balance between fixed and variable pay of all directors. Regulatory bodies' insistence on disclosure of the

> "SEBI's consultative paper on Review of Corporate Governance Norms in India suggested mandatory formation of compensation committee and emphasized on the need for enhanced disclosure of compensation policies.

ratio of compensation to each director to the median employee compensation in the proxy note, when enforced diligently, can enforce external control on executive compensation.

Thus, *prima facie*, undeterred increase in executive compensation in India is not attributable to poor regulatory framework; rather it is more for reluctance of Indian companies to comply with such requirements. Some good organisations, however, believe in designing executive compensation plan, linking with long-term growth, and make adequate disclosures on the same. One such case is Infosys, the IT major in India. Incidentally, this company recently faced temporary crisis on corporate governance norms, particularly on CEO and top C-level employees' compensation issue, and that even persuaded the CEO to step down. The company, however, could quickly resolve the crisis, putting one time-tested old timer to CEO's position, and subsequently hiring a new CEO. But we also have examples of many other organisations, both in India and abroad, which literally failed to ensure executive compensation in alignment with executives' and companies' performance and balancing different stakeholders' interest.

Another critical issue in executive compensation in India is wrong selection of performance criteria. Such wrong selection literally doles out incentives and bonus, in the name of PRP, even when companies suffer in terms of profitability. Widening pay disparity in terms of ratio of executive compensation to the median compensation of employees, poor disclosure on compensation practices and philosophies, etc. often create challenge to attract and retain talent, particularly in middle management level.

Good and bad side of executive compensation in India

Shareholders' Advisory services in India are strictly regulated by SEBI through Investment Advisors Regulations, 2013 and Research Analysts Regulations, 2014. The 2014 regulations detail the terms of references (duties, checks and balances) of proxy advisory firms. Recently, however, these firms are facing the challenge from corporate India. One such case is filing of a defamation case against one shareholder's advisory company, for their adverse report on non-executive chairman's compensation of a widely held organisation, operating in India more than a century. This shareholder's advisory company's contention was non-executive Chairman, who was earlier CEO of the company, not only continuing control over the company, even disproportionately raised his compensation. Accordingly, this advisory company recommended shareholders to vote against this resolution on non-executive chairman's compensation. Although in the AGM, this century old Indian company could get all their resolutions passed, the company feels such adverse reporting significantly affected their image before different stakeholders, resulting reduced stock prices and market capitalisation, hence they filed the suit. This was deterrent to the spirit of SOP, and so also a jolt to corporate governance in India, and ultimately benefitted those companies who wished to continue their age-old practices of paying high executive compensation, at the cost of sufferings of other stakeholders'.

In India, we have also faced another recent crisis. But here the case is reverse. Here inadequate disclosure on corporate governance practices, including disclosure on executive and CEO's compensation was challenged by erstwhile promoter, who hold only 1% stake of the company. The problem escalated to such a level; CEO had to resign. However, problems were resolved with the induction of one old-timer who is known for turning around the company during his days. Later on, however, company recruited a new CEO.

Among closely held companies, we have also witnessed another crisis, in another century old conglomerate, which resulted in dismissal of the top boss. The crisis now however got resolved.

A Forbes report indicates Indian CEOs get as high as 1200 times of the median pay of employees in their companies. Glaring example is a leading graphite electrode manufacturer in India.

> "Some good organisations, however, believe in designing executive compensation plan, linking with long-term growth, and make adequate disclosures on the same.

In this company the pay gap between CEO and the least paid employee is as high as 4045 times during the year 2019. This sets the world record in pay disparity. This compelled SEBI recently to insist companies to publish their compensation data. However, many companies are yet to comply. Among companies who are yet to comply even we have those who are ranked in top slots of market capitalisation. This contrasts with the US and UK figures. In the USA, such CEOs get maximum 335 times of the median pay of their employees.

In Indian corporate world, there have been quite a few instances of shareholders voting against and resenting against executive compensations and stock options. Such moves of corporates have also not escaped the attention of press and social media. While on the other hand we have good example of voluntary acceptance of pay cut by chairman of Wipro for drop in profits of the company; by the chairman and non-executive director of Idea Cellular; by the CEO and CFO of Hindustan Unilever (HUL); by CEO of Cognizant; by CEO and COO of Snapdeal, etc.

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Globally also we see IBM's CEO's cut in annual compensation package. On the one hand, such compensation cut indicates growing awareness among Indian companies the need for balancing stakeholders' interest, on the other hand such move benefits companies in most of the cases, for sustaining high market capitalisation.

Conclusion

Shareholders' voice on SOP in India primarily rests on the Companies Act, 2013 and its time to time updates. Another source is SEBI's Listing Obligations and Disclosure Requirements Regulations, 2015. These are further supported by Securities Appellate Tribunal and finally the Supreme Court of India. Other than these legal and institutional pressures, in line with the USA and other developed countries, in India also we have handful of proxy advisory companies. Such companies influence on shareholders' voting has started changing the paradigm of corporate governance and disclosure norms, including executive compensation. Institutional shareholders' participation in voting has also increased significantly and will continue to increase in coming years. Review indicates companies in India were able to get majority of their proposed resolutions passed by the shareholders. Gender pay gap, policy on accelerated vesting of equity awards in case of change in control (CIC), stock retention and holding requirements, adoption and amendment of claw back policy, etc. are some of the executive compensation issues debated in shareholders' meetings in India and abroad.

> Shareholders' voice on SOP in India primarily rests on the Companies Act, 2013 and its time to time updates. Another source is SEBI's Listing Obligations and Disclosure Requirements Regulations, 2015. These are further supported by Securities Appellate Tribunal and finally the Supreme Court of India.

Important steps in making executive compensation practices in India more transparent and meaningful with minimum shareholders' dissent are; alignment of CEO's compensation with total shareholder return (TSR), benchmarking with peer group companies, rationalizing multiple of median compensation in relation to benchmarking with peer group companies, and finally balancing between fixed and variable compensation. Other recommended steps are developing suitable performance metrics, some of which are like; return on invested capital (ROIC), return on assets (ROA), return on equity (ROE), earnings before interest, tax, depreciation and amortisation (EBITDA), growth in cash flow, and growth in revenue. In all such cases, benchmarking with peer group companies, and other companies that follow best compensation practices, are necessary. ■■■

Simplified Internal Controls for MSME

Corporate governance is a term often understood as applicable to large enterprises, within which deployment of internal controls is a crucial element.

An effective internal control system plays a key part in helping a company achieve business objectives and financial success. It provides a framework using which employees can deploy sound controls over their areas of business and keep keen watch to ensure the long-term security of the business.

In MSME, which typically are thin on resources with, quite often, ownership and management being the same, in the author's opinion, components "Control Activities" and "Monitoring Activities" of the COSO framework become more critical. Read on…

CA. A. Hariharan

The author is member of the Institue. He can be reached at a_hariharan@outlook.com and eboard@icai.in

MSME Scenario

Micro, Small and Medium Enterprises (MSME) constitute the backbone of our economy and have contributed significantly to the Indian economy in terms of employment generation and rural industrialisation. This sector has registered remarkable growth in scale of production, quantum of investment, and overall contribution to national GDP. Despite some infrastructural deficiencies and challenges like flow of institutional credit and inadequate market linkages, MSMEs have proved their mettle in all sectors. All MSMEs are spiritedly focusing on increasing the business.

Key Challenges Faced by MSMEs

- Inappropriate opportunities of Adequate Capital and Credit
- Poor and Inadequate Infrastructural Facilities
- Inadequate Access and Marketing Linkages
- Lack of Skilled Human Resources
- Limited Access to New Technology
- Lack of Knowledge regarding Regulatory Practices

Keeping in mind the above challenges, the role of internal auditors and internal controls become more important for MSMEs who are always facing rigorous competition and lack of adequate best practices in the sector. For most MSMEs the Board of Directors has to state in their report whether the company has adequate internal controls over financial reporting in place and whether these are operating effectively. This is more about assuring that financial statements are reported correctly. However, in a forward-looking sense, MSME should aim to build a robust internal controls system, which will address broader operational risks and controls and compliance and bring business benefits. This brings the reason to discuss the moot question, 'Why MSMEs need Internal Controls'?

To Quote IIA Magazine, (August 1977)

"Controls protect weak people from temptation, strong people from opportunity and innocent people from suspicion".

The above quotation demonstrates that effective internal control plays a critical role not only in organisations, but also in the life of individuals.

MSMEs with resource constraints are often discouraged from developing **sound internal controls,** making them vulnerable to fraud, financial errors and non-compliance.

Internal Controls plays an important role in the prevention and detection of fraud and physical protection of assts and moreover it leads to high operational efficiency of the business. Therefore, if there is a strong system of internal controls to monitor and run businesses, the prospect of bankruptcy reduces. Internal control means different things to different people (COSO 2013).

Therefore, it is determined by many definitions that affect many aspects of entities in different ways and somewhat creates confusion among business owners and other stakeholders.

Sound internal controls are given due importance by large businesses who dedicate significant resources to their development and monitoring. Fortunately, these controls are not entirely out of the reach of MSMEs.

For example: The COSO framework (see graphic below) is the guiding document for the institution and evaluation of internal controls in an organisation.

Deployment of the full COSO framework may be complex, costly and over-kill for MSME, but certainly critical elements of the framework can be adapted and deployed. The Statutory Auditor can play a role in assisting MSME to put in place the requisite framework for this purpose, in particular spanning the components "Risk Assessment" and "Control Activities". Typically, the Statutory Auditor will test the internal controls on annual basis as part of the audit process.

MSME typically lack the wherewithal in terms of qualified and trained manpower to perform multifarious internal controls on regular basis. This article asserts that trading and manufacturing MSME will benefit from performance of a select few Control Activities on regular basis, which will not just fulfil the statutory requirement but also enhance the operational performance of the business. These select Control Activities will address the significant risk areas of both reliable financial reporting and operational performance. Aligned with judicious use of simpler ERP typically used by MSME, like Tally, Zoho, etc., substantial control and operational benefits can be realised. Such approach will enable MSME to establish and operate cost effective controls.

> MSME should aim to build a robust internal controls system, which will address broader operational risks and controls and compliance and bring business benefits.

The Control Activities listed below do not cover other aspects like Segregation of Duties, ERP controls, which go towards enabling a more robust internal control environment. Suffice to mention that current ERP's on the market do contain such features which can be quickly deployed.

Operational area	Control Activity	Notes
Purchasing	Enable ERP software to perform an automated 3-way match of PO (purchase order), GR (goods received) and invoice. Monthly review of GR for which no invoice received, and of invoice received for which no GR made, should be performed. Unmatched items open for more than 30 days should be followed up and closed.	Enables quicker processing and reduced processing error. Ensures timely and complete accounting and reporting. Nowadays, this is also required for GST claim.
Purchasing	Review changes to vendor master data independently on a regular basis (at least quarterly).	Unauthorised changes to vendor details like bank account can be detected.
Purchasing	Review cost of key items (determined using 80/20 rule) comparing with prior year and budget costs.	To spot errors, enable pricing adjustments, maintain profitability at item level etc.
Inventory	Perform cycle count monthly or quarterly to ensure all inventory items are counted and reconciled to ERP at least twice a year. Depending on number of items, prioritisation can be established using 80/20 rule.	Typically, MSME perform inventory count annually as part of Statutory Audit. Any differences between physical and book stock surface rather late in such approach, which can be prevented by establishing cycle count mechanism.
Inventory	An inventory ageing report should be prepared twice or thrice a year and reviewed for quality and ageing issues; assessment of provision for slow / non-moving inventory items should be performed and approved.	Enables timely inventory liquidation actions.
Accounts Receivable (AR)	On the monthly basis AR ageing should be prepared, segregating the receivable balances into - not yet due, currently due, and overdue. Overdue AR should be categorized to 30,60, 90 and 180 days, or similar.	Enables timely collection or stop-sale actions, reduces risk of bad debts.
Accounts Receivable (AR)	All AR balances should be reviewed monthly for collectability and provisions established as appropriate.	Coupled with DSO (Days Sales Outstanding) calculation, will improve working capital situation.
Sales	Establish credit limits for customers. A simple credit scoring mechanism with highest weightage to payment record and history can be easily set up in most ERP. Other factors like customer reputation, sales staff opinion can be additionally considered.	Reduces delayed collection and risk of bad debt.

Operational area	Control Activity	Notes
Sales	To enable correct sales and inventory reporting: Monthly review of goods invoiced but not shipped should be done. Monthly review of goods shipped, but not invoiced should be done.	Timely and regular review prevents situations of delayed invoicing and AR collection, apart from ensuring correct accounting.
Sales	Review Product and Customer pricing master data on regular basis, and confirm that any changes thereto are duly authorized.	Enables error detection and fraud prevention. Ensures alignment with pricing policy.
Bank reconciliation	Weekly or monthly bank reconciliation should be done.	ERP systems permit automated bank reconciliation which should be enabled.
	Unmatched items open for more than 30 days should be followed up and cleared.	Enables early fraud detection; timely AR collection in case of bounced cheques.
Payroll	Comparison of current month payroll totals to prior month payroll totals is adequate in case employee strength is generally constant. If employee strength fluctuates significantly, then a more detailed review of payroll should be performed.	Enables error detection and fraud prevention.
Payroll	Changes to employee master data should be reviewed on a regular basis.	Enables error detection and fraud prevention.
Balance sheet accounts review and reconciliation	The frequency of reconciliation and review is related to the nature of the account (e.g. volume of transactions, monetary value of the account etc.): • Accounts with high activity or high value should be reconciled monthly. • Other accounts can be reconciled on a less frequent basis (e.g. quarterly). • At a minimum, all accounts must be reconciled twice a year, in order to timely identify issues and adjust balances as appropriate. All reconciling items should be investigated and cleared with 30 days.	Apart from correct accounting and reporting, this review allows timely collection /settlement / adjustment of items in other current assets / liabilities, eg tender deposits, rental deposits etc.
Related-party accounts reconciliation	Related-party account balances should be reconciled with related-party companies on regular basis. Unmatched items should be identified and cleared timely, rather than kept in "suspense" accounts.	With increasing interest in related-party transactions, this is becoming a significant control activity.

> Investment in internal auditing can add value to an organisation via operating efficiencies, safeguarding assets, more reliable financial statements, and realising an organisation's goals and objectives leading to reward to stakeholders.

Aligned with the simplified nature of the above Control Activities, a simple "traffic-light" system can be introduced to report on the operation of these controls. This provides a powerful visual cue of status and flags need for higher management intervention.

Green	The control has been **completed and documented.**
Yellow	The control has been **completed, but not adequately documented.**
Red	The control is **overdue** (it should have been performed by now, but it has not been performed or is only partially performed).

While above reporting indicates the performance status of a particular internal control activity, e.g. whether bank reconciliation has been performed timely, another way of reporting could be to indicate whether the performed control was found to be working properly or not, e.g. bank reconciliation has been performed but there are many old items which are not cleared. The Control Activities listed above are the core ones and are just illustrative, but do not imply that Control Activities in other areas like Fixed Assets, Treasury, Manufacturing, and Statutory Compliances are irrelevant.

Remedial and Cost-effective Measures for MSMEs to Develop Internal Controls

Document control: This means maintaining proper documentation of all relevant operations of the business such as sequential numbering of purchase orders, sales invoices, cheques etc. This results in identification of fraud or error at an earlier stage.

Timely reconciliation of all bank statements and financial accounts: Unreconciled transactions can often dwell in the accounts for long periods of time and relate to unexplained and erroneous transactions.

Independent review and sign-off of payroll and batch payments: This essential control is often overlooked by many businesses. Independent review of payroll reports and batch payments can detect and investigate errors in a timely manner. Here, the role of Professional Internal Auditors like Chartered Accountants becomes significant.

Physical controls over petty cash and inventory: Again one of the most important internal controls which can be placed in an organisation is the surprise test of petty cash balance and sudden stock taking of inventory by a professional expert in order to reduce the risk of unauthorised petty cash expenditures and safeguard the stock of inventories.

Separation of purchase requisition and payment authorisation: It is important to have two different roles involved in this function to ensure there is adequate review over purchases and reduce the risk of unauthorised purchases.

Review and reconciliation of business credit cards: Credit card reconciliations ought to be carried out on a monthly basis. The card holders should be held accountable to provide supporting documentation for all transactions.

Independent review of staff reimbursements and expense claims: All staff reimbursements should be complemented with supporting documentation. Prior authorisation, in the form of expense claim forms, is a great way to ensure unauthorised expenses.

These controls are simple and less formal, but of robust quality. Apart from meeting statutory requirements, these simple controls:

- Result in financial reporting, which is more effective,
- Enable decision making using better data,
- Lower operational risks like bad debt, inventory obsolescence,

> A robust and appropriate internal control framework, which is simple and easy to deploy, will only strengthen the operations of MSME and help to steer the enterprise's sustainable development and growth.

- Empower employee upskilling and confidence,
- Increase lender and investor confidence,
- Give the Board confidence to expand the business, whether organically or inorganically.

As operation of the above simplified controls matures, MSMEs can invest in Internal auditing and upgrade to emphasise other components of the COSO framework like Risk Assessment and Management, Information and Communication, documentation of business policies and processes, etc, in more formal ways. Investment in internal auditing can add value to an organisation via operating efficiencies, safeguarding assets, more reliable financial statements, and realising an organisation's goals and objectives leading to reward to stakeholders.

Conclusion

MSME sector possesses enough potential and possibilities to pushbutton accelerated industrial growth in our developing economy and well-prepared to support national programme like 'Make in India.' With a risk management focus, internal audit can move beyond its monitoring role to help influence and improve how risks are managed before they become challenges. Businesses today are knowledge-intensive and such orientation creates processes and theme that is very complex. So is the gamut of risks and magnitude of impact.

A robust and appropriate internal control framework, which is simple and easy to deploy, will only strengthen the operations of MSME and help to steer the enterprise's sustainable development and growth. As India takes a larger part in global supply chains and increases its share of global trade, efficient and well run MSME will have a key role to play in achieving success. Auditing Professionals (be it Internal Auditors / Statutory auditor) can contribute valuably by working with MSME in realizing this vision. ■■■

Historical Development of Accounting

The historical backdrop of financial accounting is something other than an account of cash and numbers. It is the tale of the world's advancement from bargaining and nearby exchange to a genuine worldwide economy. Many of the inference drawn about the History are through bookkeeping records. They mention to us what individuals ate, how landmarks were made, and how individuals made their living over a very long period sprawling thousands of years. Today, accountancy and finance makes conceivable the tremendous worldwide exchange and monetary development of nations all through the world. Read on…

CA. Isha Bansal

The author is a member of the Institute. She can be reached at isha1310@gmail.com and eboard@icai.in

The soonest bookkeeping records date to 7500 BC, when urban areas in the Middle East exchanged coins made of mud for domesticated animals, grains, and texture. Papyrus scrolls dating from 3000 BC still holds true even today indicating budgetary and trade exchanges from old Egypt, including stock of property possessed by Pharaohs just as itemized assembling records and finance reports. It wasn't until the primary century AD nonetheless, that the Greeks created arch of the main financial frameworks, bookkeeping records of which despite everything exist. In view of the information received from the historical backdrop of advancement and - the highlights of continuous turn of events, history of Accounting can sequentially be characterised into 4 phases, for example:

(i) Developing stage (from a crude age to 1494 AD),

(ii) Preanalytic stage (1495 – 1799),

(iii) Advancement i.e. investigative stage (1800-1950), and

(iv) Modern age (1951-forward).

Early Accounting History

Bookkeeping has its underlying foundations in the most punctual history of development. With the ascent of horticulture and exchange, individuals required an approach to monitor their merchandise and of exchanges. Around 7500 B.C., Mesopotamians started

utilising mud tokens to represent products, for example, creatures, devices, food things or units of grain. This helped proprietors monitor their property. Rather than checking heads of cattle or kilograms of grain each time one traded or consumed, individuals could just accept or take away tokens. Various shapes were utilised for various products. Around 4000 B.C., the Sumerians started setting these tokens in fixed dirt envelopes. Every token would be stepped into the earth of the outside of the envelope, so the proprietor would realize what number of tokens were inside, yet the tokens themselves would be shielded safe from altering or misfortune. This act of squeezing the tokens into the mud may have been the soonest beginning of composing. A couple hundred years after the fact, more mind-boggling tokens started to be utilised. These tokens had uncommon markings to indicate various units or sorts of merchandise. In India way back in fourth century BC, Vishnugupta Chanakya Kautilya, during the period of the Mauryan Empire, recognized the importance of accounting methods in economic enterprises. He wrote a manuscript similar to a book on financial management '*Arthashasthra*' that contains few detailed aspects of maintaining books of accounts for a Sovereign State.

Crude bookkeeping techniques crop up, in some structure, in most major early civic establishments. The Phoenicians utilized crude bookkeeping to monitor exchange. Early bookkeeping techniques likewise assumed a job in observing tax assessment and open spending among the Greeks, Romans and Egyptians. The progress to utilizing a semiformal bookkeeping framework in singular organisations, as an overall practice, goes back to the thirteenth century Italian republics, where a flourishing vendor class created. The records served the organisations in following cash paid and owed, just as the administration in gathering charges.

a. *History of Accounting – Computerised Systems*
b. *Bookkeeping History: UNIVAC– The universes first business PC*
c. *History of Accounting: UNIVAC– The universes first business PC*

The historical backdrop of the first modernised bookkeeping framework was likewise executed in 1953, when Arthur Anderson Consultancy (presently known as Accenture) was asked by General Electric to play out a robotized finance handling framework at their site in Louisville, Kentucky.

The framework contained a UNIVAC 1 (Universal Automatic Computer-1) PC and printer. It was the main ever business PC framework at any point actualized and turned into the primary at any point automated bookkeeping framework.

The first mechanised spreadsheet showed up in 1961 while the leading 'the rack' bookkeeping evaluating framework seemed seven years after the fact in 1968.

The principal ever miniaturised scale PCs began showing up during the 1970s. From the start, these were costly, bulky and of restricted advantage to little or medium-sized organisations. Small scale PCs were seen just like an exorbitant pastime play with restricted advantages. Where smaller scale PCs were utilised in business, it was ordinarily utilised for word handling and word preparing frameworks sold for around £10,000 per framework.

Visicalc Rendition 1.0

In 1978, two things occurred ever. The Intel 8080 processor and the MOS 6502 processor opened altogether cutting down the expense of miniaturised scale PCs, Apple propelled the Apple II microcomputer, and the first monetarily accessible off-the-rack spreadsheet bundle was created: Visicalc.

By advanced norms, obviously, Visicalc was fantastically unrefined, yet for its time it was progressive: just because you could complete monetary displaying utilizing a small-scale PC. Visicalc altered smaller scale PCs in the business commercial center and was a central cornerstone in the acknowledgment of small scale PCs for little and medium-sized organisations.

By the mid-1980s, PCs turned into an ordinary piece of office life. The Apple II was supplanted by the IBM PC and the IBM PC, thus, was supplanted by Microsoft Windows, Visicalc was supplanted by Lotus 1-2-3 and afterward by Microsoft Excel. Bookkeeping programming bundles from ACT and SAGE began to be utilized, and by the last part of the 1990s, PCs were utilized for bookkeeping by most organisations in the UK.

Modern Accounting Practices

The introduction of monetary bookkeeping as a regarded calling can be followed to the Italians during the Renaissance. Italian shippers during this time created broad exchanging courses across Europe, just as local financial focuses, where assets and products were painstakingly followed utilizing the principal arrangement of twofold passage accounting. This twofold section framework is yet the most usually utilized today.

Double-entry Bookkeeping and Luca Pacioli

All through quite a bit of antiquated history and the Middle Ages, bookkeeping stayed a genuinely basic issue. The appropriation of coinage implied that bookkeeping presently managed cash as opposed to genuine products, yet single-section accounting, much like that utilized in current check registers, was utilized to monitor cash traded, where it went and who owed what. During and after the Crusades, European exchange markets opened to Middle Eastern exchange, and European vendors, particularly in Genoa and Venice, turned out to be progressively affluent. They required a superior method to monitor a lot of cash and complex exchanges, and this prompted the advancement of twofold passage accounting. Twofold section accounting implies that every exchange is recorded at any rate twice, as a charge starting with one record and a credit then onto the next. In 1494, a Franciscan priest and mathematician named Luca Pacioli distributed a number related book named "Summa de arithmetica, geometria, proportione et proportionalita," which contained a portrayal of twofold section bookkeeping. This book itemized the twofold passage accounting framework that was simply coming into utilisation during this period and has driven numerous to call Paciolo "The Father of Accounting." As the book's fame developed, twofold passage bookkeeping started to clear Europe, as vendors acknowledged what an important instrument it gave them for monitoring nitty gritty budgetary data. For this achievement, Luca Pacioli is frequently called the "Father of Accounting." Still, now ever, bookkeeping was not yet a calling, but instead an augmentation of the administrative obligations of recorders, authorities, brokers and vendors.

Modern Professional Accounting

Today, bookkeeping is a business unto itself, with a great many specialists worldwide and an enormous number of expert associations and authority rules to arrange practices and prerequisites. Especially in the United States during the Great Depression, requests were made for better normalisation of bookkeeping rehearses and a set code of expert rules. Today, the Generally Accepted Accounting Principles, or GAAP, presented the guidelines by which open bookkeepers must work together. Each nation has a comparative arrangement of bookkeeping rules.

GAAP

During the 1930's, the United States government shaped a Committee on Accounting Principles with the objective of standardizing the bookkeeping cycle with the end goal of personal duty and budgetary revealing. The outcome was the creation and execution of GAAP, or Generally Accepted Accounting Principles. This "reading material" on the bookkeeping cycle is yet utilized all through a large portion of the Western world to normalize budgetary revealing.

Key Elements of Accounting Theory

There can be a contrast between bookkeeping hypothesis and practice. While bookkeeping methodology are conventional, bookkeeping hypothesis is more subjective. It is utilized as a guide for viable bookkeeping and monetary detailing, and that guide should be more adaptable than simple recipes permit.

A significant part of bookkeeping hypothesis is handiness. All budget summaries ought to give significant data that can be utilized to settle on educated business choices. This additionally implies bookkeeping hypothesis ought to have the option to create viable budgetary data, in any event, when the legitimate condition changes.

Bookkeeping hypothesis likewise expresses that all bookkeeping data ought to be pertinent, solid, equivalent and steady. This implies everything fiscal summaries require to be precise. They ought to likewise stick to the GAAP since this guarantees the arrangement of budget summaries will be both steady and equivalent to an organisation's past financials, just as the financials of different organisations.

Four primary suspicions manage all bookkeeping and monetary experts. To begin with, is that a business is independent from its proprietors. The second avows the conviction that an organisation won't fail however will keep on existing. Third, all budget reports ought to be set up with dollar sums and not with different numbers like unit creation. In conclusion, all budget reports must be set up on a month to month or yearly premise.

The Industrial Revolution and the Rise of Professional Accountancy

With the approach of the Industrial Revolution in the late eighteenth and mid nineteenth hundred of years, bookkeeping formed further and made its mark as a calling. The act of cost bookkeeping got predominant as entrepreneurs and chiefs tried to see how best to make their organisations as cost productive as could reasonably be expected. Josiah Wedgwood, the proprietor of the popular English earthenware industrial facility, was among the first to utilise cost bookkeeping to comprehend what his organisation's cash was being spent on and to kill pointless spending. With the new intricacy of bookkeeping and the expanding interest for exact accounting, individuals started to spend significant time in bookkeeping, accordingly, turning into the primary expert open bookkeepers. A portion of the bookkeeping firms that are yet in activity today were established during the nineteenth century. William Deloitte opened his firm in 1845, and Samuel Price and Edwin Waterhouse started their joint business in 1849.

Specialised Accounting

Because of the perplexing idea of the present financial framework, specific parts of bookkeeping have created. Notwithstanding customary money related bookkeeping, there are presently developments, for example, charge bookkeeping, the executives bookkeeping, lean bookkeeping, finance bookkeeping and venture bookkeeping. Proficient bookkeepers are required for these fields, as they include the requirement for an exhaustive and explicit comprehension of business needs and bookkeeping rehearses.

Financial and managerial accounting

The improvement of business entities (a business substance where various stakes can be purchased and possessed by investors), assembled more extensive crowds for bookkeeping data, as financial specialists without firsthand information on their tasks depended on records to give the applicable data. This improvement brought about a split of bookkeeping frameworks for inner (administrative bookkeeping)

“Managerial bookkeeping gives data to individuals inside an association while the purposed of money related bookkeeping is to give data to those external an association, for example, investors or expected financial specialists. Budgetary bookkeeping is legally necessary while administrative bookkeeping isn't.

and outside (monetary bookkeeping) purposes, and hence likewise in bookkeeping and exposure guidelines and a developing requirement for autonomous confirmation of records by evaluators. Managerial bookkeeping gives data to individuals inside an association while the purposed of money related bookkeeping is to give data to those external an association, for example, investors or expected financial specialists. Budgetary bookkeeping is legally necessary while administrative bookkeeping isn't.

Financial Accounting Today

Today, there are many large firms. Furthermore, numerous smaller firms utilise bookkeepers who serve both, the partnerships and people searching for help with charges and bookkeeping. These experts likewise give a stamp of legitimacy to organisation budgetary records, offering consolation to financial specialists and examiners. Most bookkeepers today are needed to be affirmed at the State or neighborhood level, and this is valid all through most of the money related world.

Accounting History Modern Day – Cloud Accounting

The latest change over the most recent couple of years is the change from independent bookkeeping bundles to cloud bookkeeping, where representatives, clerks and bookkeepers would all be able to get to the product online, simultaneously. This advancement permits individuals to telecommute and to impart data to the pertinent individuals.

The Modern Accountant

With industrialisation came a requirement for further developed bookkeeping techniques. The enormous organisations of the modern upheaval required cost bookkeeping frameworks that tended to outer wellsprings of fund like shareowners and should have been ready to figure and foresee benefits precisely, putting together their activities with respect to genuine budgetary information.

The entirety of this called for committed bookkeeping experts who had profoundly concentrated information and could be trusted with incredible monetary obligation. Bookkeepers additionally should have been more mindful of authoritative changes than any time in recent memory.

The idea of the sanctioned bookkeeper happened in mid-nineteenth century Scotland, after a gathering of bookkeepers appealed to Queen Victoria for a Royal Charter. It was the ideal opportunity for formal acknowledgment of the decency of the calling, and of the changed mastery of those working inside it.

The Institute of Chartered Accountants was shaped in England and Wales towards the finish of the nineteenth century. Growing rapidly, it presented formal assessments for its individuals, with the assignments of Fellow Chartered Accountant (FCA) and Associate Chartered Accountant (ACA) getting exceptionally searched after.

The Future of Accounting

Similarly as with practically all callings, innovation is hugely affecting bookkeeping. An ongoing study by Accountancy Age asked 250 bookkeepers and clerks what the future may be for the calling. Three things were anticipated by those studied: First, that computerization will assume control over errands, for example, entering information, making electronic records and delivering receipts; second, the cloud will change the manner in which experts store information, team up, and accumulate data; third, new advancements in bookkeeping programming will have an effect.

While it might seem like these desperate expectations will get rid of the calling, 89 percent of bookkeepers studied said propels in innovation are a genuine positive for the bookkeeping calling and will make new open doors for them. 75 percent said the innovation they have begun utilising as of now has either made their activity simpler or saved time for them to focus on including further an incentive for customers. For instance, they would now be able to invest more energy investigating records and offering business guidance.

> As a bookkeeper, it is imperative to stay aware of improvements in bookkeeping innovation and ensure you can adjust. The human cerebrum and its forces of investigation as found in the field of bookkeeping are presently, and soon, thought to be a need by entrepreneurs around the world.

Subsequently, this implies the abilities utilised by bookkeepers will never get futile or out of date. Those in the calling should keep on keeping up their abilities just as staying up to date with the new aptitudes that could be required by new devices. As a bookkeeper, it is imperative to stay aware of improvements in bookkeeping innovation and ensure you can adjust. The human cerebrum and its forces of investigation as found in the field of bookkeeping are presently, and soon, thought to be a need by entrepreneurs around the world. ■■■

India Gears up for Digital Taxation

Among the several adversities caused by the Coronavirus outbreak, one positive development, which we cannot deny is that most businesses have gone digital from the traditional brick and mortar models. Yes! This transformation was happening in the recent past. However it has picked up pace now. Whether for survival or growth, businesses have chosen the digital route wherever possible. Small businesses too are now migrating to sell their products on the digital platforms. Thus value is now created digitally. The question is, are these transactions under the ambit of tax authorities? Are the tax authorities ready for Future India? What steps have the regulators taken? What are the challenges at every step? Read on…

CA. Sandeep K. Kamath

The author is a member of the Institute. He can be reached at kamathsandeep360@gmail.com and eboard@icai.in

The outbreak of the Coronavirus has made it a necessity for most businesses to cut across the conventional commercial model and move to the digital ones in order to survive and stay 'healthy'. Businesses have amplified the usage of information technology abruptly and hence, perform their business transactions with minimum physical presence in other jurisdictions. What is obvious to an accountant is that whenever there are any 'commercial expansions' strongly influenced by technology, taxation and regulations also need to be suitably modified.

India has nearly 50.4 crore Internet users[1] making it the second largest after China. Yet majority of the country's tax law framework covers transactions occurring in a conventional business model. Thus country's regulators need to modify and make laws to regulate those unprecedented transactions happening digitally or those traditional transactions which are now substituted by digital technology.

In the recent financial years, the Union Government has made amendments to widen the tax base for including the following transactions:

- Royalty definition
- Significant Economic Presence (Section 9)
- Equalisation Levy

[1] *https://m.timesofindia.com/business/india-business/for-the-first-time-india-has-more-rural-net-users-than-urban/articleshow/75566025.cms*

The Finance Act, 2020 introduced some new provisions and amended some existing ones to ensure no value generated by the digital transactions remain out from being taxed. They are as follows:

1. Amplified scope of Equalisation Levy

Back in 2016, the government introduced the concept of 'Equalisation levy' (also referred to as Google Tax) which aimed to tax the gross consideration payable to a non-resident for online advertisement, providing digital advertising space or other services connected with online advertising to be taxed at the rate of 6%. The Indian government was successful to bag taxes over INR 560 - 590 crores in the form of equalisation levy during the financial year 2017-2018[2].

However as per the latest amendment, with effect from 01st April, 2020 the scope of equalisation levy would be applicable to the consideration received/receivable by non-resident e-commerce operators from following activities:

- Online sale of goods owned by the e-commerce operator;
- Online provision of services by the e-commerce operator;
- Online sale of goods or provision of services or both, facilitated by the e-commerce operator;
- or any combination of activities listed in the above;

to a:

(i) Person resident in India.

(ii) Non-resident under specified circumstances such as through sale of data collected from a person resident in India.

(iii) Person who buys goods or services through an IP address located in India.

The levy is fixed at 2% of the consideration receivable (or received) and the obligation of payment and compliance is on the non-resident recipient. What is noteworthy is that the existing 6% of the equalisation levy was on the Indian payer unlike the recent amendment which poses the requirement on the recipient.

No equalisation levy will be applicable if the e-commerce operators have PE within the country and the activities performed against which the consideration received pertain effectively to that PE. No levy will also be applicable in cases where the sales, turnover or gross receipts of the e-commerce operator from such e-commerce supply is less than INR 2 crores during the financial year.

2. Amendment to the Provisions for SEP (i.e. nexus rule)

With effect from April 01, 2018 the government came up with the concept of 'Significant Economic Presence' (SEP). According to this, a non-resident would be subject to tax if it has any Significant Economic Presence in India. However, the government has not yet fixed the threshold limits viz the revenue limit as well as the number of users limit as this is expected to be fixed when the G20-OECD Reports are made available. This OECD framework is currently under discussion and likely available by the end of this year.

In the Finance Bill 2020, insertions were made to the SEP rule has to include the following:

(i) Advertisement which targets a customer residing in India or who accesses advertisement through internet protocol (IP) address that is located in India.

(ii) Sale of data collected from a person residing in India or who uses an IP address located in India.

(iii) Sale of goods/services using data collected from a person residing in India or who uses IP address located in India.

As explained above, due to the latency in the G20-OECD Report, the applicability of the SEP Provisions is postponed to Fiscal Year 2021-22 (AY 2022-23). Businesses now have time to evaluate the tax related exposures and consider if they can work on to reduce such exposures by restructuring their business model.

> "What is noteworthy is that the existing 6% of the equalisation levy was on the Indian payer unlike the recent amendment which poses the requirement on the recipient.

[2] https://www.thehindubusinessline.com/economy/digital-tax-centre-rakes-in-moolah-with-equalisation-levy/article26260963.ece

> Due to the latency in the G20-OECD Report, the applicability of the SEP Provisions is postponed to Fiscal Year 2021-22 (AY 2022-23).

Thus the strategy of equalisation levy coupled with the concept of Significant Economic Presence are in track with the Organisation for Economic Cooperation and Development (OECD) BEPS Action 1 report of 2015, to tax those digital giants for revenues earned as explained above.

3. Withholding of Taxes (WHT)

The government also laid down the provisions of withholding tax on the sale of goods/provision of services through a digital platform under section 194-O. The e-commerce operator is required to withhold tax at 1% of the gross amount of sales/ provision of services facilitated by it through its digital platform. In the case of non-availability of a permanent account number (Indian income tax registration) of the e-commerce participant, the withholding tax rate would be increased to 5% (Section 206AA).

The e-commerce operator has to withhold tax at the time of credit or payment to the e-commerce participant, whichever is earlier. What is noteworthy is that the e-commerce operator is deemed to be the person responsible for paying to the e-commerce participant.

Again defaulting in withholding of taxes by the e-commerce operator would make him liable to bear additional costs of interest, penalties and face consequences of disallowance.

Considering the hardships of the small businessmen, it is suggested that no withholding may be necessary if the e-commerce participant is an individual/ HUF and if the gross amount of sale of goods, services, or both during the previous year does not exceed Rs 5 lakh, provided the e-Commerce participant has furnished their PAN or Aadhaar. Also, no withholding may be necessary if the e-commerce participant is a non-resident.

Please note that the withholding explained in the above is applicable with effect from October 01, 2020.

What these amendments mean to India?

In the recent past, the non-resident digital giants, despite not having any physical presence within India, managed to make huge chunks of revenue from the country, paying no taxes thereon by remaining outside the ambit of the tax framework. However, this will no longer be possible. Thus, companies with no physical presence but earning revenues from the country's 'person' will no longer be able to evade taxes by moving to the tax heavens. By implementation of those explained above, huge additional revenues are likely to flow to the government in the near future.

What these mean to the World?

The flip side however doesn't look very well either. The country's imposition of digital taxes may affect the commercial relationship between India and other countries especially the United States as most of these digital giants affected by the above 'reside' there. Domestically, the start-ups' dependencies on these digital platforms is quite high and hence their growth may be adversely hit by the above implications. Administrative burden in terms of cost and money is inevitable. Lastly to survive the impact of the withholding or charge on their revenues, companies may prefer hiking up their prices and making it costly for domestic users to access such digital platforms.

> This welcome move of the government is in consensus with the modern buying behavior of the masses and hence, is making Indian Tax Structure future ready.

Conclusion

By the above amendments, the Indian policy makers have firmly laid concrete step to move from conventional tax models to modern digitalized business processes. This welcome move of the government is in consensus with the modern buying behavior of the masses and hence, is making Indian Tax Structure future ready. More so in the current situation, it is helping the government to collect revenues despite undergoing the adverse economic conditions caused due to the Coronavirus outbreak. ■■■

Contours of Availing Tax Treaty Benefits in India

Non-residents including foreign companies are taxed only in respect of income accrued or received or income deemed to accrue or arise or deemed to be received in India. Provisions of Indian tax law gives an option to non-residents to be governed by provisions of the tax treaty entered between India and country of which non-residents are tax residents. The article attempts to give a high level view with regards to availing tax treaty benefits in India. Read on to know more…

CA. Jay Kothari

The author is a member of the Institute. He can be reached at jaykothari7@gmail.com and eboard@icai.in

Non-residents can avail benefits of tax treaty, subject to satisfaction of following conditions:

- The non-residents should be able to obtain tax residency certificate/certificate of tax residency from income tax authorities of home country.
- It should be regarded as 'person' and 'resident of contracting state' as defined in the tax treaty.
- Tax treaties generally provides condition of beneficial ownership of income where benefits are claimed in respect of royalty, interest and dividend income.
- Affairs of non-residents should not be arranged with the primary purpose of obtaining tax treaty benefits.
- The non-residents should fulfill Limitation of Benefits (LoB) conditions as provided under respective tax treaties.

It is to be noted that non-residents need to evaluate whether they are satisfying above conditions and are eligible to avail treaty benefits in order to avoid penal and other consequences provided under Indian tax laws.

Tax regime for non-residents in India

Taxation of non-residents in India are governed by Section 5 of the Income-tax Act, 1961 ('the Act'). It provides that person residents outside India are chargeable to tax in India in respect of following income:

- Income received in India or deemed to be received in India;
- Income accruing or arising in India;
- Income deemed to accrue or arise in India

Section 90(2) of the Act provides that non-residents may choose to be governed by the provisions of double tax avoidance agreement entered ('the tax treaty') by Indian government with the government of country outside India to the extent provisions of tax treaty are beneficial to the non-residents.

Section 90(4) of the Act provides that non-residents shall not be entitled to claim treaty benefits unless they furnish tax residency certificate ('TRC') from income tax authorities of foreign country. Rule 21AB of the Income-tax Rules, 1962 provides that the non-residents are required to furnish following information in Form No.10F.

- Status of the non-resident taxpayer (individual, company, firm etc.);
- Nationality (in case of an individual) or country or specified territory of incorporation or registration (in case of others);
- Tax Identification number of the non-residents in the home country;
- Period for which residential status as mentioned in TRC is applicable;
- Address of the non-resident.

The non-resident may not be required to provide the above information to the extent the information is included in the TRC issued by income tax authorities.

While TRC is the pre-requisite to claim benefits of tax treaty in India, Non-residents are also required to be regarded as person and resident of a contracting state as defined in Article 3 and Article 4 of the tax treaties.

Most of the tax treaties define person as taxable unit as per the tax laws of respective contracting state (i.e. the state in which non-resident is taxpayer). Many Foreign Portfolio Investors are established as a Trust structure in India. There is a grey area whether these Trusts are regarded as person under tax treaties. In this relation, it is to be noted that some tax treaties specifically include Trust (like Canada, Hong Kong, etc.) in the definition of person. One may need to evaluate treaty benefit for Trust on the case to case basis.

Article 4 of the tax treaty provides criteria to be regarded as resident of a contracting state. It provides that the person may be regarded as resident of the contracting state if such person is liable to tax in the contracting state by virtue of its incorporation, domicile, residence or any other similar criteria.

Further, Article 4 provides that the person will not be treated as resident of any state because it is taxable in that state only in respect of income earned in that state. In simple words, any non-resident will not be regarded as Indian tax resident just because it pays tax in India for the India source income. Article 4 of the tax treaty also provide the tie breaker rules in case any person is regarded as tax resident in both the contracting states.

Article 4 of certain tax treaties (such as United Kingdom, United States, etc.) also provides guidance in respect of tax transparent structures such as Trusts, Partnership Firms, etc. which are not liable to tax but their beneficiaries or partners are taxed in respect of income earned by trust/ partnership firms. Article 4 of the tax treaties provides that Trust and partnership would be regarded as resident of contracting state in case its beneficiaries or partners are subject to tax in the respective contracting state.

One also need to understand that "liable to tax" and "subject to tax" are different terms and have different meanings attached to it. Subject to tax is a narrower concept and liable to tax is a wider concept. In this support, reference is invited to the AAR ruling in case of

> While tax residency certificate is the pre-requisite to claim benefits of tax treaty in India, Non-residents are also required to be regarded as person and resident of a contracting state as defined in Article 3 and Article 4 of the tax treaties.

General Electric Pension Trust [AAR No. 659 of 2005] wherein it was held that *"it is worth pointing out that the phrase 'liable to tax' in Para (1) and the phrase 'subject to tax' in proviso (b) are not synonymous. If both were to be read as synonymous, proviso (b) would become otiose. Whereas para (1) speaks of being in the tax net, proviso is concerned with actual taxation"*

In Union of India vs. Azadi Bachao Andolan [2003] 263 ITR 706 (SC), where in Hon'ble Supreme Court held that "*Liability to taxation is a legal situation; payment of tax is a fiscal fact. For the purpose of application of Article 4 of the DTAC what is relevant is the legal situation, namely, liability to taxation, and not the fiscal fact of actual payment of tax. If this were not so, the DTAC would not have used the words "liable to taxation", but would have used some appropriate words like 'pays tax'.*"

Liable to tax includes a situation where the entity is treated as taxable unit in the home country but not required to pay taxes by virtue of exemption available in the tax law. Example of the same in Indian context could be income of Mutual Funds are liable to tax in India. However, they do not pay taxes in India by virtue of exemption available under section 10 of the Act. While subject to tax is a situation where the entity is actually required to pay taxes in the home country.

An issue could arise in broad based trusts (i.e. which has many beneficiaries) where all the beneficiaries are not subject to tax in the home country or in cases where beneficiaries are from multiple tax jurisdictions. It would also be administrative burden on the Trusts to maintain such data in respect of its beneficiaries to claim treaty benefits.

There may be controversies in claiming treaty benefits in a case where structure of the entity is treated differently in the two contracting states. In other words, some entities could be treated as corporates in the home country but treated as Trust in other contracting state. This issue is quite litigious and there is not much guidance available in the Indian jurisprudence on this subject. One need to be mindful in claiming treaty benefits in such cases based on the risk appetite of the organisation.

Beneficial ownership of the income is another essential condition in case treaty benefit is claimed in respect of royalty, fees for technical services, dividend income. The term beneficial ownership is neither defined under the Act nor under tax treaties. In common parlance, the term beneficial ownership means unconditional right to enjoy fruits over income.

OECD commentary provides that person is said to be a beneficial owner of the income where there is no legal or contractual obligation on such person to pass on the income received. OECD commentary

> Article 4 of the tax treaty provides that the person may be regarded as resident of the contracting state if such person is liable to tax in the contracting state by virtue of its incorporation, domicile, residence or any other similar criteria.

further provides that person is said to be beneficial owner of the income where the person is not receiving such income in fiduciary capacity or as a custodian or administrator.

As mentioned above, there are FPIs which are registered as Trust. As per the common law countries, Trust holds assets on behalf of the beneficiary and can't be said to be beneficial owner of the income. However, OECD commentary provides that the term "beneficial ownership" mentioned in the tax treaty should not be interpreted in narrow sense. As far as these trusts does not have any legal or contractual obligation to pass on the income, it should be able to claim treaty benefit. Having said so, it is worthwhile to note that OECD commentary is not binding on the Indian tax authority and has persuasive value in deciding any matter in tax court.

It is to be noted that beneficial ownership analysis is highly fact driven exercise. It would be interesting to discuss circular no. 786 of 2000 issued in the context of claiming treaty benefits for Mauritius entities. The circular provides that Tax residency certificate issued by Mauritius tax authorities is sufficient proof of residency and beneficial ownership. One may contend that in case any entity has TRC, it need not analyse beneficial ownership and residency condition. However, it is to be noted that this view is not free from litigation.

After deliberations and many rounds of discussions, provisions of General Anti Avoidance Rules were made effective from 1st April 2017 in India. Indian tax authorities were provided powers to disregard the tax treaty benefit in case the transaction was sham or colorful transaction and one of the main purpose to enter into such transaction was to claim tax treaty benefit. Under GAAR provisions, onus to prove that purpose of entering into transaction was not for the purpose of claiming treaty benefit is on the tax payer claiming the treaty benefit.

Accordingly, any transactions entered with the motive of claiming tax treaty would be under the close scrutiny of the tax authorities. It is to be noted that these are quite early days of GAAR in India. It would be to interesting to see how Indian tax authorities would interpret provisions of GAAR as they are known to be taking aggressive positions.

In November 2016, over 100 jurisdictions (including India) concluded negotiations on the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting that will swiftly implement a series of tax treaty measures to update international tax rules and lessen the opportunity for tax avoidance by multinational enterprises. Taxpayer claiming treaty benefit would also have to keep in mind MLI provisions which are applicable from 1 April 2020 for tax treaties entered by India with many countries (such as UK, Singapore, Japan, etc.).

Conclusion

Tax authorities around the world are looking tax treaty benefits claimed by any entity with the mindset that purpose of entering into any transaction is treaty shopping. However, income tax authorities are also not to be blamed completely as there were many instances

> Indian tax authorities were provided powers to disregard the tax treaty benefit in case the transaction was sham or colorful transaction and one of the main purpose to enter into such transaction was to claim tax treaty benefit.

in past where transactions were made with the intent to circumvent the income tax liability of the entity. Having said so, while interpreting tax treaties, tax authorities needs to keep in mind the economic benefit that the country derives from such foreign investments.

To summarise above discussion, entity claiming treaty benefit in India needs to keep in mind that it is an entity eligible to avail treaty benefits in India (i.e. person and resident of contracting states as defined in Article 3 and 4 of the respective tax treaties which is issued certificate of residence from the income tax authorities of home country). It should be beneficial owner of the income, in case it is claiming treaty benefit in respect of royalty, interest, fees for technical services, dividend, etc. Its main or one of the main purpose is not avail treaty benefits which it needs to prove with the robust documentation to the tax authorities. ■■■

Equalisation Levy: Effective Implementation of New Provisions

CA. Parth Panchal

The author is a member of the Institute. He can be reached at parthpanchal.ind@gmail.com and eboard@icai.in

A surge is observed in digital transactions over the globe where businesses are conducted without restraint to any geographical boundaries. Where developing a mechanism to tax such transactions has remained a brain storming exercise for every country, the revenue department in India expanded scope of equalisation levy in Finance Act, 2020 to collect tax on certain e-commerce transactions and has recently amended Equalisation Levy Rules in October, 2020. The new provisions have resulted in posing certain challenges before business entities for effective implementation. Read on....

Background

In the world of digital transformation, digital presence is increasing where entities are supplying goods or services globally without having any physical presence. In India, digital market has expanded immensely over the years. The growth of digital market is getting strong impetus as a consequence of COVID-19 pandemic. In digital transactions, it becomes difficult for revenue authorities to clearly establish relationship between the source of income, and the geographical location on the one hand, and profit allocation for levy of income tax, on the other.

The Organization for Economic Co-operation and Development (OECD) proposed certain options in Base Erosion and Profit Shifting (BEPS) project under Action Plan 1 to resolve this challenge of levy of income tax.

OECD made proposals only for foreign trade providers, without a PE, making remote sale of digital goods or services to the

in-country customers. The three tax proposals made by OECD were as under:

1. Corporate income tax on the net income generated from remote sales of digital goods and services to in-country customers by a foreign producer without a PE to which such income is attributed under current law.
2. Equalisation Levy ("excise tax") imposed on the remote sales of digital goods and services to in-country customers by the providers.
3. Withholding tax on the gross receipts from the remote sale of digital goods and services to in-country customers by the providers.

(Reference: Part E.1 of Annex E of Action 1:2015 Final Report of OECD/ G20 BEPS Project. It may be viewed at https://read.oecd.org/10.1787/9789264241046-en)

Subsequently, the CBDT introduced concept of Equalisation Levy (hereinafter referred as 'EL') in Chapter VIII of Finance Act, 2016. Equalisation Rules, 2016 were also notified in May 2020. Equalisation Levy is governed by Finance Act, 2016 and it is not a part of Income Tax Act, 1961.

Scope of EL

EL is applicable only to consideration received or receivable by NR. EL is not applicable to residents. When EL was introduced in 2016, it was charged on Specified Services provided by NR. Later, Finance Act, 2020 introduced charge of EL on E-commerce transactions undertaken by NR e-commerce operators. The amendment was not proposed in Finance Bill, 2020 presented on 01st February, 2020, but was directly introduced in Finance Act, 2020. So, this new provision came as a surprise for the taxpayers.

'Specified Services' covers online advertisement including provision of digital space, facility or service for online advertisement, or any other service as notified by Central Government. However, no service is yet notified for this purpose.

'E-commerce transactions' covers following types of e-commerce supply or services:

(a) Online sale of goods or provision of services owned by e-commerce operator;

(b) Facilitation by e-commerce operator for online sale of goods or services.

'E-commerce operator' means a NR who may own, operate or manage digital or electronic facility or platform for online supply of goods or services. If e-commerce operator hires and manages online platform instead of owning it, then also e-commerce transactions shall attract levy.

Applicability of EL

The provisions for the applicability of EL in both types of transactions are as under:

Particulars	Specified Services	E-commerce Transactions
Effective Date	01st June, 2016	01st April, 2020
NR which are covered	Provider of digital space or service for online advertisement	E-commerce operator
NR which are not covered	NR-supplier who has PE in India and transaction is connected with such PE	NR-supplier who has PE in India and transaction is connected with such PE
Applicability	If payer of consideration is – (a) Resident person in India (b) NR having PE in India	If e-commerce transaction is made or facilitated to – (a) Resident person in India (b) Person who buys goods or services using IP address located in India (c) NR (Refer Note 1)

Non-Applicability	Transaction is not for purpose of business or profession	Transaction is for specified services covered u/s 165
Threshold Limit	Annual limit of ₹ 1 lakh for every service recipient	Turnover of NR-supplier from all e-commerce transactions is less than ₹ 2 crores
Rate of EL	6% on consideration amount	2% on consideration amount
Onus for payment of EL	Payer of consideration	NR-supplier
Payment period	Monthly	Quarterly
Date of payment	7th day of subsequent month	7th day after end of quarter (31st March for last quarter)

Note 1: EL is applicable if e-commerce supply of goods or services made or facilitated to NR is for:

(a) Sale of advertisement targeting customer resident in India or customer accessing advertisement through IP address located in India;

(b) Sale of data collected from a resident in India or person using IP address located in India.

In case of Specified Services, onus for collection and payment of levy is on service recipient. This provision has a drawback that NR are not willing to take burden of EL and recipient ultimately bears such EL which results in additional costs to service recipients.

In case of e-commerce transactions, onus of payment is on NR e-commerce operator only.

If EL is not charged on any transaction of specified service or e-commerce supply or services as per provisions of Finance Act, 2016, then provisions of Income Tax Act shall continue to apply.

Other relevant provisions of EL

Other relevant provisions of EL which are common for both transactions are:

Section	Particulars	Provision
167	Furnishing of Annual Statement in Form No. 1	30th June after end of FY [Rule 5(2) of Equalisation Rules, 2016]
167	Furnishing of Belated or Revised Annual Statement	Within two years from end of FY in which transactions were undertaken (Revised Statement can be filed only if Original Statement is timely filed)
170	Interest on delayed payment of EL	1% per month or part thereof from month of liability till month of payment
171	(a) Penalty on failure of deduction of EL on specified services (b) Penalty on failure to pay EL in e-commerce transactions	Equal amount of EL
171	Penalty on failure to pay EL deducted for specified services	₹ 1000 per day from date of failure till date of payment (Maximum upto amount of levy)
172	Penalty on late furnishing of Annual Statement	₹ 100 per day from date of failure till date of payment
174	Appeal before CIT (Appeals) against penalty order of AO	Within 30 days from receipt of order (in Form No. 3 as per Rule 8)

175	Appeal before Appellate Tribunal against appellate order u/s 174	Within 60 days from receipt of order (in Form No. 4 as per Rule 9)
176	Punishment for furnishing false statement	Imprisonment upto three years and fine

Impact under Income Tax Act and DTAA

1. **Income exemption u/s 10(50)**

   In order to avoid double taxation, section 10(50) is introduced from 01-06-2016, to exempt the income arising from specified services on which EL is charged.

   Finance Act, 2020 amended this provision to also exempt income arising from e-commerce transactions on or after 01st April, 2021. EL shall be charged on e-commerce transactions from FY 2020-21. However, exemption u/s 10(50) is provided from FY 2021-22. Therefore, e-commerce transactions shall be covered under EL and Income-tax both for FY 2020-21, which results in double taxation. It seems that there is an error in this provision and CBDT may come up with clarification soon.

   Another issue is as income from such transactions is exempt in hands of NR, revenue authorities may take a view that related expenses shall not be allowed u/s 14A of the Act and determination of such expenses would be a challenging task.

2. **Non-deduction of expense u/s 40(a)(ib)**

   As per section 40(a)(ib), if EL is not deducted on specified services or deducted but not paid before due date of filing return of income, consideration shall not be allowed as deduction to assessee. However, such deduction shall be allowed in the year when EL is actually deducted and paid.

3. **TDS u/s 194-O**

   Finance Act, 2020 introduced new TDS provision u/s 194-O. Although this TDS provision does not have direct nexus with Equalisation Levy, but as it is linked with e-commerce transactions, provisions are discussed herewith.

Particulars	Provision
Effective Date	01st October, 2020
Deductor	E-commerce operator (a person who owns, operates or manages digital or electronic facility of platform for e-commerce)
Deductee	E-commerce participant (Resident person selling goods or services, including digital products through e-commerce operator)
Transaction	Sale of goods or services of e-commerce participant facilitated by e-commerce operator. Services shall include fee for technical services and professional services as defined u/s 194J
Point of deduction	At the time of credit of amount of sale to account of e-commerce participant, or at the time of payment, whichever is earlier
Rate of tax	1% on gross amount of sales or services (0.75% for FY 2020-21)
PAN is not furnished	TDS rate of 5% shall be applicable u/s 206AA
Deeming provision	If any payment is made by purchaser directly to e-commerce participant, it shall be deemed that such payment is made by e-commerce operator to e-commerce participant
Exclusive provision	If TDS is made u/s 194-O, then TDS under any other section is not applicable. This exclusion is not applicable for hosting advertisements or provision of services not covered u/s 194-O
Threshold Limit	Annual gross sales up to ₹ 5 lakhs for deductee being Individual / HUF and has also provided PAN / Aadhar Number to deductor

4. Significant Economic Presence (SEP) u/s 9

Finance Act, 2019 introduced Explanation 2A to section 9(1)(i). As per the provision, 'significant economic presence' of NR in India shall constitute 'business connection' in India. It also defined SEP for this purpose. Finance Act, 2020 amended the definition of SEP. The application of the provision is deferred till FY 2021-22.

5. Insertion of Explanation to section 9(1)(i)

Finance Act, 2020 inserted an Explanation 3A to section 9(1)(i) which shall be effective from FY 2020-21. The provision is reproduced herewith –

"For the removal of doubts, it is hereby declared that the income attributable to the operations carried out in India, as referred to in Explanation 1, shall include income from–

(i) such advertisement which targets a customer who resides in India or a customer who accesses the advertisement through internet protocol address located in India;

(ii) sale of data collected from a person who resides in India or from a person who uses internet protocol address located in India; and

(iii) sale of goods or services using data collected from a person who resides in India or from a person who uses internet protocol address located in India."

There seems to be an overlapping of provisions of Explanation 3A and EL. The charge of EL is an exclusive provision irrespective of its taxability under Income Tax Act. So, if any transaction gets covered under provisions of Equalisation Levy, it shall attract charge of EL and NR shall be able to take benefit of exemption u/s 10(50).

In case of specified services, EL is not applicable if recipient is NR and does not have PE in India. In such cases, if transactions gets covered under clause (i) of Explanation 3A, then it shall be governed by the provisions of Income Tax Act, 1961.

6. DTAA

As Equalisation Levy is not a part of Income Tax Act, 1961 benefit of DTAA is not available for such EL in India. However, NR may receive Foreign Tax Credit of such EL in its resident country according to its domestic taxation law.

Manner of charge and payment in case of Specified Services

Specified Services shall cover online advertising of products or services on portals like Google, Facebook, etc. As per section 165, 6% EL is charged on amount of consideration received or receivable by such NR. As per section 166 of the Act, the service recipient shall deduct EL from consideration paid or payable. This provision is similar to TDS in Income Tax. On failure to deduct EL, the service recipient shall have to pay EL from its own pocket. After deduction of EL, the payer shall pay net amount of consideration. NR-supplier shall not get any credit of such EL.

Example 1: ABC Ltd. advertises its products on Facebook portal. Facebook Ireland Limited is NR and therefore Equalisation Levy shall be applicable. Facebook Ireland Limited raises invoice of 1500 USD on 29-05-2020. Forex rate for USD is ₹ 75.62 on 29-05-2020. Therefore, consideration shall be ₹ 113,430 on which EL @ 6% shall be charged. ABC Ltd. shall deduct EL of ₹ 6,806 and pay net consideration of ₹ 106,624. ABC Ltd. shall have to deposit EL of ₹ 6,806 by 07-06-2020. If consideration is paid before issue of invoice, EL shall be charged on amount of consideration so paid. However, when consideration is paid after issue of invoice, charge and payment of EL cannot be postponed till actual payment of consideration.

(i) Concept of Grossing Up

Usually Indian entities pay full amount of consideration to NR and EL is borne by them. The issue arises is whether the consideration paid shall be grossed up for charge of EL or not, i.e. it shall be deemed that consideration is paid after deduction of EL. In example 1, if ABC Ltd. pays entire consideration amount of ₹ 113,430 to Facebook, then as per concept of grossing up, it shall be assumed that consideration is paid after deduction of EL @ 6%. Accordingly grossed up consideration amount shall be ₹ 120,670 (113,430 / 94%). Therefore, EL shall be ₹ 7,240 (6% on ₹ 120,670).

There are two views for grossing up of consideration. One view is that as per section 166, EL is to be deducted and net consideration is to be paid. So, for any consideration paid or payable, it shall be construed to be paid after deduction of EL. Further as per section 165, EL is charged on consideration received or receivable. Therefore, grossing up is required to be done on consideration amount and EL is to be charged accordingly.

Another view is that EL is direct charge on consideration. The provisions of deduction of EL is merely a procedural mechanism developed for collection of EL. As per section 166(2) of Finance Act, 2016, if assessee fails to deduct EL, then he is liable to pay such EL from his own pocket. Further under Income Tax Act, 1961, while computing TDS in such cases, there is specific provision u/s 195A for grossing up. However, there is no such provision in Chapter VIII of Finance Act, 2016.

Prima facie, both views appear correct. However, the first view of grossing up of consideration seems to be more appropriate as section 166 clearly specifies to deduct EL from consideration paid or payable. However, any clarification from CBDT would be appreciated.

(ii) Impact of Foreign Exchange Fluctuation

EL is charged as soon as consideration is paid or becomes payable. In example 1, consideration becomes payable on 29-05-2020 which may become due depending upon the credit period. Once consideration becomes payable, EL is charged on consideration and it becomes payable by assessee. Such EL becomes due to be paid by 7th day of subsequent month. EL is to be computed by considering forex rate on the date of consideration becoming payable, i.e. 29-05-2020 in example 1. Some assesses compute EL by applying forex rate on the last day of month for aggregate of all transactions made during the month which is also, appears, an acceptable practice. Hence, forex rate on the date of actual payment is immaterial.

Manner of charge and payment in case of E-Commerce Transactions

E-commerce transactions shall cover online sale of goods or provision of services by any NR through its portal. It also covers facilitation by NR for such transactions by any person. For example, Amazon, Alibaba, Netflix, Trivago, etc. shall be covered under this provision.

As per 165A, EL @ 2% is charged on consideration received or receivable by NR from online supply made or facilitated by it. As per section 166A, NR e-commerce operator shall be liable for deposit of EL. There is no liability for any payment or compliance on the buyer, recipient or consumer in this case. Consequently, question of grossing up shall not arise. EL shall be charged on consideration amount, i.e. before addition of indirect taxes. Further NR shall not collect EL from its recipient of goods or services. EL is a direct charge on consideration amount and has to borne by NR.

Example 2: PQR Inc., is a foreign company which is engaged in sale of shoes. Shoes are also sold online by PQR Inc. through its portal. Mr. X, Indian resident purchases shoes online from portal of PQR Inc. for 50 USD on 29-05-2020. Forex rate for USD is ₹ 75.62 on 29-05-2020. Therefore, amount of consideration received or receivable by NR-supplier shall ₹ 3,781. Now Equalisation Levy shall be charged @ 6%, which shall be ₹ 227.

Example 3: MNC Inc., is a foreign company which owns platform for online sale of goods. It also facilitates platform to other sellers who list their products on its portal for sale. MNC Inc. undertakes transactions in two ways:

- *Case 1:* MNC Inc. sales goods itself which are purchased by them from different domestic sellers. In such case, MNC Inc. issues invoice and receives consideration from customer. If MNC Inc. sold watch for ₹ 5000 plus GST, then EL @ 2% shall be charged on ₹ 5000 which shall be ₹ 100.
- *Case 2:* JKL Limited lists laptops for sale on portal of MNC Inc. and shall invoice to customer for sale. There can be two scenarios here. One is that MNC Inc. shall receive entire consideration from customer and after deduction of its commission, net amount shall be paid to JKL Limited. Another scenario shall be where JKL Limited receives consideration from customer and pays commission to MNC Inc. In both the scenarios, EL shall be charged on consideration received from customer. Actual sales price of laptop is ₹ 60,000. But JKL Limited and MNC Inc. provides discount of ₹ 4,000 and ₹ 1,000 respectively. So laptop is sold for net amount of ₹ 55,000 plus GST. EL shall be charged @ 2% on ₹ 55,000 which shall be ₹ 1,100.

In example 2 and 3, NR e-commerce operator shall have to deposit EL by 07-07-2020 and provisions for date of charge of EL and forex fluctuations shall remain same as discussed in case of Specified Services above.

Challenges in case of e-commerce transactions

There are various challenges in implementation of provision for charge of EL on ecommerce transactions.

In the case where goods are sold by NR e-commerce operator to any resident person, EL is charged. In such cases, resident person shall not be required to withhold tax u/s 195 as such income shall be exempt u/s 10(50). The issue is that by what means NR e-commerce operator shall be able to identify that the buyer is resident or non-resident. Similarly, resident person shall also be required to identify that e-commerce operator is NR and has paid EL. To overcome this situation, if resident person deducts tax u/s 195, then NR e-commerce operator may have to claim refund of such TDS. If any declaration is provided for residential status by e-commerce operator to buyer and vice versa, then the question arises is that whether such declaration would hold good in assessment proceedings or not.

Further EL is to be charged if recipient who buys goods or services is using IP address located in India. Hence, if any person, whether resident or non-resident uses IP address which is not located in India, then EL is not to be charged. In order to comply with such provision, NR e-commerce operator has to develop their systems in a way to track location of IP address through which transaction has taken place, keep a record of the same, bifurcate transactions on the basis of IP address and compute EL at the end of every quarter.

When e-commerce operator and recipient both are NR, EL is charged only for two specific circumstances as stated earlier. In such cases, also, both the above issues shall arise.

Concluding Remarks

The government is keen to tax the income of business running through digital platforms. Although the expansion of Equalisation Levy may result in increase of tax revenue, but its implementation has several challenges. Further the amendment in section 9 of Income Tax Act also has a larger impact. When the economies of world and India are already struggling over COVID-19 pandemic period, EL results in additional tax burden to NR. As huge revenues are earned by e-commerce operator in India, it would be interesting to see the figures of year-end revenue collection of Equalisation Levy. With complexities revolving around new provisions of EL, reports also suggests that certain foreign e-commerce operators are evaluating to establish entities in India. It is expected that revenue authority may reconsider contentious aspects of Equalisation Levy and amendments to section 9 and issue necessary amendments or clarifications in this regard.

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CSR Contribution and Financial Performance: A Study on Select Indian Companies

Since the past few decades, it has been a debatable issue among the researchers all over the world whether CSR performance has any impact on firm's financial performance. The present study seeks the answer to this question in Indian context. Multiple regression techniques have been used to analyse the impact of CSR expenditure on firm financial performance. Financial performance has been measured from two approaches- accounting approach and market based approach. The study experienced mixed results. CSR expenditure had insignificant negative impact on accounting based financial performance indicators but significant positive impact on market based financial performance indicators. The findings signify that the firms having strong CSR sense are rewarded by the market itself. Read on...



Shri Radhagobinda Basak **Dr. Amitava Mondal** **Dr. Dhananjoy Rakshit**

The authors are faculty in Sidho-Kanho-Birsha University, Purulia, West Bengal. They can be reached at rgbasak85@gmail.com and eboard@icai.in

Introduction

The issue of Corporate Social Responsibility (CSR) is basically ethical (Hopkins, 2008). But, due to reluctance of most of the Indian companies to spend voluntarily on CSR initiatives, the Government of India introduced the CSR Rules 2014 with effect from 1st April 2014. Still, the results were not as expected. Many firms were found to be unable to spend the amount budgeted for CSR activities (Ministry of Corporate Affairs Reports 2014-15 & 2015-16 on the CSR expenditure of Indian companies). So, the Companies (Amendment) Act, 2019 came into existence with the proposals that the unspent amount on a project, which is not ongoing, is to be transferred to a Fund specified in Schedule VII and the same on an ongoing project is to be transferred to a special account in any scheduled bank. Therefore, mere imposition of legal compulsion can't motivate Indian firms for undertaking CSR projects. This is where another issue of CSR is important. It is nothing other than the growing awareness about CSR among the customers,

employees, investors, and other stakeholders. Due to consciousness of various stakeholders, no unethical and socially irresponsible firm can survive in today's world. On the contrary, a socially responsible firm easily draws the attention of the customers, employees, investors and other stakeholders. Those firms build a fair and strong image before the society (Krishnan, 2012). Their reputation gets enhanced (Palmer, 2012). They enjoy competitive advantage over their rivals. All these positively contribute to the survival of an entity. Here, CSR is a strategic issue to the firms for their survival.

Concentrating on this perception, the researchers all over the world have searched for the answer of a question- whether there is any relation between social responsiveness of a firm and its performance. Some studies found positive relation (Sweeney, 2009) between CSR performance and firm performance whereas some others found no relation (Fiori et al., 2008) between the two. Few studies experienced negative relation (Lungu et al., 2011) between them, and again, a few got mixed results (Tilakasiri, 2012) on the relationship between these two variables.

In this backdrop, the present study makes an attempt to get the answer to the same question in the Indian context. For measuring financial performance of firms, two accounting based indicators (ROCE and ROA) and two market based indicators (Market Value to Book Value Ratio and Tobin's Q) have been chosen (Aggarwal, 2013; Wu and Shen, 2013; Cornett et al., 2014; Saeidi et al., 2015; Resmi et al., 2018; Choi et al., 2010; Cavaco and Crifo, 2014; Zhou et al., 2015).

Literature review

A number of studies have been carried out to explore the relationship between CSR performance and firm performance. Majority of the researchers found positive relationship between CSR performance and firm performance (Sweeney, 2009; Isaksson, 2012; Kanwal, 2013; Deng et al., 2013; Cornett et al., 2014; Lu et al., 2014). Matsumura et al. (2014) found that excessive carbon emissions decrease firm's value. As per the findings of Dhaliwal et al. (2011), disclosure of CSR activities helps firms reducing cost of equity capital.

Some studies found no relationship between CSR performance and firm performance (Fiori et al., 2008; Anderson and Preteni, 2011; Lys et al., 2015). Lungu et al. (2011) found a significant negative relation between profitability, and social and environmental disclosure. Tilakasiri (2012) experienced mixed results in this connection. The study showed that community related activities had significant positive relationship with company performance but health related activities had negative relationship with company performance. Similar type of mixed results was also experienced by Servaes and Tamayo (2013).

In India also, a number of studies were carried out in this broad field of research and like their international peers, majority of the researchers found positive relationship between CSR performance and firm performance (Kadyan, 2009; Krishnan, 2012; Lawande, 2013; Angappan, 2014; Jyothi, 2014; Pradhan, 2015; Panchal, 2017; Padhiyar, 2018). Bhatia (2016) found no significant effect of CSR disclosure on financial performance of automotive sector companies. Similarly, Nagaraju (2017) found no significant influence of CSR expenditure on Net Profit and Net Worth.

The relationship between CSR and financial performance of firms has been the most cultivated area of research in the field of CSR (Angelidis et al., 2008, as cited in Krishnan, 2012). However, results have been mixed and hence inconclusive (Aggarwal, 2013; Lu et al., 2014; Saeidi et al., 2015). Most of the studies were conducted in the context of developed countries (Aggarwal, 2013). In most of the earlier Indian studies, either perception based or content based CSR disclosure index was used to measure social performance of firms. Thus, few studies dealt with quantitative data on CSR expenditure. To bridge this gap, the present study has been proposed with the following two major null hypotheses:

H_{01}: There is no significant association between CSR expenditure and select financial performance indicators of the sample companies; and

H_{02}: There is no significant impact of CSR expenditure on the select financial performance indicators of the sample companies.

The data and methodology

A sample of ten companies has been chosen for the study from the set of first 30 most CSR contributing companies appearing in the list prepared by the Ministry of Corporate Affairs for the year 2016-17. For selection, purposive sampling has been used. The followings were the criteria for selection: (a) Companies belonging to the industries which contribute at least 1% of India's GDP have been considered. Only one company from one industry has been chosen to bring heterogeneity in the sample (b) Only BSE listed companies which are leading their respective industries in terms of market capitalization have been chosen. (c) Companies having a good track record (At least for 4 years prior to the year 2014-15) in CSR practice and reporting have been considered.

The study is based on secondary data. Data have been collected from the published annual reports of the selected companies and from the official website of Bombay Stock Exchange. Data for the period from 2010-11 to 2016-17 have been analysed.

CSR score of a firm (The independent variable) has been computed as percentage of CSR spending on PAT of the company. Firms' financial performance has been measured from two approaches-accounting approach and market based approach. In the first approach, ROCE and ROA have been chosen as the indicators of financial performance. In the second approach, Market Value to Book Value Ratio (MVBV) and Tobin's Q have been selected as the indicators of financial performance. Tobin's Q has been measured by the following formula (Servaes and Tamayo, 2012; Cahan et al., 2015):

Tobin's Q = *(Market Value of Equity+Book Value of Debt)/ (Book Value of Total Assets)*

Some control variables such as Age, Size, Revenue, D/E ratio and Return on Equity (ROE) have been included in the regression equation (Anderson and Preteni, 2011; Maqbool and Zameer, 2018). Therefore, the panel regression equations based on Constant Coefficients model are as below (Anderson and Preteni, 2011):

$$Y_{it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \beta_5 X_{5it} + \varepsilon_{it} \quad (1 \ \& \ 2)$$

$$Y_{it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \beta_5 X_{5it} + \beta_6 X_{6it} + \varepsilon_{it} \quad (3 \ \& \ 4)$$

(i= 1, 2, ... , 10; t= 1, 2, ..., 6)

Where, Y is ROCE in equation (1), ROA in equation (2), MVBV in equation (3), and Tobin's Q in equation (4), respectively. X_1, X_2, X_3, X_4, X_5 and X_6 are the CSR score, Age, Size, Revenue, D/E ratio and ROE respectively. ε_{it} is the disturbance term. α is the intercept. β_1, β_2, β_3, β_4, β_5 and β_6 are the coefficients of CSR score, Age, Size, Revenue, D/E ratio and ROE respectively.

Results and discussion

4.1 Impact of CSR expenditure on ROCE

First we will analyse the degree of association between the two as represented by correlation coefficients in the following table:

Table 1: Correlation Coefficients

	CSR	D/E Ratio	Size	Revenue	Age
ROCE	-0.117	-0.209	-0.728	-0.391	0.260
Significance	0.186	0.055	0.000	0.001	0.023

Source: Authors' calculation

From the above table, we find that CSR is slightly *negatively* associated with ROCE and this association is statistically *insignificant* at 1% level of significance. So, our *hypothesis is accepted*. Association between ROCE and D/E ratio is insignificantly negative. Correlation between ROCE and size is significantly negative. The same between ROCE and revenue is also significantly negative. The association between ROCE and age is statistically insignificant though positive.

Now, we will analyse the impact of CSR on ROCE with the help of regression and the results are as below:

Table 2: Regression Results

	Standardized Coefficients	t	Significance	VIF
Constant		3.537	.001	
CSR	-.020	-0.223	.824	1.247
D/E Ratio	.123	1.373	.175	1.308
Size	-1.275	-8.008	.000	4.100
Revenue	.637	4.402	.000	3.382
Age	.036	0.390	.698	1.382
R Square				0.666
Significance				0.000
F Value				21.532
Significance				0.000
Durbin-Watson				0.377

Source: Authors' calculation

As the F value is statistically significant, the regression model is valid. From the value of R Square, it seems that the explanatory variables together can significantly justify more than 2/3rd of the variation in the dependent variable. However, more explanatory variables are needed to explain the dependent variable completely. The Durbin-Watson statistic signifies that the data suffers from positive autocorrelation problem. Impact of CSR expenditure on ROCE is *negative* but this impact is statistically *insignificant* at 1% level of significance. Hence, our *hypothesis is accepted.* D/E ratio and Age have insignificant impact on ROCE. Other two control variables have significant impact on ROCE. Size has negative impact and revenue has positive impact on ROCE. VIF values give the evidence that problem of multicollinearity does not exist in the model.

4.2 Impact of CSR expenditure on ROA

Let's see the results of correlation at first as represented in the following table:

Table 3: Correlation Coefficients

	CSR	D/E Ratio	Size	Revenue	Age
ROA	-0.228	-0.411	-0.698	-0.381	0.144
Significance	0.040	0.001	0.000	0.001	0.135

Source: Authors' calculation

CSR expenditure is *negatively* associated with ROA and this association is statistically *insignificant* at 1% level of significance. Hence, our *hypothesis gets accepted.* ROA is found to be significantly and negatively associated with D/E ratio, size and revenue, respectively. The correlation between ROA and age is however insignificant.

Now, we will examine the impact of CSR on ROA with the help of regression and the results are as below:

Table 4: Regression Results

	Standardized Coefficients	t	Significance	VIF
Constant		3.718	.000	
CSR	-.113	-1.193	.238	1.247
D/E Ratio	-.124	-1.285	.204	1.308
Size	-1.017	-5.946	.000	4.100

	Standardized Coefficients	t	Significance	VIF
Revenue	.461	2.972	.004	3.382
Age	.030	.298	.767	1.382
R Square			0.616	
Significance			0.000	
F Value			17.254	
Significance			0.000	
Durbin-Watson			0.436	

Source: Authors' calculation

The significance level of F statistic signifies that the regression model is valid. Moreover, the explanatory variables together are able to explain about 2/3rd of the variation in the dependent variable. However, more explanatory variables may be employed to capture the variation of the dependent variable completely. Durbin-Watson statistic gives the evidence that the model suffers from positive autocorrelation problem. Impact of CSR expenditure on ROA is *negative* but statistically *insignificant* at 1% level of significance. Hence, our *hypothesis is accepted.* Both D/E ratio and age have insignificant impact on ROA. Other two control variables have significant impact on ROA. Size has negative impact and revenue has positive impact on ROA. VIF values give the evidence that problem of multicollinearity does not exist in the model.

4.3 Impact of CSR expenditure on MVBV Ratio

Just like earlier, first we will analyse the degree of association between the two as represented by correlation coefficients in the following table:

Table 5: Correlation Coefficients

	CSR	ROE	D/E Ratio	Size	Revenue	Age
MVBV	-0.017	0.963	-0.121	-0.681	-0.361	0.272
Significance	0.448	0.00	0.178	0.00	0.002	0.018

Source: Authors' calculation

From the above table, we find that CSR is slightly *negatively* associated with MVBV Ratio and this association is statistically *insignificant* at 1% level of significance. So, our *hypothesis is accepted.* Both Size and revenue are found to be negatively and significantly associated with MVBV Ratio. ROE is found to be positively and significantly associated with MVBV Ratio. Both D/E Ratio and Age have insignificant association with MVBV Ratio.

Now, we will analyse the impact of CSR expenditure on MVBV Ratio with the help of regression and the results are as below:

Table 6: Regression Results

	Standardized Coefficients	t	Significance	VIF
Constant		.034	.973	
CSR	.115	3.002	.004	1.250
ROE	.958	16.463	.000	2.875
D/E Ratio	.026	.628	.533	1.408
Size	-.081	-.793	.431	8.817
Revenue	.057	.769	.445	4.601
Age	-.052	-1.294	.201	1.389
R Square			0.938	

Significance	0.000
F Value	132.642
Significance	0.000
Durbin-Watson	1.034

Source: Authors' calculation

The F statistic of the above model is statistically significant. So, the regression model is valid for making some meaningful inferences. From the value of R Square, it seems that the explanatory variables can outstandingly explain the variation in the dependent variable. Moreover, the Durbin-Watson statistic suggests that the model does not suffer from severe autocorrelation problem. Impact of CSR expenditure on MVBV Ratio is *positive* and this impact is statistically *significant* at 1% level of significance. Hence, our *hypothesis is rejected.* D/E Ratio, Size, Revenue and Age have insignificant impact on MVBV Ratio. ROE is found to have significant positive impact on MVBV Ratio. VIF values give the evidence that the model is not influenced by severe multicollinearity problem except in the case of Size variable.

4.4 Impact of CSR expenditure on Tobin's Q

Let's observe the degree of association between the two as represented by correlation coefficients in the following table:

Table 7: Correlation Coefficients

	CSR	ROE	D/E Ratio	Size	Revenue	Age
Tobin's Q	-0.057	0.907	-0.252	-0.719	-0.390	0.192
Significance	0.332	0.00	0.026	0.00	0.001	0.071

Source: Author's calculation

From the above table, we find that CSR is slightly *negatively* associated with Tobin's Q and this association is statistically *insignificant* at 1% level of significance. So, our *hypothesis is accepted.* Association between Tobin's Q and each of the three control variables, ROE, size and revenue respectively, is significant. Tobin's Q has positive association with ROE but is negatively associated with size and revenue, respectively. Tobin's Q has insignificant association with the other two control variables, D/E ratio and age.

Now, we will analyse the impact of CSR expenditure on Tobin's Q with the help of regression and the results are as below:

Table 8: Regression Results

	Standardized Coefficients	t	Significance	VIF
Constant		2.059	.044	
CSR	.110	3.208	.008	1.250
ROE	.790	8.997	.000	2.875
D/E Ratio	-.064	-1.035	.305	1.408
Size	-.283	-1.840	.071	8.817
Revenue	.131	1.179	.244	4.601
Age	-.106	-1.739	.088	1.389
R Square		0.858		

Significance	0.000
F Value	53.386
Significance	0.000
Durbin-Watson	1.469

Source: Author's calculation

The value of F statistic is statistically significant and hence the regression model is valid. From the value of R Square, it seems that the model well fits the data as the explanatory variables together can explain more than 85% variation in the dependent variable. Durbin-Watson statistic suggests that the regression model does not suffer from severe autocorrelation problem. Impact of CSR expenditure on Tobin's Q is *positive* and this impact is statistically *significant* at 1% level of significance. Hence, our *hypothesis is rejected*. D/E ratio, Size, Revenue and Age are found to have insignificant impact on Tobin's Q. ROE has significant positive impact on Tobin's Q. VIF values give the evidence that the model is not influenced by severe multicollinearity problem except in the case of Size variable.

Conclusion

The study was started with the research question whether CSR expenditure has any impact on financial performance of the select Indian firms. Based on this research question, hypotheses were structured. After analysing the data, it is found that CSR expenditure is negatively associated with all the four selected indicators of financial performance. Surprisingly, all the four associations are statistically insignificant. Based on the insignificant results, no meaningful inference regarding the relationship between CSR contribution and corporate financial performance can be drawn. From the regression results, it is observed that CSR expenditure has negative impact on both accounting based financial performance indicators, ROCE and ROA. Again, the impacts are statistically insignificant. Therefore, we can't draw any conclusion regarding the impact of CSR contribution on accounting based measures of financial performance based on these insignificant results. On the other hand, CSR expenditure is found to have significant positive impact on both market based financial performance indicators, MVBV ratio and Tobin's Q. Therefore, the study claims that CSR performance has significant positive impact on market based corporate financial performance (Sweeney, 2009; Angappan, 2014; Maqbool and Zameer, 2018). It implies that social responsiveness of a firm is reflected through its market price of securities or it may be said that an entity having strong sense of social responsibility is rewarded by the market itself. If this is the fact, the companies should integrate CSR policy in their corporate strategy voluntarily (Gangopadhyay, 2012) to sustain in the long run. Such kind of findings may motivate Indian firms to undertake CSR projects voluntarily as they will find that social engagement is rewarded by the market. Moreover, socio-economic health of India will surely improve because of successful implementation of varied social initiatives taken by the Indian firms. ■■■

> "Findings may motivate Indian firms to undertake CSR projects voluntarily as they will find that social engagement is rewarded by the market.

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A Journey of Triple-Entry Accounting

Gourav Surana and **Dr. Shurveer S. Bhanawat**

Dr. Bhanawat is Head and Shri Surana is Research Scholar in Department of Accountancy and Business Statistics, MLSU, Udaipur.
The authors can be reached at gouravsurana7@gmail.com

The double-entry accounting principals have used for more than 600 years, with the emergence of the blockchain technology another concept is revived that is triple-entry accounting. This paper conducts an exploratory study on the development of triple-entry accounting concept from its early form to its present incarnation with blockchain technology. We found that there are two different schools of thought for this concept: (i) Yuji Ijiri Momentum Accounting, and (ii) William McCarthy REA ontology. We found that most of the work on triple-entry accounting is going on these days; they have followed the McCarthy REA ontology school of thought. Blockchain Technology based triple-entry accounting will fundamentally improve accounting when properly implemented. Read on…

1. Introduction

The history of accounting is thousands of year old, and it can trace from the ancient civilisations. Luca Pacioli (1494) is known as the father of modern double-entry accounting system. Accounting continuously has developed according to the requirements of the business. Due to increase complexity in economic transactions, some specialised branches (such as Cost Accounting, Financial Accounting, Management Accounting) of accounting have developed. People were doing accounting centuries before computers, at that time accountant used paper-based ledger books or registers to record transactions. Machines started to play a role in the 1800s, and then the invention of computers transformed accounting. After the development of the internet and informatics, the way business entities operate has changed these days. As a result, the cloud accounting and other modern accounting methods emerged, but the double-entry accounting principle always is base for these methods. Yuji Ijiri was the first person who thought ahead of double-entry accounting.

In 1975, he introduced a new concept in accounting that is called momentum accounting. Ijiri originally coined the term 'triple-entry' in 1982. He proposed that in addition to the debit and credit entries, the third layer of entries called trebit should be included with a new set of accounts to explain changes of income. The idea of such a 'triple-entry bookkeeping' system is to provide more momentum financial information to the organisation, enabling better strategic decision making.

Ijiri's ideas were forgotten (Ibañez et al., 2020). In 2005, Ian Grigg published a working paper on his website titled 'Triple-entry accounting.' He gave a different meaning to this term from Ijiri's momentum accounting definition. Grigg proposed a new concept, 'the receipt is the transaction,' wherein a digitally signed receipt backed up by financial cryptograph between two parties can be viewed by a shared third entry to avoid transaction fraud and reduce redundancies in the internal recording. Most of the recent studies believe in this story. Still, this story gives an incomplete presentation of the historical development due to under-appreciation of the work of William McCarthy and Todd Boyle. To fill this gap, we conduct an exploratory study on the development of triple-entry accounting concept from its early form to its present incarnation with blockchain technology. Some of the important milestones in the development

Figure 1: Important Milestones in the Development of Triple-Entry Accounting Concept

1975
- **Yuji Ijiri** published "Theory of Accounting Measurement"

1982
- **Yuji Ijiri** published "Triple Entry Bookkeeping and Accounting Momentum".
- **William McCarthy** published "The REA Accounting Model".

1997
- **Todd Boyle** sets up GL Dialtone and being to develop Triple Entry Accounting (TEA).
- Between 1999 and 2003, Boyle documented his idea on TEA, GLs, PTRs, and STRs.
- **Boyle** met with **Haugen,** who introduced **Boyle** to **McCarthy & REA** and reviews **Boyle's** papers.

2005
- **Ian Grigg** documented **TEA** (Triple Entry Accounting) with cryptographically signed signed receipts.
- **Boyle** commented on Grigg's paper.

2008
- **Satoshi Nakamoto**, pseudonym for unknown person or group, published a White paper that introduce's **Bitcoin** the first appliction of **Blockchain Technology**.

2013
- **Vitalik Buterin** released a white paper on what would became the **"Ethereum Project"**- a **Blockchain Technology** based platform with ability to build decentralised application (**Smart Contract**).
- **Blockchain Technology** was begining to separated from **Bitcoin**.

2014
- **Jason Tyra** wrote a short article in Bitcoin Magazine suggesting that using Bitcoin infrastructure, the triple-entry concept proposed by **Grigg** (2005) is possible and likely to be highly desirable for both companies and external users.

2016
- **Deloitte** published a brief article suggesting that the implementation of triple-entry accounting with blockchain will be a game-changer in accounting.
- **Balanc3** started in 2015 and described its goal in 2016 in a video titled 'Balanc3- Triple Entry Accounting'.

2017
- **Jun Dai and Miklos A. Vasarhelyi** proposed a blockchain technology-based accounting system, which incorporates ERP and blockchain technology.
- **Yunsen Wang & Alexander Kogan** introduced a blockchain technology-based AIS (Accounting Information System), including a prototype implementation.
- **Request Network** and **bBiller**, according to their white papers they aim to develop triple-entry accounting with blockchain based on the spirit of triple-entry framework of Grigg (2005).

2018
- **Ledgerium** aims to create a decentralised ledger through a triple-entry accounting system with smart contracts. Ledgerium calls this third ledger **Luca™**, a cloud-based platform that records payment transactions between parties utilising blockchain.
- **zkLedger** is a public ledger with permissioned blockchains and zero-knowledge proofs developed by the MIT Media Lab, US.

2019
- **Pacio** represents an attempt to build a blockchain network that will facilitate global triple-entry accounting applications.

2020
- **Hans Weigand, Ivars Blums, and Joot de Kruijff** introduced a blockchain technology-based shared ledger solution formally and compliant with Financial Reporting Standards.

of triple-entry accounting concept has been shown in Figure 1.

This paper structured in the following manner: Firstly, we discuss the work of Yuji Ijiri, William E. McCarthy, Todd Boyle, and Ian Grigg. Next, we discuss the present incarnation of triple-entry accounting with blockchain technology. Finally, we conclude with some general considerations.

2. Triple-Entry Bookkeeping by Yuji Ijiri

Yuji Ijiri is the first person who thought beyond the principle of double-entry accounting. In 1975, Ijiri came up with the idea of momentum accounting. The term triple-entry bookkeeping originates from a paper written in 1982 by Professor Yuji Ijiri. This paper entitled **"Triple-entry bookkeeping and momentum Income"** which further elaborated its corresponding framework in his paper entitled **"A framework for Triple-entry bookkeeping"** in 1986. Ijiri (1986) argued that the double-entry records the changes in wealth through the income earned during a period, but it might be possible that every one-dollar income is earned at a different rate. He referred to the definition of momentum, 'the rate at which income is earned', which is measured in monetary units per period, such as dollars per month (Cai, 2019). To record the changes in momentum, he also developed a third-level entry for a new set of trebit accounts. Fundamentally, Yuji's work extended the accounting equations from two layers to three layers, coinciding with the derivative/integration concept in mathematics as follows:

$$\Delta assets_n = Income_n = \int_{T=t}^{T=t+n} Momentum\partial(n),$$

where n is the time period.

***Figure 2**– Adopted from (Cai, 2019)*

Ijiri (1986) triple-entry accounting explains how accounting information can facilitate the decision making of internal management. His work is intellectually engaging but its real implementation is very difficult that's why his work has been strongly criticised. This framework is not currently being used. However, "Whether or not it is worth pursuing this alternative accounting method is still open to debate" (Cai, 2019).

3. Resource-Event-Agent (REA) by William E. McCarthy

Almost simultaneously with Yuji Ijiri, William E. McCarthy proposed a generalised accounting model that contained the concepts of **Resources, Events, Agents** (REA) (McCarthy, 1982). REA is a model of how an accounting system could be re-engineered for the computer age. Note that this system was at the antipodes of Ijiri's work to broaden the concepts of double-entry accounting, but it still took some insights from the early work of Ijiri (Ibañez et al., 2020). McCarthy system would not have debits, credits, and accounts because he deemed inessential for an accounting system. He argued for recording detailed transaction histories which may be viewed by a different class of users. REA treats the accounting system as a virtual representation of the real business. In other words, it creates computer objects that represent real-world-business objects directly. REA is an ontology in the computer science context. The actual items included in the REA model are as following:

- **Resources** – goods, services or money
- **Events** – business transactions or agreements that affect resources
- **Agent** - people or other human agencies (other companies, firms, etc.)

> Triple-entry accounting explains how accounting information can facilitate the decision making of internal management

Due to the absence of granularity in the data processed, McCarthy criticised conventional double-entry systems. He proposed that this will be solved by the REA accounting model, more effective and precise, and describe the agents involved, as well as other information while maintaining the duality of economic activities (Causal relationship). Later in his criticism, the absence of automation is also included.

4. GL Dialtone and Triple-Entry Accounting by Todd Boyle

Todd Boyle is an American accountant, moved back from Japan in 1997 and set up his company General Ledger (GL) Dialtone in Seattle. GL Dialtone is an accounting solution company specialised in webledgers. He started work with his idea of shared ledger independently. One of McCarthy's collaborators, Robert Haugen[1], later influenced him (Ibañez et al., 2020). Haugen introduced Boyle to McCarthy's REA, and later with McCarthy himself, which had an impact in Boyle's ideas

[1] *Robert Haugen was a software developer for a Core Components ebXML standards team, who had worked in applying McCarthy's REA to supply chain Internet-based collaboration.*

(Ibañez et al., 2020). Boyle believed that McCarthy's work was very high level and ahead of its time. His webledger architecture implemented **McCarthy's economic ontology, and ISO 15944-4**[2] and form "Shared Transaction Repository" (STR) or "Public Transaction Repository" (PTR) based on "single-entry hosted transaction tables". "There would thus be a single, shared, network-centric record but, because of the triple-signed structure, the system would be called triple-entry accounting" (Ibañez et al., 2020). He developed an REA-based economic ontology to describe this system conceptually.

5. Triple Entry Accounting by Ian Grigg

Ian Grigg is a renowned financial cryptographer who has been active in this area since 1995. He developed Ricardian Contract[3] with Gray Howland in 1996. Grigg continuously developed this idea and began to document his work in 2000. Around 2004, he realised that his design could have fundamental implications for accounting, and he pursued further development of his ideas, which he called **Triple-Entry Accounting.** This concept, which Grigg later continued to develop, It was an effort to replicate how, in a shared data environment within firms, economic activities are reported internally within firms via an ERP framework (Ibañez et al., 2020). It involved a shared receipt for the transactions common to two parties, and a trusted third party limited to signing, timestamping and ordering. It originated the genesis of triple-entry. It is not just a receipt, but it is a transaction itself because it holds all the relevant information.

An important point to note that at the time of conceptualising his ideas, he was unware of Boyle's work. The draft of the resulting paper was circulated in June 2005. Boyle saw this paper and found both of them were working on the same idea, so he commented on Grigg's paper. Inside his article, Grigg incorporated and implemented many of Boyle's ideas (Ibañez et al., 2020). However, he credited Boyle as an author in his draft, but this was later withdrawn at Boyle's request due to wider differences between their views. Grigg proposed a solution to deal with accidental errors and fraud in accounting. He believes that companies should not be the sole recorders of business transactions. A third-party, cryptographically secured entry can record for transactions between entities at the same time. In this third entry, the debit registered by one entity is the credit recorded by the counterparty. Initially, this idea is known as triple-entry accounting, but later he pointed out that were triple-entry

> With the emergence Bitcoin and its underlying blockchain protocol showed that a neutral trusted third party could be replaced by blockchain so the third shared ledger can be decentralised, immutable, secure and automated using blockchain.

bookkeeping (Grigg, 2019). Grigg linked the standard accounting techniques with financial cryptography in the form of the signed receipt. In consequence, a more resilient system which will reduce costs and providing reliable accounting is being formed.

6. Blockchain Technology based Triple-Entry Accounting

In 2005, Ian Grigg proposed a great concept to record business transactions. At that time, it was unclear who would act as the neutral, trusted third party to maintain the shared ledger. With the emergence of Bitcoin and its underlying blockchain protocol showed that a neutral trusted third party could be replaced by blockchain so the third shared ledger can be decentralised, immutable, secure and automated using

[2] *ISO/IEC 15944-4 provides the ontological specification with an enumeration of the primitive and derived data classes needed in a full economic exchange. These definitions are specified with class diagrams from the Unified Modelling Language (UML). This is the declarative component of the Open-edi Business Transaction Ontology (OeBTO).*

[3] *A Ricardian Contract: a human and machine-readable text file containing both the terms of an agreement and the program executing the financial instrument, such that they are the same thing, i.e. "the issue is a contract".*

blockchain (Ibañez et al., 2020).

In 2014, Jason Tyra in his short article suggesting that using Bitcoin infrastructure, triple-entry accounting concept proposed by Grigg (2005) is possible and likely to be highly desirable for both companies and their stakeholders (Tyra, 2014). Since then, discussion on blockchain technology-based triple-entry accounting has been started. Despite the potential of triple-entry accounting framework in accounting, there is a limited amount of study done in the academic world (Cai, 2019). Some of the well-cited studies are as follows:

- Dai & Vasarhelyi (2017) proposed a blockchain technology-based accounting system, and this study incorporates ERP and blockchain technology.
- Wang & Kogan (2018) introduced a blockchain technology-based AIS (Accounting Information System), including a prototype implementation. The main concern addressed in their paper is the tension between the protection of private data and the desirable public blockchain transparency. The authors solve the tension using Zero-Knowledge Proof encryption.
- Weigand et al. (2020) introduced a blockchain technology-based shared ledger solution formally and compliant with Financial Reporting Standards. They build on the COFRIS accounting ontology (grounded on UFO) and the blockchain ontology developed by De Kruijff & Weigand that distinguishes between a Datalogical level, an Infological and an Essential (conceptual) level. This study shows how both consensual and enterprise-specific parts of the business exchange transaction can be represented concisely and how this pattern can be implemented using Smart Contracts.
- Also there was an article in HBR titled "The blockchain will do to financial system, what internet did to media" by Jiochi Ito, neha Narula and Robleh Ali.where they clearly mentioned that the financial system is ripe for disruption and with blockchain we will see a lot of impact in the near future.

Prominent players of the accounting industry move much faster than academia (Karajovic et al., 2019). Several start-up projects such as Request Network, Balanc3, Fizcal, bBiller, Ledgerium, zkLedger, and Pacio have been established to implement the concept of triple-entry accounting.

7. Discussion and Conclusion

From the above discussion, we can say that triple-entry accounting has two schools of thought: (i) Yuji Ijiri Momentum Accounting, and (ii) William McCarthy REA ontology. Ijiri Momentum Accounting, since it was affected by the physical elements of force and momentum, its fundamental objective was to transfer the focus of management to a company's future growth rather than the current situation (Gröblacher & Mizdraković, 2019). At present day, it remains subject to researchers' concerns. Indeed, the structural similarities between REA and TEA are not only a coincidence but a natural outcome, given the historical effect of the former on the latter (Ibañez et al., 2020). We found that most of the work on TEA, going on these days, followed the McCarthy REA school of thought. Todd Boyle had given a new dimension to REA ontology, and with the help of Boyle ideas, Ian Grigg had given the concept of the triple-entry accounting. But at that time its implementation was not possible. With the emergence of blockchain technology, it seems that its application has become possible. The industry has already seen the promising potential of blockchain technology-based accounting. Blockchain Technology based triple-entry accounting will fundamentally improve accounting when properly

"The industry has already seen the promising potential of blockchain technology-based accounting. Blockchain Technology based triple-entry accounting will fundamentally improve accounting when properly implemented.

implemented. Although blockchain technology-based triple-entry accounting could disrupt the entire accounting industry, academic as well as industrial research on the subject is extremely limited in India. We hope that a better understanding of the historical development of triple-entry accounting concept stimulates the academic debate among accounting professionals. ■■■

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Chartered Accountants Carving a Niche in Shared Services

There has never been a better time for chartered accountants to carve a niche for themselves in shared services. Over the years, finance leaders with a technological bent of mind have led the evolution of shared services. Not very long ago, shared service organisations were efficiency catalysts - handling back-office operations to cut down costs and optimise operations. Today, shared services have evolved to lend a competitive advantage to globally networked enterprises. The transition was accelerated amid the COVID-19 pandemic. By aligning cross-functional initiatives with business objectives, chartered accountants can not only navigate their way through balance sheets but also help augment organisational capabilities. Read on…

CA. Manoj Kalra

The author is a member of the Institute. He can be reached at manojkalra@rediffmail.com and eboard@icai.in

Over the last two decades, businesses across sectors have transitioned to a Global Business Services (GBS) model of shared services. At the beginning of this evolution, the intent was to cut down costs and optimise operations. Gradually, however, GBS organisations began to manage end-to-end services for customers and stakeholders across the value chain, cutting across silos and legacy functions. Over time, the role of shared services has witnessed a remarkable evolution. From leading projects across finance, HR, IT and other critical areas, it has moved to spearheading strategic transformative experiences with data-driven insights.

As more and more business leaders recognise the value of GBS, shared services share a seat at the table with other stakeholders. GBS leaders are actively assuming responsibilities in strategic business decisions about organisational objectives, capacity building and investments in talent and technology. Thus, business

> Business units have more time and resources at their disposal to drive innovative solutions, forge partnerships and dive deep into customer insights.

units have more time and resources at their disposal to drive innovative solutions, forge partnerships and dive deep into customer insights.

Aligning cross-functional initiatives with business objectives, chartered accountants in GBS not only navigate their way through balance sheets but also help augment organisational capabilities across functions.

Then and now: The evolution of shared services

In the late 1990s, when the concept of offshoring gained widespread momentum, the focus of finance professionals in the GBS space was more around bookkeeping, resource allocation, compliance, and control. Over the years, however, shared services have evolved from efficiency drivers to value creators, as shown in *Figure 1*.

Today, shared service organisations are no longer outsourcing partners. Rather, they are capability centres that deliver cross-functional excellence. They offer value to the customer and act as a competitive advantage for the enterprise. This evolution has triggered transformative changes around three core areas:

- **Value delivery:** The definition of critical finance functions has also changed significantly. Two decades ago, only accounts payable and reconciliation were handled by shared service professionals. Now, that spectrum is all-

Figure 1: How are finance leaders leading the evolution of shared services

From efficiency catalysts → To value creators

Operational framework of the finance function	Offshore centres	Captive centres	Capability centres	Stewardship in Global Business Services (GBS)
Goals	To prove the concept	Cost arbitrage and optimised profitability	Business impact	Enterprise excellence
Focus Areas	• Process set-up • Finance management • Quality and compliance	+ • Process efficiency • Capacity build-up	+ Process change Improved customer segmentation	+ • Business model innovation • Identification of profit opportunities for the future
Role Perceptions	Administrators	Technical experts	Partner to business leaders and CXOs	Change agents and operational performance drivers
Key stakeholders	Regulatory bodies	+Leadership, MANCOM and BOD	+Investors, Customers	+Communities, extended ecosystem of stakeholders

encompassing, including complex, business-critical operations like controllership and taxation.

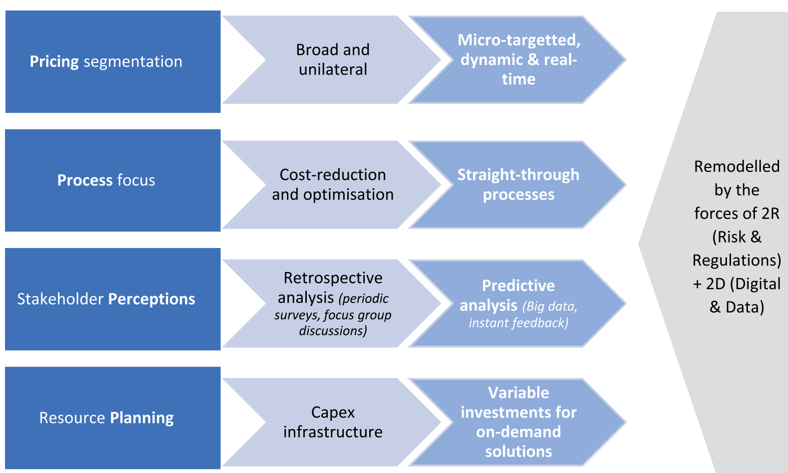
- **Business partnership:** Digitisation of processes and the availability of new-age technologies are also paving the way for higher stakes. The modern-day financial controller is a true business partner and has a significant impact on management decisions. Therefore, the role entails inputs with high management relevance, such as commenting on reports and formulating strategies to reimagine the value proposition.
- **Role of CA professionals:** The responsibilities of chartered accountants have also witnessed a paradigm shift. For instance, instead of processing accounts payables, they now focus on managing end-to-end, source-to-pay processing, exploring new revenue channels and creating Intellectual Property (IP). From generating financial reports and providing active decision-making support to leveraging technologies for real-time analysis and forecasting, CA professionals have transformed into finance business partners of C-suite leaders.

The transformation has further intensified amid COVID-19, accentuating the role of GBS in today's fast-changing business landscape.

Evolution of the mindset of CFO

In the early days of GBS, CFOs across industries were involved in high-stakes decisions around CAPEX, long-term growth, and indictments. Over the years, the industry has also witnessed changes in their responsibilities and priorities, as shown in *Figure 2*. In terms of customer engagement, C-suite priorities have transformed from broad segmentation and one-time pricing to microtargeting and dynamic, real-time pricing. On the other hand, among operations and processes, the focus has shifted from incremental cost reductions to agile straight-through processing. Technological advancements have augmented this evolution further, reshaping CFO priorities from planning CAPEX investments to strategising variable costs for on-demand cloud solution.

Figure 2: 4 Ps -Evolving from Finance Function to priorities



The role of CFOs is continually being remoulded under the influence of four fundamental forces: digital, data, risk and regulations. As organisations continue to be disrupted by globalisation and innovative technologies, the finance function will increasingly tilt towards becoming a data-driven decision centre, rather than one that merely does bookkeeping (balances the books). For finance leaders to successfully navigate the challenges of an evolving ecosystem, they

> "The modern-day financial controller is a true business partner and has a significant impact on management decisions. Therefore, the role entails inputs with high management relevance, such as commenting on reports and formulating strategies to reimagine the value proposition.

must not only rethink their competencies but also surround themselves with the right people and amplify collaborative teamwork.

COVID-19 and shared services

Across the globe, the outbreak of COVID-19 created widespread repercussions for the economy at large. For every organisation, business continuity became the foremost priority. In the face of unprecedented uncertainties, companies both large and small had to pivot and stand resilient. Business executives have had no choice but to let go of long-standing beliefs and reimagine the traditional ways of work. The upside: strategies that were conceived as quick fixes to stay afloat while navigating unchartered territories are now the exponents of success in the new normal.

For instance, the location-based operating model of shared services had been honed for decades. But the pandemic rendered it obsolete within a couple of weeks, upending the dependency on physical infrastructure and sparking off a quick transition to remote work. Thanks to technology, GBS organisations have been able to deliver productivity, even while embracing a wave of changes.

- **Resilience:** During the onset of COVID-19, shared service leaders had to empower the entire workforce to work from home rapidly. While several businesses had the majority of their employees working remotely during lockdowns, industry leaders were focused on not only gearing up for the short term but also sustaining the arrangements for the long run.
- **Efficiency:** Unsurprisingly, companies that had already built an agile infrastructure were quick to adapt. Collaboration tools, seamless business processes and lean delivery mechanisms ensured business continuity against odds.
- **Employee wellbeing:** An empathy-led leadership approach became the need of the hour for GBS executives. Keeping the knowledge workforce engaged, motivated and productive was a key requisite of efficiency, as employees adjusted to remote environments and the inherent challenges.

Reimagining the new normal

As companies prepare to bounce back stronger on the road to economic recovery, many of these strategies will continue to be the backbone of service delivery. The need to move fast and offer disruptive products and services has opened up an array of opportunities across four key areas:

- **Remote work:** Traditionally, onsite presence was perceived as a fundamental prerequisite for most roles within shared services. However, the pandemic has proved that unnecessary in an overwhelming number of cases, thus forcing GBS leaders to reassess roles and responsibilities across the spectrum. Job functions, complexities, infrastructure requirements and feasibilities have witnessed a complete makeover.

"A remote workforce offers several opportunities to rethink the talent landscape. When employees can work from anywhere, location independence opens up employment opportunities for a wider pool of professionals.

- **Borderless talent:** A remote workforce offers several opportunities to rethink the talent landscape. When employees can work from anywhere, location independence opens up employment opportunities for a wider pool of professionals. For instance, companies can hire finance professionals from Tier 2 and Tier 3 cities, instead of restricting their search to metropolitan cities alone.
- **Flexibility and coaching:** Several organisations have already embraced flexible work hours to balance the

With an emphasis on lean teams and business processes that support data-driven decision-making, businesses are weaving in agility in the organisational fabric.

demand and availability of professionals, thus driving higher utilisation and productivity during peak hours. GBS leaders are also actively rolling out reskilling and upskilling programs, to retain, attract and develop a future-ready workforce.

- **Agile processes:** With an emphasis on lean teams and business processes that support data-driven decision-making, businesses are weaving in agility in the organisational fabric. Building on the success of distributed agile practices that were beneficial during the crisis, shared service functions are now gearing up for long-term resilience.
- **Technology investments:** As businesses gear up for the year ahead, the focus is now on leveraging secure, next-gen tools and technologies to facilitate hybrid working environments. Finance leaders in the GBS space are already allocating budgets to stay abreast of technologies, including cloud-based collaborative tools, Line of Business (LOB) applications like SAP or other ERP tools, and secure information exchange platforms.

A roadmap for tech-driven progress

As the stewards of organisational resources in GBS, the onus of driving short-term and long-term infrastructural revamp lies on finance professionals. The rapid pace of digital disruption is pushing chartered accountants to the forefront of IT decisions, such as cloud computing, Robotic Process Automation (RPA), data analytics and visualisation platforms, Artificial Intelligence (AI), and Internet of Things (IoT). Technology is playing an increasingly important role in reimagining traditional finance roles. Many CFOs are now actively advocating technology adoption, to transform the nature of services delivered by GBS.

A case in point is that of RPA, which has transformed GBS into a competitive business function, underpinned by cost efficiency and agility.

- By freeing up employees from cumbersome, repetitive tasks, RPA is enabling people to pursue more thought-intensive challenges.
- In addition to remarkable improvements in the productivity and quality of shared services, RPA comes with the added advantage of round-the-clock scalability

Figure 3: Benefits of technology adoption

in line with demand-supply fluctuations, thus optimising the costs further.

Driving decision-making with technology

Although one might argue that automation can result in job losses, the relationship between technology and talent is symbiotic. Technology is used in conjunction with human ingenuity to create maximum impact. Over the years, shared services have moved beyond process standardisation to a new paradigm, fortified by technologies such as:

- Real-time process monitoring to proactively identify demand fluctuations and trigger appropriate actions
- Big data analytics to derive insights, predict probable outcomes and chart out an action plan
- Mobility to facilitate anywhere, anytime service delivery for stakeholders

As global hubs with follow-the-sun capabilities, shared services organisations are embracing rapid advancements in IoT, industrial analytics and AI to stay on the cutting edge of innovation. Against this backdrop, GBS leaders are increasingly involved in strengthening the technology backbone of the business.

In the years ahead, the focus will shift towards a combination of cognitive methods and automation, through predictive analytics and Machine Learning (ML) models that generate invaluable real-time insights. Be it back-office processing operations or first-line customer service, leveraging next-gen technologies is the need of the hour. Otherwise it will put new pressures on finance shared services professionals, who will require the mastery of team management and communication skills, along with technological expertise and high-value strategic planning techniques. It may become increasingly difficult to source the leaders of the future in shared services, because of the technology capability that will be needed. Therefore, chartered accountants must equip themselves with the skillsets and mindset they need to redesign shared services for the digital era.

Career outlook for chartered accountants

In today's environment, there is a very thin line between the role in a shared service centre and a financial controller.

- For professionals who aspire to make their career in GBS, it is essential to have a deeper understanding of the nature of business.
- One needs to be more technology savvy and proficient in technologies like cloud, RPA, and AI along with tools like SAP and Oracle ERPs. For financial controllers, it is all about walking the business through numbers. In contrast, for finance leaders in shared services, it's about understanding the technologies that generate those numbers and interpreting those numbers.

> Otherwise it will put new pressures on finance shared services professionals, who will require the mastery of team management and communication skills, along with technological expertise and high-value strategic planning techniques. It may become increasingly difficult to source the leaders of the future in shared services, because of the technology capability that will be needed.

These attributes are what really differentiate someone who is working in a capability centre from a professional in a front-office role.

Over the years, GBS has become an attractive career choice for chartered accountants. As the function matures, broadens its scope, and gets a seat at the top table, finance professionals are increasingly opting for roles in shared services, instead of traditionally preferred finance roles. The critical factors that are catalysing these changes are diverse:

- **Being bullish on career growth:** Not very long ago, financial shared services were often thought of as transaction factories of the organisation. This perception hindered the talent pool from opting for a career in GBS. The evolution of shared services, however, has uprooted those beliefs. Realising how they're now creating value, chartered accountants are bullish on their career trajectory and long-term prospects in the field.
- **A broad business view:** Given that the scope of GBS extends beyond the conventional gamut of finance, finance professionals can gain a broader perspective of the business landscape. Working closely with business leaders across domains, roles in GBS offer a plethora of opportunities to hone cross-functional expertise.
- **Working on challenging projects:** As a hotbed of innovation, GBS has begun to deliver tangible business outcomes, thus offering more challenging work for chartered accountants. Besides, finance leaders in shared services now have a seat at the top table, thereby welding more corporate influence and shaping finance-driven organisational objectives.
- **Opportunities to nurture wider skillsets:** A key catalyst of growth in shared services is a broader skillset of corporate leadership. While finance mastery is one part of the equation, communicating with stakeholders, interacting with customers, leading large teams of hundreds of professionals and handling critical projects across functions are quintessential skills as well. Besides, finance professionals must also nurture a growth mindset, to continuously develop a wide range of skills and use them outside the function's purview.
- The opportunity that shared services roles afford for the development of broader business skills. The perception that finance shared services is not much more than a "process factory" is not true. shared services roles offer a superb opportunity to build a broader skills base. Shared services roles are a very good starting point for a finance career. In addition to finance skills, you get solid experience in process, so if you go back into the business, you can provide real value to the organisation.

Career Challenges

- **Shared services are still not part of finance function career paths in many organisations:** While all accepted that finance shared services is a superb function in which to pick up valuable finance and business skills, creating a multitude of career opportunities, the reality is that it is not yet embedded as part of a formal finance career path in a majority of organisations, especially at the critical senior level.

> "Working in shared services actually could help the controller role better understand the business partner role, to start to understand commercial principles, start to move from being inwardly focused to externally focused.

- **The shared services brand is not always helpful:** The perception of the shared services brand is not always helpful. There is a need to change the reputation, it is starting to improve. Culturally, it is not always seen by the finance community as a place they'd desire to work as part of their career plan.
- **Location Challenges:** Locating shared services operations in lower-cost locations – away from corporate or regional headquarters locations; means that shared services professionals have limited exposure and access to other parts of the business except at the very senior levels; advancement into the retained team can be problematic.

- **Shared Services are still sometimes seen as a transaction factory for the finance function:** Despite broad acceptance as a finance business model, and increasing evidence that shared services create value beyond cost and efficiency, it takes time to earn a "seat at the table"; achieving standardisation, compliance and cost reduction is not going to be sufficient.

Carving a niche

In terms of career progression, professionals can move up the ladder either on the people management side or the technical facet. Whether you are a number-savvy professional who can connect the dots and analyse financial figures or a tech-savvy leader who can constantly redefine the system and train people on financial technologies, opportunities are abound in shared services.

Finance leaders will always be the right hand of the CEO, much like how the Finance Minister is an indispensable aide of the Prime Minister. And chartered accountancy is a stamp of approval that opens those doors for professionals to get there. Working in shared services actually could help the controller role better understand the business partner role, to start to understand commercial principles, start to move from being inwardly focused to externally focused.

Conclusion

For chartered accountants, a career in shared services will be both rewarding and fulfilling. Taking up a role in finance shared services is no longer viewed as career limiting, but rather a unique opportunity to broaden the capabilities and soft skills increasingly sought by the business. Shared services models are here to stay as a vital component of the finance function. Their leaders embrace and harness change, demonstrate strong business acumen, and are passionate about transforming the way finance operates. As finance leaders done more hats and oversee operations beyond the boundaries of traditional finance functions, the horizon of responsibilities is expanding too. Essentially, it boils down to leveraging finance expertise to be a change maker across the board and thereby drive the C-suite agenda. ■■■

Amendment in Ind AS Corresponding to Amendments in IFRS Standards due to IBOR Phase II project of IASB and Stakeholder Consultations between IFRS Foundation & IASB

I. Indian Accounting Standards: Update

Amendment in Ind AS corresponding to amendments in IFRS Standards due to IBOR Phase II project of IASB (Amendments in IFRS 4, IFRS 7, IFRS 9, IFRS 16 and IAS 39) – As informed to the stakeholders in the previous edition of Ind AS Alert, the IASB has finalised its response to the ongoing reform of inter-bank offered rates (IBOR) and other interest rate benchmarks by issuing a package of amendments to IFRS Standards. The amendments had been issued to specific requirements in IFRS 9, Financial Instruments, IFRS 7, Financial Instruments: Disclosures, IFRS 4, Insurance Contracts, IFRS 16, Leases, and IAS 39, Financial Instruments: Recognition and Measurement, to assist companies to provide investors with useful information about the effects of the reform on the financial statements. The amendments complement those issued in 2019 and focus on the effects on financial statements when a company replaces the old interest rate benchmark with an alternative benchmark rate as a result of the reform.

Corresponding amendments in Ind AS have been proposed by the ASB of ICAI and the Exposure Draft of amendments in relevant Ind AS has been issued seeking comments from stakeholders. The Exposure Draft is available at ICAI website at https://www.icai.org/post/exposure-draft-interest-rate-benchmark-reform-phase2

II. IFRS Foundation & IASB: Stakeholder Consultations

(A) IFRS for SMEs - ASB of ICAI has submitted its detailed comments, on the proposals under Request for Information: Second Comprehensive Review of the IFRS for SMEs Standard issued by the IASB in January 2020, after considering the comments received from the stakeholders and Study Group constituted by the ASB for formulating comments. The comments submitted to the IASB can be assessed at https://resource.cdn.icai.org/61650asb50180.pdf

The objective of the Request for Information was to seek views on whether and how to align the IFRS for SMEs Standard with full IFRS Standards, which are the Standards developed for publicly accountable entities and currently required in more than 140 jurisdictions. The Request for Information asked for views on different approaches to updating the IFRS for SMEs Standard, as well as views on how the Standard could be aligned with certain IFRS Standards, such as, IFRS 9, Financial Instruments, IFRS 15, Revenue from Contracts with Customers and IFRS 16, Leases, etc.

(B) Discussion Paper: Business Combinations—Disclosures, Goodwill and Impairment

The IASB has published a Discussion Paper on possible improvements to the information companies report about acquisitions of businesses to help investors assess how successful those acquisitions have been. The IASB is also seeking feedback on how companies should account for goodwill arising from such transactions. The comment letter period is open until 31 December 2020 (previously it was 15 September 2020, however, changed because of the covid-19 pandemic).The Discussion paper can be assessed at https://cdn.ifrs.org/-/media/project/goodwill-and-impairment/goodwill-and-impairment-dp-march-2020.pdf. ASB of ICAI is actively engaged in formulation of comments on the Discussion Paper.

(C) IFRS Interpretation Committee Agenda Decision: The ASB of ICAI at its recent meeting had discussed the Tentative Agenda Decisions issued by the IFRS Interpretations Committee (IFRS IC) about the applicability of the sale and leaseback requirements in IFRS 16, on the basis of the fact pattern described in the request, to a transaction in which an entity sells its equity interest in a subsidiary that holds one asset and leases that asset back. The request asked whether the entity in its consolidated financial statements applies the sale and leaseback requirements in IFRS 16 and therefore recognises only the amount of the gain that relates to the rights transferred to the third party. The comments have been submitted on the aforesaid TAD.

Contributed by Accounting Standards Board of ICAI. Comments can be sent to asb@icai.in. Refer https://www.icai.org/post.html?post_id=14058 for Ind AS –IFRS Standards Convergence Status, https://www.icai.org/post.html?post_id=15770 for Ind AS Implementation Guidance

RBI Proposal for Industrial Houses to Set Up Banks

The proposal, by an RBI panel to let industrial houses set up banks and large NBFCs convert themselves into banks, have enough deterrents to stop the big players in their tracks. The PK Mohanty committee of the RBI has recommended that industrial houses can set up banks only after necessary amendments to the Banking Regulations Act, 1949 to deal with connected lending and exposures between banks and other financial and non-financial group entities. The committee has proposed strengthening the supervisory mechanism of large conglomerates, including "consolidated supervision", implying the Reserve Bank of India can supervise other entities in a group as well.

Non-operative financial holding company (NOFHC) should continue to be the preferred structure for all new licensees. But NOHFC is mandatory if the individual promoters have other group entities. Among large NBFCs, factors such as maintenance of the cash reserve ratio (CRR) and statutory liquidity ratio (SLR) which pose additional costs are likely to be the deterrents.

(Source: https://www.telegraphindia.com/)

Sebi Permits Debt Securities Allotment through UPI; Industry Hopes for Larger Retail Participation

After being enabled for equity IPOs, Unified Payments Interface (UPI), the digital payment railroad run by the National Payments Corporation of India, is now set to be used to buy debt IPOs as well. The Securities and Exchange Board of India (Sebi) has enabled UPI payments for online purchase of debt securities issued to the public. The regulator has permitted buying of these securities up to the application value of Rs. 2 lakh. Also it has allowed securities to be purchased through intermediaries like stockbrokers. The exchange itself is working on building a web and app based platform to encourage online buying and selling of these securities digitally.

Sebi has laid out detailed rules that need to be followed around allotment of these securities through the digital process. The same process is currently followed for the allotment of equities in the IPO process through UPI. The advancements in UPI-based transactions have made all this smooth, where investors can accomplish a large part of the act digitally. According to details laid out by Sebi, once the bid is submitted, the fund block will need to be permitted by the investor through his or her UPI pin. Once allotment happens, the amount will be debited from the bank account directly. The stock market insider quoted above said that till date, company debt was mostly subscribed by high net worth individuals, unlike the case with equity IPOs, which see a much larger retail participation. Through UPI and a digital process, the stock market regulator is aiming to get higher retail participation.

Exchanges are also trying to set up their own digital platforms through which trades can be punched in. While one of the sources mentioned above said that the modalities of the platform are not final and it needs some more work, the long-term goal is to enable the use of app-or web-based platforms for the purchase and sale of securities.

(Source: https://www.msn.com/)

RBI asks Banks Not to Approve Proposals of Foreign Law Firms to Open Branch Office in India

The RBI recently asked banks not to approve any proposal of foreign law firms to open a branch office, project office or liaison office in the country under FEMA for the purpose of practicing legal profession. The RBI has issued a circular in this regard in view of a Supreme Court order wherein the apex court held that advocates enrolled under the Advocates Act, 1961 alone are entitled to practice law in India and foreign law firms or foreign lawyers cannot practice the profession of law.

The RBI in October 2015 had advised banks not to grant fresh permissions or renew permissions already granted to any foreign law firm for opening of liaison office in India till the policy in this regard is reviewed based on, among others, final disposal of the matter by the Supreme Court.

The Supreme Court, it said, while disposing of the case, held that advocates enrolled under the Advocates Act, 1961 alone are entitled to practice law in India and that foreign law firms/companies or foreign lawyers cannot practice the profession of law in India.

As such, foreign law firms/companies or foreign lawyers or any other person resident outside India, "are not permitted" to establish any branch office, project office, liaison office or other place of business in India for the purpose of practicing legal profession, the circular said.

(Source: https://economictimes.indiatimes.com/)

Sebi Relaxes Rules for Promoters Looking to Change Status

It said the re-classification condition on shareholding should be amended such that the promoter and related persons should not together hold 15% or more of total voting rights. The market regulator proposes to change the minimum threshold for voting rights for the re-classification of a promoter as a public shareholder and suggested that all promoter entities disclose their shareholding even in the case of "nil" holding.

Under the proposal, Sebi said the re-classification condition on shareholding should be amended such that the promoter and related persons seeking re-classification should not together hold 15 per cent or more of the total voting rights in the listed entity.

At present, the minimum threshold requirement is 10 per cent.

The regulator received a feedback from market participants to review the current threshold of 10 per cent so that the persons who may have been promoters but are no longer in day-to-day control, having shareholding of less than 15 per cent, may "opt-out" from being classified as promoters without having to reduce their shareholding. Relaxation from existing requirement on a case-to-case basis has been given by Sebi and the existing provisions should be revisitied to minimise the number of exemptions provided on a case-to-case basis, the regulator said in a consultation paper.

(Source: https://www.telegraphindia.com/)

Filing of NCLT Orders with Roc With Respect to The Companies Under Insolvency Bankrupcy Code (IBC, 2016)

MCA vide Circular No. 4/2020 on 17/02/2020 issued a clarification regarding the procedure for filing of forms on MCA by the Insolvency Professional (Interim Resolution Professional (IRP) or Resolution Professional (RP) or Liquidator) appointed under Insolvency Bankruptcy Code, 2016.

In supersession of earlier Circular No. 4/2020 on 17/02/2020, the Ministry of Corporate Affairs (MCA) has issued the clarification for statutory compliances in respect of companies under Corporate Insolvency Resolution Process (CIRP).

Through these circulars Ministry of Corporate Affairs (MCA) mandated the filing of NCLT order for CIRP or Liquidation process under the IBC, 2016. This circular provides for the mandatorily filing of INC-28 for NCLT order to Registrar of Companies on the part of IRP (Interim Resolution Professional) or RP (Resolution Professional) or Liquidator appointed under Insolvency Bankruptcy Code, 2016 (IBC, 2016) with respect to: Admission in CIRP; Replacement of IRP/RP; Withdrawal of CIRP; Approval of Resolution plan; Order of Liquidation and Order of Dissolution.

The above mentioned circulars also mandated for filing of earlier NCLT orders for the companies which were under CIRP prior to the issue of this circular on the part of IRP/RP/Liquidator. The concerned IRP/RP of every company which was under CIRP prior to the issue of this circular, also needs to file e-form INC-28 for such companies and thereafter proceed to file other documents/fact/information as required under the Act and Rules thereunder through e-form GNL-2.

(Source: https://taxguru.in/)

Govt to Decriminalise Provisions of LLP Act

After amending the Companies Act, the ministry of corporate affairs is now looking to decriminalise provisions of the Limited Liability Partnership (LLP) Act in the upcoming Winter Session of Parliament. One of the changes being proposed is allowing LLPs to issue non-convertible debentures (NCDs), a senior government official told Business Standard.

Around 20 clauses in the Act relating to procedural violations will be revised. The amendments will also address certain grey areas in the laws, such as whether LLPs can issue NCDs. According to the Companies Act 2013, while LLPs are considered body corporates, they cannot issue debentures to raise funds. Experts say only partners can contribute funds as LLPs have no rights to issue debt. NCDs are debt instruments, generally long term, and acknowledge an obligation towards the issuing company. Such instruments allow a company to raise funds from the public. Since NCDs cannot be converted into shares or equities, these instruments always remain debts. This ensures that there is no dilution in ownership.

Debentures earn fixed rates of interest and have less risk — they are rated by credit agencies. The recommendations for these amendments have been sent to the Company Law Committee by the MCA.

For instance, according to experts of the LLP Act, any false statement in returns or other documents is punishable with imprisonment for a term that may extend to two years, and a fine up to Rs 5 lakh and not less than Rs 1 lakh. The MCA is also working towards setting up an e-adjudication platform next year.

(Source: https://www.rediff.com/)

IFRS Foundation to publish Proposed IFRS Taxonomy Update 5/2020

The IFRS Foundation expects to publish IFRS Taxonomy 2020—Proposed Update 5 *General Improvements and Common Practice—IAS 19* Employee Benefits on 24 November 2020. The document will be available to download from the Open for comment section and from the IFRS Taxonomy Update—Common Practice (IAS 19 Employee Benefits) project page. To comment on the proposed update you will need to have an IFRS Foundation account, which can be created here.

To ensure you are up to date with all our forthcoming publications, you can choose to sign up to receive these news stories as email alerts. To do this, sign in, go to your dashboard and choose to follow- 'Forthcoming publications' in the 'Others' category on the left-hand side. You must have an IFRS Foundation account—registration is free. You can also choose to receive updates and alerts relating to the IFRS Taxonomy from the dashboard. You can click the 'manage alerts' tab to set the frequency of news alerts sent to your email. Email alerts are set to 'never' by default, so, to receive email alerts, please change the frequency. For more information, please go to our getting started page.

(Source: https://www.ifrs.org/)

SEC amends guidance on MD&A, other disclosures

The Securities & Exchange Commission (SEC) is adopting amendments designed to modernize, simplify, and enhance management's discussion and analysis and other financial disclosure requirements in Regulation S-K. The changes to Regulation S-K are designed to sharpen the focus on material information by eliminating Item 301 (Selected Financial Data) and changing item 302(a) (Supplementary Financial Information) and Item 303 (MD&A).

These amendments:

- Revise Item 302(a) to replace the current requirement for quarterly tabular disclosure with a principles-based requirement for material retrospective changes;
- Add a new Item 303(a), Objective, to state the principal objectives of MD&A;
- Amend current Items 303(a)(1) and 303(a)(2) to clarify, modernize, and streamline disclosure requirements for results of operations. These changes are included in amended Item 303(b)(2);
- Amend current item 303(a)(3) to clarify, modernize, and streamline disclosure requirements for results of operations. These changes are included in amended Item 303(b)(2).
- Add a new Item 303(b)(3), Critical accounting estimates;
- Replace current item 303(a)(4), Off-balance sheet arrangements, with an instruction to discuss such obligations in the broader context of MD&A;
- Eliminate current Item 303(a)(5), Tabular disclosure of contractual obligations, in light of the amended disclosure requirements for liquidity and capital resources and certain overlap with information required in the financial statements; and
- Amend current Item 303(b), Interim periods, to modernize, clarify, and streamline the item and allow for flexibility in the interim periods to help registrants provide a more tailored and meaningful analysis relevant to their business cycles. These changes are included in amended Item 303(c).

The SEC also adopted certain parallel amendments to the financial disclosure requirements applicable to foreign private issuers, including to Forms 20-F and 40-F, as well as other conforming amendments to the SEC's rules and forms.

The amendments will take effect 30 days after they are published in the *Federal Register*. Registrants are required to comply with the rule beginning with the first fiscal year ending on or after the date that is 210 days after publication in the *Federal Register*.

(Source: https://www.journalofaccountancy.com)

IFRS Foundation Trustees announce appointments to the IFRS Advisory Council from 2021

The Trustees of the IFRS Foundation, responsible for the oversight and governance of the International Accounting Standards Board (Board), have confirmed the appointment and re-appointment of several organisations and individuals to the IFRS Advisory Council. All appointments take effect 1 January 2021 and are for a three-year period.

Currently chaired by Bill Coen, the Advisory Council advises the IFRS Foundation Trustees and the Board on strategic matters. It consists of representatives from over 50 groups affected by and interested in international financial reporting, including academics, analysts, auditors, investors, preparers, professional accounting bodies, regulators and standard-setters. With the exception of individual appointments, the Advisory Council membership is held by the organisation concerned.

(*Source: https://www.ifrs.org/*)

IASB APPOINTS NEW CHAIR

The Trustees of the IFRS Foundation have appointed Andreas Barckow to serve as chair of the International Accounting Standards Board (IASB). Effective July 2021. Barckow will succeed Hans Hoogervorst, who completes his second five-year term in June 2021.

Since 2015, Barckow has served as president of the Accounting Standards Committee oF Germany. His contributions at both have helped shape the development and future direction of IFRS Standards around the world. Barckow's appointment follows an extensive international search process, supported by a global executive search firm. The Trustees sought nominations from around 500 stakeholder organisations and considered more than 200 candidates from 29 countries before compiling a reduced list of 63 possible candidates from 21 countries.

(Source: http://www.internationalaccountingbulletin.com/)

IFAC Publishes User-Friendly Training Materials to Support IPSAS Implementation

To assist governments and government entities wishing to report in accordance with the accrual-based International Public Sector Accounting Standards (IPSAS), IFAC has developed a package of training materials, collectively titled *Train the Trainer: Introduction to IPSAS.*

Accrual accounting information provides greater transparency and is useful for accountability and decision-making purposes. Implementation of accrual accounting in the public sector is a significant priority across many jurisdictions, especially as public finances face increasing scrutiny as a result of the pandemic.

The training materials are aimed primarily at entities currently using a cash basis of accounting and transitioning to, or planning a move to, accrual IPSAS. The materials, which are available to trainers at no cost, are designed to be used flexibly and can be tailored to the needs of training participants.

The course is structured over ten modules with each broken down into topics that stand alone and can be delivered as individual sessions. The training topics include assets, liabilities, financial instruments, and first-time adoption of accrual basis IPSAS. Each module includes a training manual and an accompanying set of slides, with some modules containing supplementary video content.

IFAC remains committed to advocating for strong public financial management and to supporting IPSAS adoption and implementation. The *Train the Trainer: Introduction to IPSAS* materials are meant to aid public sector entities around the globe as they adopt high-quality *accounting* practices.

(Source: https://www.ifac.org/)

PCAOB amends independence requirements to align with SEC changes

The PCAOB adopted amendments Thursday to align its independence requirements with recently updated SEC rules.

Last month the SEC amended its rules in an effort to prevent the triggering of auditor independence rules violations in situations that don't necessarily impair auditor judgments. The amendments were designed to prevent unnecessary red flags that could cause auditors, their clients, and audit committees to spend time considering relationships that are not a threat to independence.

In June 2019, the SEC adopted amendments to aid in the determination of whether an auditor's lending relationship with certain shareholders of an audit client impairs the auditor's independence.

These amendments are reflected in the PCAOB's rules changes. The PCAOB made targeted amendments to its interim independence standards and Part 5 of the Rules of the Board, *Ethics and Independence*, to conform with the SEC's changes to Rule 2-01 of the SEC's Regulation S-X, 17 C.F.R. §210.2.01.

The PCAOB is amending its interim independence standards to avoid having independence requirements inconsistent with the SEC's requirements on lending arrangements, with the intent of clarifying an auditor's independence obligations and facilitating compliance with SEC Rule 2-01.

The PCAOB also is amending definitions of certain terms in Rule 3501 to align with revised definitions in SEC Rule 2-01 and avoid confusion. The amended term definitions include:

- "Affiliate of the audit client."
- "Audit and professional engagement period."
- "Investment company complex."

(Source: https://www.journalofaccountancy.com)

ACCOUNTANT'S BROWSER

PROFESSIONAL NEWS & VIEWS PUBLISHED ELSEWHERE

Index of some useful articles taken from Periodicals received during October-November 2020 for the reference of Faculty/Students & Members of the Institute.

1. Accountancy

IND AS/IGAAP- Interpretation and practical application : Practical guidance on significant influence by Dolphy D'souza. *The Bombay Chartered Accountant Journal*, Vol.52-B/1, October 2020, pp.77-78.

2. Auditing

4 Key Covid-19 audit risks for 2020 years ends by Bob Dohrer and Carl Mayes. *Journal of Accountancy*, August 2020, pp.31-33.

Fraud Analytics in Internal Audit by Deepjee Singhal and Manish Pipala. *The Bombay Chartered Accountant Journal*, Vol.52-B/1, October 2020, pp.15-17.

Secretarial Audit as emerging factor in governance by P. Sivakumar and Anju Panicker. *Chartered Secretary*, Vol.50/09, September 2020, pp.27-31.

3. Economics

Bank performance variability and strands of inflationary conditions by Rexford Abaidoo and Hod Anyigba. *European Journal of Management and Business Economics*, Vol.29/3, 2020, pp.235-253.

Corporate diversification and firms value in emerging economy: The role of growth opportunity by Rahmat Heru Setianto. *Journal of Asian Business and Economics Studies*, Vol.27/2, 2020, pp.195-207.

Merger of public sector banks in India in 2019 by Gurbani Kaur Kapoor. *Company Law Journal*, Vol.3/1-3, September 2020, pp.1-10.

Prospect of Life insurance industry in India - A Study by Sankar Paul. *The Management Accountant*, Vol.55/09, September 2020, pp.57-62.

4. Law

Cross Border Insolvency Law- Global initiatives and India's position by Prakash K. Pandya. *Chartered Secretary*, Vol.50/09, September 2020, pp.74-77.

5. Management

Adapt your business to the new reality by Michael G. Jacobides and Martin Reeves. *Harvard Business Review*, Vol.98/5, September-October 2020, pp.75-81.

Corporate social responsibility and corporate social innovation : Are they different and how? by Chandra Gupta Ashok Vardhan and Shahabuddin Ansari. *Chartered Secretary*, Vol.50/09, September 2020, pp.86-90.

Impact of the perception of performance appraisal practices on individual innovative behaviour by Teresa Canet-Giner and Ana Redondo-Cano. *European Journal of Management and Business Economics*, Vol.29/3, 2020, pp.277-296.

National Governance through sustainable leadership by Jacob Thomas. *Chartered Secretary,* Vol.50/10, October 2020, pp.131-134.

Real earnings management practices for meeting earnings benchmarks : Indian evidence by Karan Gandhi. *Decision*, Vol.47/3, September 2020, pp.265-291.

6. Taxation and Finance

International Taxation : Economic substance requirements regulations- An Overview by Mayur B. Nayak and TarunKumar G. Singhal. *The Bombay Chartered Accountant Journal*, Vol.52-B/1, October 2020, pp.67-76.

Full Texts of the above articles are available with the Central Council library, ICAI, which can be referred on all working days. For further inquiries please contact on 011-30110419 and 011-30110420 or by e-mail at library@icai.in.

Legal Decisions

Income Tax

LD/69/66, [ITAT Jaipur: ITA. No. 1043/JP/2019], Bhaval Synthetics India Limited Vs. The Dy. Commissioner of Income Tax, 28/10/2020

ITAT ruled against the assessee where the assessee challenged the the validity of best judgement assessment passed without issuance of notice under section 143(2). ITAT noted that no prejudice was caused to the assessee as the best judgment was passed without taking cognizance of return filed after the expiry of 30 days from the receipt of notice under section 148. ITAT found no infirmity in the best judgement assessment passed in line with the delayed filing of return of income.

LD/69/67, [Karnataka High Court: ITA No. 196 of 2013], The Commissioner of Income Tax Vs. Karnataka Power Transmission Corporation Limited, 21/10/2020

Assessee had not considered wheeling charges as its income in its books of accounts due to uncertainty of its receipt. Addition in this regard was made by the AO which was upheld by the CIT(A) and deleted by the ITAT. High Court relied on definition of 'accrual' and ICDS to hold that demand of wheeling/ transmission charges raised by the assessee from the constituent states of Southern Regional Electricity Board is rightly not recognised in the books due to uncertainty in collection/ recovery of the amount. High Court held that that the income did not accrue to the assessee and is a hypothetical income not subject to tax in view of AS-9.

LD/69/68, [ITAT Delhi: ITA No.4261/Del/2006], Hindustan CocaCola Beverages Private Limited Vs. The Dy. Commissioner of Income Tax, 19/10/2020

Delhi ITAT deleted adjustment to book-profits for MAT purposes under section 115JB with respect to the reversal of securities premium account to the extent of accumulated losses of ₹ 2086.14 crore. Revenue had made addition to book-profits on the ground that write-off of accumulated losses against securities premium was not compliant with the Companies Act as the share premium account cannot be utilised on revenue account. ITAT held that Revenue can alter book-profit only as per Explanation 1 to Section 115JB(2) and cannot recast the audited accounts that are adopted under the Companies Act.

LD/69/69, [ITAT Mumbai: ITA No. 5850/Mum/2019], Mehta Equities Limited Vs. The Dy. Commissioner of Income Tax, 14/10/2020

Bonus paid to director-shareholder was disallowed by the AO holding that it was in lieu of dividend and not deductible under section 36(1)(ii). ITAT set aside the issue of such allowability and directed the AO to establish tax evasion before invoking Section 36(1)(ii). Revenue had relied on a special bench ruling in the observed that said judgement of Special Bench was subject to a categorical finding that there was a tax evasion/tax avoidance scheme adopted by the assessee. ITAT directed the AO to examine the amount of dividend that the assessee would have declared had it not paid the bonus and compute tax sought to be avoided by the assessee company by adopting the impugned alleged scheme.

LD/69/70, [Bombay High Court: Appeal no 18 and 19 of 2014], The Commissioner of Income Tax Vs. Sadiq Sheikh, 14/10/2020

Addition under section 68 which was deleted by the ITAT was restored by the High Court holding that assessees had failed to establish the capacity of the source and the genuineness of the transaction. High Court noted that ITAT had abruptly concluded that the requirements of Section 68 were met and it was not clear how the amount was due to the assessees. High Court remarked that the finding recorded by the ITAT was based upon the wholly erroneous view of law and perversity on account of ignoring completely, vital and relevant circumstances emanating from the record.

LD/69/71, [ITAT Ahmedabad: ITA No. 613/Ahd/2017], B.P. Patel & Co. Vs. The Income Tax Officer, 13/10/2020

Assessee objected to levy of penalty under section 271E for repayment made in cash in contravention of Section 269T for AY 12-13. Assessee contended

Contributed by CA. Sahil Garud, GST & Indirect Taxes Committee (CA. Mandar Telang), Disciplinary Directorate and ICAI's Editorial Board Secretariat. For details please visit Editorial Page webpage at https://www.icai.org/post/editorial-board. Readers are invited to send their comments on the selection of cases and their utility at eboard@icai.in. For full judgement write to eboard@icai.in that in the absence of any 'satisfaction' recorded by the AO in the assessment order, imposition of penalty was void ab initio. ITAT observed that the law provides for imposition of penalty by an officer of the rank of the Joint Commissioner and thus AO is statutorily debarred for forming any 'satisfaction' either at the time of assessment order or subsequent thereto. However, ITAT deleted the penalty on merits noting that concerned payment made was on account of discharge of liabilities towards purchase in the earlier years and the same cannot be branded as loan.

LD/69/72, [ITAT Jaipur: ITA No. 269/JP/2018], Nabh Multitrade Pvt. Ltd. Vs. The Income Tax Officer, 09/10/2020

Addition was made under section 56(2)(viib) for AY 2014-15 towards alleged excess share premium received by assessee over FMV of shares. While arriving at share valuation by the assessee, the land was valued at FMV which was ₹ 2.93 crore as against its Balance Sheet value of ₹ 1.3 crore which was the cost. AO had made addition by applying DCF method of valuation. ITAT noted that Section 56(2)(viib) Explanation provides option to assessee to choose the higher amongst the 1) the value determined as per Rule 11UA valuation or 2) the value as may be substantiated by the assessee company to the satisfaction of the AO based on the value of its assets as on the date of issue of shares. For valuation of land, the Revenue did not bring on record any valuation determined by the DVO to controvert the valuation determined by the Registered Valuer.

Transfer Pricing

LD/69/73, [ITAT Delhi: ITA No. 3529/Del/2015], The Dy. Commissioner of Income Tax Vs. Convergys Customer Management Group Inc, 13/10/2020

Penalty was imposed under section 271AA on non-resident assessee for failure to maintain & furnish documents under section 92D for AYs 2006-07 and 2008-09. Before ITAT, assessee submitted that there was no international transaction, therefore, there was no need to maintain the TP documents. ITAT rejected assessee's stand and stated that it is mandatory for all taxpayers to obtain an independent accountant's report in respect of all international transactions between AEs or Specified Domestic Transactions. Even if it is submitted that there is no international transaction, assessee atleast still has to obtain independent accountant's report for specified domestic transactions. ITAT held that the AO was correct in imposing the penalty under section 271AA for non-maintenance of documents as per Section 92D.

LD/69/74, [Madras High Court: W.A.No.855 of 2020], PPN Power Generating Company Pvt. Ltd. Vs. The Commissioner of Income Tax, 28/10/2020

Assessee had filed a writ against a single judge order which rejected assessee's plea to quash reassessment notice under section 148. The said writ petition was dismissed by the Madras High Court however accepting the argument of the assessee that AO could not have referred the case under under section 92CA without disposing off the objections filed in response to reassessment notice. High Court directed certain modifications to the order by directing the Revenue to consider assessee's objections and pass a reasoned order and communicate the same to the assessee. The impugned Single Judge order stating that there are several disputed questions of fact which cannot be considered by the High Court in exercise of its jurisdiction under Article 226, was affirmed by the High Court.

GST

LD/69/75, [2020-TIOL-1898-HC-TELANGANA-GST], M/s Agarwal Foundries Pvt. Ltd. Rama Towers and 3 Others Vs. Union Of India and 9 Others., 06/11/2020

The High Court held that the DGGST shall not use any acts of violence or torture against the petitioner or their employees in furtherance of inquiry proceedings – In light of the specific facts and circumstances of the case, the High Court directed that the investigation be transferred to the other officer and the officer alleged of using violence shall not participate in the investigation

- that the interrogation of the petitioner be held between 10:30 a.m. and 05:00 p.m. on weekdays in the visible range of an advocate appointed by them.
- that the interrogation be held at Zonal unit of DGGST except in case of few persons who may be asked to attend at DGGST Head Quarters at New Delhi for 2-3 days.

LD/69/76 , Madras High Court: W.P.Nos.38488 to 38493 of 2015, Sri Ranganathar Valves Private Ltd Vs. The Asst. Commissioner (CT)(FAC), 02/09/2020

The assessee had filed writ petition before Madras High Court with respect to restriction of the amount of Input Tax Credit (ITC) claimed in Form W by the assessee where the sellers from whom the assessee had purchased the goods had not paid tax to the Government. Madras High Court held that such restriction cannot be sustained and requires re-consideration. ITC cannot be disallowed on the ground that the seller has not paid tax to the Government, when the purchaser is able to prove that the seller has collected tax.

SERVICE TAX

LD/69/77, [2020-TIOL-1867-HC-MAD-ST], Ramadas vs. The joint commissioner of central excise no.1 and Ors., 29/10/2020

Hon'ble High Court observed that the adjudication order based on a show-cause notice in which service tax demand is not specifically proposed under various services as vague and without any details and also traversing beyond the proposals in the SCN. High Court however gave liberty to the service tax department to issue a fresh show-cause notice in the matter.

LD/69/78, [2020-TIOL-1606-CESTAT-MUM], Deenanath Mangeshkar Hospital and Research Centre Vs. Commissioner of Central Excise And Customs Pune-III, 29/11/2019

The benefit of Notification No.11/2007-ST is applicable to all agencies that undertake a clinical trial of new drugs so long as the trials are approved by DCGI and are entered into the Clinical Trial Registry of Indian Council of Medical Research. No general approval issued by DCGI in favour of such an agency by DCGI is necessary.

LD/69/79, Sonata Information Technology Ltd Apa Trust Building Vs Principal Commissioner of Central Excise and Service Tax, [2020-TIOL-1611-CESTAT-MUM], 19/11/2019

Tribunal held that for the period under consideration the assessee was entitled to utilise the CENVAT Credit to discharge reverse charge liability under section 66A of the Finance Act 1994.

Disciplinary Case

Issuance of 9 certificates by Chartered Accountant in Form 15CA/CB under Rule 37BB of the Income Tax Rules for making Advance Import Payments without verifying credentials -- Non-adherence to the provisions of Guidance Note on "Audit Reports for Special Purpose Certificates" -- Held, Respondent is guilty of not applying due diligence under Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act 1949.

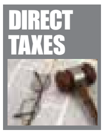
Held:

It is necessary, at this juncture, to understand the purpose of issuance of such certificates. Once these certificates are issued, the banker transfers funds from India to a bank account outside India. As precious foreign exchange of the country goes out based on the certificate issued by the Chartered Accountant, the Committee is of the view that the Chartered Accountant should have exercised proper due diligence and obtain all information and explanation to satisfy himself before issue of such certificate. The Respondent submits that the said person to whom he issued the certificates is not known to him and is not in the list of his regular clientele. This is the only professional work which the Respondent did for the said person. The Respondent is also not properly aware of the business address nor the trade practices of the said person. The Committee directed the Respondent to submit the working papers based on which the certificates were issued by him. The Respondent did not produce any working papers as requisitioned by the Committee. It is not the case that only the Chartered Accountant is at fault, the careless manner in which the papers have been passed by the bank officials is noted with pain by the Committee. However, as the Committee cannot proceed against the banks or its officials, the recording of Committee's pain is the best that can be done.

The Respondent, as premised above, is Chartered Accountant in practice, issued certificates without applying proper due diligence, thereby becomes a party to outflow foreign exchange outside the Country. The Respondent has not followed the relevant provisions of the Guidance Note. In conclusion, the Committee is of the opinion that the Respondent is guilty of not applying due diligence under Clause (7) of Part I of the Second Schedule to the Chartered Accountant Act, 1949.

Circulars/Notifications

Given below are summarised important Circulars and Notifications issued by the CBDT, CBIC-GST, MCA, SEBI and FEMA since the publication of the last issue of the journal, for information and use of members. Readers are requested to use the citation/website or weblink to access the full text of desired circular/notification. Suggestions on this column can be submitted at eboard@icai.in



I. NOTIFICATIONS

1. Tolerance limit of 1% in case of wholesale trade and 3% in other cases notified for the purpose of computation of arm's length price under third proviso to section 92C(2) read with proviso to Rule 10CA(7) - Notification No. 83/2020, dated 19-10-2020

The Central Government has, notified that where the variation between the arm's length price determined under section 92C and the price at which the international transaction or specified domestic transaction has actually been undertaken does not exceed one percent of the latter in respect of wholesale trading and three percent of the latter in all other cases, the price at which the international transaction or specified domestic transaction has actually been undertaken shall be deemed to be the arm's length price for Assessment Year 2020-2021.

Refer:https://www.incometaxindia.gov.in/communications/notification/notification_83_2020.pdf

2. Rule 67 pertaining to investment of fund moneys amended vide the Income-tax (23rd Amendment) Rules, 2020 w.e.f. AY 2021-22 – Notification No. 84/2020, dated 22-10-2020

Vide this Notification, CBDT has amended Rule 67 of the Income-tax rules, 1962 and has provided that in the fifth, eighth and eleventh proviso, for the letters "AA", the letter "A" shall be substituted.

Refer:https://www.incometaxindia.gov.in/communications/notification/notification_84_2020.pdf

3. Payment Date Extended for Vivad se Vishwas Scheme to 31.03.2021 – Notification No. 85/2020, dated 27-10-2020

Vide this Notification, the Government has further extended the date for making payment without additional amount from 31.12.2020 to 31.03.2021. The last date for making declaration under the Scheme has also been notified as 31.12.2020. In other words, the declaration under the Vivad se Vishwas Scheme shall be required to be furnished latest by 31.12.2020, however, only in respect of said declarations made by 31.12.2020 the payment without additional amount can now be made up to 31.03.2021.

Refer:https://www.incometaxindia.gov.in/communications/notification/notification_85_2020.pdf

4. Central Government amends the Equalisation levy Rules, 2016 – Notification No. 87/2020, dated 28-10-2020

The Equalisation levy Rules, 2016 have been substantially amended vide the Equalisation levy (Amendment) Rules,2020 w.e.f. 28.10.2020. Relevant Form No. 1, 3 and 4 have also been substituted.

Refer:https://www.incometaxindia.gov.in/communications/notification/notification_87_2020.pdf

5. Central Government specified the sovereign wealth fund, namely, the MIC Redwood 1 RSC Limited, Abu Dhabi, United Arab Emirates, as the specified person for the purposes of section 10(23FE) – Notification No. 89/2020, dated 02-11-2020

MIC Redwood 1 RSC Limited, Abu Dhabi, UAE has been specified in respect of the investment made by it in India on or after the date of publication of this notification in the Official Gazette but on or before 31.03.2024 subject to the fulfilment of the conditions specified therein.

Refer:https://www.incometaxindia.gov.in/communications/notification/notification_no_89_2020.pdf

II. CIRCULARS

1. Clarifications in respect of the Direct Tax Vivad se Vishwas Act, 2020 - Circular No. 18/2020, dated 28-10-2020

Vide this Circular, the CBDT has clarified that where a declarant files a declaration under Vivad

(Matter on Direct and Indirect Taxes, MCA, SEBI is contributed by Direct Taxes Committee, GST & Indirect Taxes Committee and Corporate Laws and Corporate Governance Committee of ICAI respectively. FEMA updates by CA. Manoj Shah, CA Hinesh Doshi and CA. Sudha G. Bhushan) se Vishwas on or before 31.12.2020, the designated authority, while issuing the certificate under section 5(1) of the Vivad se Vishwas, shall allow the declarant to make payment without additional amount on or before 31.03.2021. This has been done to mitigate undue hardship and remove difficulty that may be caused by the earlier requirement of payment within 15 days from the date of receipt of certificate from the designated authority.

Refer:https://www.incometaxindia.gov.in/communications/circular/circular_18_2020.pdf

2. Condonation of delay under section 119(2)(b) in filing of Form No. 10BB for AY 2016-17 and subsequent years - Circular No. 19/2020, dated 03-11-2020

Vide this Circular, the CBDT has *inter alia* directed that in all the cases of belated applications in filing of Form No. 10BB for years prior to AY. 2018-19, the CIT are authorised to admit such applications for condonation of delay u/s 119(2)(b). The CIT will while entertaining such applications regarding filing Form No. 10BB shall satisfy themselves that the applicant was prevented by reasonable cause from filing such application within the stipulated time. Further, all such applications shall be disposed of by 31.03.2021.

Refer:https://www.incometaxindia.gov.in/communications/circular/circular_19_2020.pdf

III. PRESS RELEASES/INSTRUCTIONS/OFFICE MEMORANDUM/ORDER

1. Order for exercising power of intrusive or coercive action for recovery of tax demand by Assessing Officers (AO) or Tax Recovery Officers (TRO) – Order u/s 119, dated 16-10-2020

Vide this Order, CBDT has directed that any AO or TRO, who are authorised under the Income-tax Act, 1961 to carry out the functions related to recovery of arrear or 'current tax demand', may carry out these functions as per Provisions of Chapter XVII and the Second Schedule of the Income -tax Act, Income Tax Rules, Manuals and Guidelines issued earlier in this regard. However, while taking intrusive and coercive action for recovery of taxes, specified guidelines as per this Order should be kept in mind. Further, a Corrigendum dated 19.10.2020 is also issued in this regard.

Refer:https://www.incometaxindia.gov.in/Lists/Latest%20News/Attachments/422/Order_US119_ITA_for_exercising_power_intrusive_coercive_action_16_10_20.pdf

2. Order for exercising power of survey u/s 133A and in pursuance of The Taxation and Other Laws (Relaxation and Amendment of Certain Provisions) Act, 2020 – Order u/s 119, dated 19-10-2020

Vide this Order, CBDT has issued guidelines for exercising power of survey u/s 133A of the Income-tax Act, 1961 and in pursuance of The Taxation and Other Laws (Relaxation and Amendment of Certain Provisions) Act, 2020. The guidelines have been issued to: (a) TDS Charges, (b) Central Charges, (c) International Taxation division, (d) NeAC/NFAC Units, (e) Exemption Charge, and (f) I&CI Charge.

Refer:https://www.incometaxindia.gov.in/Lists/Latest%20News/Attachments/424/Order_us_119_ITAct_1961_Misc_20_10_20.pdf

3. Extension of due date of furnishing of Income Tax Returns and Audit Reports – Press Release, dated 24-10-2020

Vide this Press Release, the CBDT has extended the due date to file ITR Forms and Audit Reports for AY 2020-21. The due dates have been *inter alia* extended to 31.01.2021 and 31.12.2020 for various specified cases of tax payers.

Refer:https://www.incometaxindia.gov.in/Lists/Press%20Releases/Attachments/864/PressRelease_Extension_of_due_date_of_furnishing_of_IITR_and_Audit_Reports_24_10_20.pdf

4. Income-tax Exemption for payment of deemed LTC fare for non-Central Government employees – Press Release, dated 29-10-2020

In order to provide the benefits to other employees (i.e. non-Central Government employees) who are not covered, it has been decided by the Government to provide similar income-tax exemption for the payment of cash equivalent of LTC fare to the non-Central Government employees also. Accordingly, the payment of cash allowance, subject to maximum of Rs 36,000 per person as Deemed LTC fare per person (Round Trip) to non-Central Government employees, shall be allowed income-tax exemption subject to fulfilment of conditions as specified in this Press Release.

Refer:https://www.incometaxindia.gov.in/Lists/Press%20Releases/Attachments/870/Press-Release-IT-Exemption-for-payment-of-deemed-LTC-dated-29-10-2020.pdf

5. Income Tax relief for Real-estate Developers and Home Buyers – Press Release, dated 13-11-2020

Government has decided to increase the safe harbour from 10% to 20% u/s 43CA for the period from 12.11.2020 to 30.06.2021 in respect of only primary sale of residential units of value up to ₹ 2 crore. Consequential relief by increasing the safe harbour from 10% to 20% shall also be allowed to buyers of these residential units u/s 56(2)(x) for the said period. Therefore, for these transactions, circle rate shall be deemed as sale/purchase consideration only if the variation between the agreement value and the circle rate is more than 20%.

Refer:https://www.incometaxindia.gov.in/Lists/Press%20 Releases/Attachments/876/PressRelease_IT_relief_for_Real_ estate_Developers_and_Home_Buyers_13_11_20.pdf

GST

Due Date for filing of Annual Return & Reconciliation Statement for the FY 2018-19 extended upto 31st December, 2020

CBIC vide Notification No. 80/2020- CT dt 28th October, 2020 has ***extended*** the time limit *for furnishing of the Annual Return in* ***Form GSTR-9*** *and Reconciliation Statement in* ***Form GSTR- 9C*** *specified under section 44 of the CGST Act read with Rule 80 of the CGST Rules, electronically through the common portal,* ***for the financial year 2018-2019 till the 31st December, 2020.***

Amendment in section 39 of the CGST Act, 2017

The Central Government vide Notification No. 81/2020- CT dt 10th November, 2020 *has appointed the* ***10th day of November, 2020****, as the date on which the provisions of section 97 of the Finance (No. 2) Act, 2019 (23 of 2019) shall come into force.*

Thirteenth amendment (2020) to the CGST Rules, 2017

The Central Government vide Notification No.82/2020-CT dt 10th November, 2020 has made following amendments in the **Central Goods & Services Tax Rules, 2017 :-**

1. *Substitution of Rules 59, 60 and 61 w.e.f. from the 1st day of January 2021*
2. *Insertion of Sub-Rule (6) to Rule 61-* Form and manner of submission of monthly return
3. *Insertion of Rule 61A-* Manner of opting for furnishing quarterly return
4. *Amendment in Rule 62-* Form and manner of submission of statement and return
5. *Amendment in Form GSTR-1 and insertion of Form GSTR-2B*

Due date for filing of FORM GSTR-1

The Central Government vide Notification No.83/2020-CT dt 10th November, 2020 *has notified the due dates for filing of* Form-GSTR-1 w.e.f. 1st January, 2021 *as under:-*

Sl. No.	Form GSTR-1	Due Date
1.	For Monthly Return Filers	11th day of the month succeeding such tax period
2.	For the class of registered persons required to furnish return for every quarter under proviso to sub-section (1) of section 39 of the said Act	13th day of the month succeeding such tax period.

Notification of Class of Persons under Proviso to Section 39(1)

CBIC vide Notification No.84/2020-CT dt 10th November,2020 *has notified the registered persons, other than a person referred to in section 14 of the IGST Act, 2017,* ***having an aggregate turnover of up to ₹ 5 crore in the preceding financial year, and who have opted to furnish a return for every quarter, under rule 61A(1)*** *as the class of persons who shall,* ***furnish a return for every quarter from January, 2021 onwards, and pay the tax due every month in accordance with the proviso to section 39(7)*** *of the CGST Act, namely:*

(i) *the return for the preceding month, as due on the date of exercising such option, has been furnished:*

(ii) *where such option has been exercised once, they shall continue to furnish the return as per the selected option for future tax periods, unless they revise the same.*

- *A registered person whose* ***aggregate turnover crosses ₹ 5 crore*** *during a quarter in a financial year shall not be eligible for* ***furnishing of return on quarterly basis*** *from the first month of the succeeding quarter.*
- *For the registered person falling in the class specified in column (2) of the Table below, who have furnished the return for the tax period October, 2020 on or before 30th November, 2020,* ***it shall be deemed*** *that they have opted under sub-rule (1) of rule 61A of the said rules* ***for the monthly or quarterly furnishing of return as***

mentioned in column (3) of the said Table:-

TABLE

Sl. No.	Class of registered person	Deemed Option
(1)	(2)	(3)
1.	Registered persons having aggregate turnover of up to 1.5 crore rupees, who have furnished **FORM GSTR-1** on quarterly basis in the current financial year	Quarterly return
2.	Registered persons having aggregate turnover of up to 1.5 crore rupees, who have furnished **FORM GSTR-1** on monthly basis in the current financial year	Monthly return
3.	Registered persons having aggregate turnover more than 1.5 crore rupees and up to 5 crore rupees in the preceding financial year	Quarterly return

- *The registered persons referred to in column (2) of the said Table,* may change the default option electronically, *on the common portal, during the period* from 5th day of December, 2020 to 31st day of January, 2021.

Further, CBIC vide Circular No.143/13/2020- GST dt 10th November, 2020 has issued few clarifications regarding **Quarterly Return Monthly Payment (QRMP) Scheme.**

Notification of special procedure for making payment of 35% as tax liability in first two month

CBIC vide Notification No.85/2020-CT dated 10th November,2020 has notified the registered persons under proviso to section 39 (1) of the CGST Act, ***who have opted to furnish a return for every quarter or part thereof,*** *as the class of persons who may, in first month or second month or both months of the quarter,* ***w.e.f. 1st January,2021, follow the special procedure*** *such that the said persons may pay the tax due under proviso to section 39 (7) of the said Act,* ***by way of making a deposit of an amount in the electronic cash ledger equivalent to,*** *-*

(i) ***35 % of the tax liability*** *paid* ***by debiting the electronic cash ledger*** *in the return* for the preceding quarter *where the return is furnished quarterly; or*

(ii) ***the tax liability*** *paid by debiting the* ***electronic cash ledger*** *in the return* ***for the last month*** *of the immediately preceding quarter where the return is furnished monthly:*

Provided that no such amount may be required to be deposited-

(a) for the first month of the quarter, where the balance in the electronic cash ledger or electronic credit ledger is adequate for the tax liability for the said month or where there is nil tax liability;

(b) for the second month of the quarter, where the balance in the electronic cash ledger or electronic credit ledger is adequate for the cumulative tax liability for the first and the second month of the quarter or where there is nil tax liability:

Provided further that registered person shall not be eligible for the said special procedure unless he has furnished the return for a complete tax period preceding such month.

Explanation- For the purpose of this notification, the expression "a complete tax period" means a tax period in which the person is registered from the first day of the tax period till the last day of the tax period.

Rescindment of Notification 76/2020-CT dt 15.08.2020

The Central Government vide Notification No.86/2020-CT dt 10th November,2020 has rescinded Notification 76/2020-CT dt 15.08.2020 wherein the due dates of furnishing the return in FORM GSTR-3B for October, 2020 to March, 2021 was prescribed.

Extension of due date for furnishing of FORM ITC-04 for the period July- September 2020 till 30th November, 2020

The CBIC vide Notification No.87/2020-CT dt 10th November,2020 has extended the time limit for furnishing the declaration in **FORM GST ITC-04**, in respect of goods dispatched to a job worker or received from a job worker, during the **period from July, 2020 to September, 2020 till the 30th day of November, 2020.**

This notification shall be deemed to have come into force with effect from the 25th day of October, 2020.

Implementation of e-invoicing for the taxpayers having aggregate turnover exceeding ₹ 100 Cr from 1st January 2021

The Central Government vide Notification

No.88/2020-CT dt 10th November, 2020 has amended Notification No-13/2020– CT, dt 21st March, 2020 to **implement e-invoicing for the taxpayers having aggregate turnover exceeding ₹ 100 Crores from 1st January 2021** instead of ₹ 500 Crores.

CUSTOM

Contactless delivery of international courier consignments

CBIC vide Circular No. 47/2020-Customs dt 20th October, 2020 has decided to allow the delivery of international courier shipments, based on the OTP validation as follows:

(i) Consignee gets OTP on their mobile number which has been registered with the authorised courier. The authorised courier should exercise due diligence to ensure that the mobile number belongs to the consignee at the time of registering the phone number.

(ii) At the time of delivery, the authorised courier electronically validates the OTP from the consignee.

(iii) Upon successful validation, the shipment is delivered as per the instructions of the consignee. In case of failure to validate the OTP, the consignment will not be delivered.

The OTP based validation will be an alternative means of obtaining proof of delivery to the existing procedure of taking physical signatures.

Companies (Prospectus and allotment of securities) Rules 2020

The Ministry of Corporate Affairs via notification dated 16th October 2020 notified that Central Government has amended the Companies (Prospectus and allotment of securities) Rules, 2014, wherein in Rule 14, a proviso shall be inserted which states that "provided also that in case of offer or invitation of any securities to qualified institutional buyers, it shall be sufficient if the company passes a previous special resolution only once in a year for all the allotments to such buyers during the year."

Refer:http://www.mca.gov.in/Ministry/pdf/SecuritiesAmendmentRules_16102020.pdf

Special measures under the Companies Act 2013 and LLP Act 2008 in view of COVID-19 outbreak

In continuation to the Ministry's General Circulars No. 11/2020 dated 24th March, 2020 it has been further clarified via Circular no. 36/2020 dated 20th October, 2020 that the non-compliance of minimum residency in India for a period of at least 182 days by at least one director of every company, under Section 149 of the CA-1 3 shall not be treated as a non-compliance for the financial year 2019-20 and 2020-21 as well.

Refer:http://www.mca.gov.in/Ministry/pdf/GeneralCircularNo.36_20102020.pdf

Publication of notice u/s 75 of the Limited Liability Partnership Act, 2008 read with Rule 37(2) of Limited Liability Partnership Rules, 2009

The Ministry of Corporate Affairs have issued a notice dated 28th October, 2020 which contains the list of 137 LLPs which have made an application along with the consent of all the partners for striking off/removal of its/their names from the Registrar of LLPs either on the grounds that they are not carrying on the business or operation for a period of one year or more.

Refer:http://www.mca.gov.in/Ministry/pdf/NoticeLLP_28102020.pdf

Sensitizing general Public about Nidhi Companies

In order to make regulatory regime for Nidhi Companies more effective and also to accompolish the objectives of transparency and investor friendliness in corporate environment of the country, the Central Government has amended the provisions of the Companies Act, 2013 and Nidhi Rules w.e.f 15th August, 2019 requires that Companies have to apply to the Central Government for updation/declaration of their status as Nidhi Company.

In this regard, stakeholders have been advised to verify/ensure that the Nidhi Company in which they are planning to become member has been declared under the amended provisions as per the Companies Act, 2013.

Refer:http://www.mca.gov.in/Ministry/pdf/NoticeNidhi_26102020.PDF

Extension of LLP Settlement Scheme, 2020

In continuation to the Ministry's General Circulars No. 13/2020 dated 30th March, 2020 and 31/2020 dated 28th September, 2020, the timeline for filing belated documents due for filing till 31st August 2020 has been extended to 30th November 2020 vide circular no 37/2020 dated 09th November, 2020. Accordingly, extension is also available for furnishing of financial statement for the F.Y. 2019-20.

Also, the statement of account and solvency for the financial year 2019-2020 which has been signed beyond the period of six months from the end of financial year but not later than 30th November, 2020, will not be deemed as non-compliance.

Refer:http://www.mca.gov.in/Ministry/pdf/GeneralCircularNo.37_09112020.pdf

Schemes of arrangement by Listed Entities and Relaxation under Sub-rule (7) of Rule 19 of the Securities Contracts (Regulation) Rules, 1957

SEBI vide Circular No. CFD/DIL3/CIR/2017/21 dated March 10, 2017 has laid down the framework for Schemes of Arrangement by listed entities and relaxation under Rule 19(7) of the Securities Contracts (Regulation) Rules, 1957.

Further vide circular no SEBI/HO/CFD/DIL1/CIR/P/2020/215 dated 3rd November 2020, the process for filing the draft schemes with the stock exchanges has been further streamlined. Therefore certain amendments have been made to the aforesaid circular dated 10th March and the amendments so introduced have been provided in the annexure to this circular.

These amendments are aimed at ensuring that the recognized stock exchanges refer draft schemes to SEBI only upon being fully convinced that the listed entity is in compliance with SEBI Act, Rules, Regulations and circulars issued thereunder.

Furthermore, this Circular shall be applicable for all the schemes filed with the stock exchanges after November 17, 2020. The amendment indicated at Para 7 of the Annexure shall be applicable for all listed entities seeking listing and/or trading approval from the stock exchanges after November 3, 2020.

Refer:https://www.sebi.gov.in/legal/circulars/nov-2020/schemes-of-arrangement-by-listed-entities-and-ii-relaxation-under-sub-rule-7-of-rule-19-of-the-securities-contracts-regulation-rules-1957_48064.html

SEBI extends the Settlement Scheme 2020

The Securities and Exchange Board of India (SEBI) on October 31, 2020 has issued a Public Notice in reference to its earlier Public Notice dated July 27, 2020 wherein SEBI has introduced the Settlement Scheme 2020 (the Scheme) which proposes to provide a onetime settlement opportunity to those entities that have executed trade reversals in the stock options segment of BSE during the period from April 01, 2014 to September 30, 2015.

The period of the Scheme commenced on August 01, 2020 and was to end on October 31, 2020. However, in view of the large scale disruption caused by Covid-19 pandemic, competent authority in the current Public Notice, extended such period of the Scheme till December 31, 2020.

Refer:https://www.sebi.gov.in/media/public-notices/oct-2020/public-notice-in-respect-of-extension-of-the-sebi-settlement-scheme-2020_48049.html

Non-compliance with provisions related to continuous disclosures

SEBI vide Circular No. SEBI/HO/DDHS/DDHS/CIR/P/2020/231 dated 13th November 2020, has laid down a similar uniform structure for imposing fines for non-compliance with continuous disclosure requirements by issuers of listed Non-Convertible Debt Securities and/ or NCRPS and/ or Commercial Papers as specified in Annexure I and Annexure II of this circular respectively.

However, the Stock Exchanges may deviate from the above, if found necessary, only after recording reasons in writing.

Refer:https://www.sebi.gov.in/legal/circulars/nov-2020/non-compliance-with-provisions-related-to-continuous-disclosures_48171.html

Export Data Processing and Monitoring System (EDPMS) Module for 'Caution / De-Caution Listing of Exporters' – Review

A.P. (DIR Series) Circular No. 03 dated October 09, 2020

In connection with Para 4 of Statement on Development and Regulatory Policies issued on October 09, 2020, RBI has decided to withdraw the existing Paras 3(1)(i) and 3(1)(ii) of A.P. DIR Circular No. 74 dated May 26, 2016 on Module for 'Caution/De-Caution Listing of Exporters' in EDPMS. The said paras are withdrawn with a intent to make system more exporter friendly and equitable.

As per revised procedure, an exporter would be caution-listed by RBI based on recommendations of AD Bank concerned, depending upon the exporters track record with AD Bank and investigative agencies. The AD Bank would make recommendations in this regard to the Regional Office concerned of the Foreign Exchange

Department of RBI in case the exporter has come to adverse notice of Enforcement Directorate (ED)/ Central Bureau of Investigation (CBI)/Directorate of Revenue Intelligence (DRI)/any such other law enforcement agency and/or exporter is not traceable and/or is not making sincere efforts to realize the exports proceeds.

AD Bank would also made recommendations to the Regional office of the RBI for de-caution listing an exporter as per the laid procedure.

The procedural aspects of handling shipping documents of caution-listed exporters by the AD Banks as outlined in para 3.2 of circular ibid, remain unchanged.

Master Direction 16/2015 dated January 1, 2016 is updated to reflect the above changes.

Consolidated FDI Policy Circular of 2020

DPIIT File Number 5(2)/2020-FDI Policy dated October 15, 2020

DPIIT has issued Consolidated FDI Policy Circular 2020 which amends the Consolidated FDI Policy Circular of 2017.

The present consolidation subsumes and supersedes all Press Notes/Press Releases/Clarifications/ Circulars issued by the DPIIT, which were in force as on October 15, 2020 and reflects the FDI Policy as on October 15, 2020. This Circular accordingly will take effect from October 15, 2020 and will remain in force until superseded in totality or in part thereof. Reference to any statute or legislation made in this Circular shall include modifications, amendments or re-enactments thereof.

Notwithstanding the rescission of earlier Press Notes/Press Releases/Clarifications/Circulars, anything done or any action taken or purported to have been done or taken under the rescinded Press Notes/Press Releases/Clarifications/Circulars prior to October 15, 2020, shall, in so far as it is not inconsistent with those Press Notes/Press Releases/Clarifications/Circulars, and applicable provisions under the FEMA and Rules/Regulations thereunder, be deemed to have been done or taken under the corresponding provisions of this circular and shall be valid and effective.

Detailed FDI Policy Circular 0f 2020 can be accessed at following link –

https://dipp.gov.in/sites/default/files/FDI-PolicyCircular-2020-29October2020_1.pdf

Classifieds

5827 We, 37 years old CA firm having 20 partners and 19 branches, seek partners who hold CoP for long term association. Contact: Mobile 9910691575 or e-mail: vncgzb@gmail.com

5828 South Mumbai based Chartered Accountant having previously worked for 5 years has recently started his practice and seeks professional work on assignment basis as well as partnership with retiring/ fresher CAs. You can reach him on ca.akashshah3033@gmail.com or +919619040158 or https://www.linkedin.com/in/akashshah3033

5829 We are 52 years old CA firm having H.O. at Delhi and branches at 8 places are looking for 15 or more years old proprietor firm at Kanpur for merger, additional DISA/CISA is preferred. Interested firms can send proposal with profile at jk.sarawgi@jksco.in, Phone: 9871599182

5830 CA firm having a branch at Vellore, TN seeks professional works on assignment / retainership / sub - contract basis. Please contact Soundarya at vlr.eskandco@gmail.com or 82484 42910.

5831 Practicing CA professionals, Proprietorship / Partnership Firms, preferably with qualification and experience in Consultancy in SAP/ Ind-AS / Insolvency / Forensic Audit / System Audit, Interested in joining / merging with a firm of more than 45 years old, write with details to cahelpline45@gmail.com

5832 CA firm in Gurugram requires Articles & CAs having minimum experience of 2-3 years in Statutory Audits or GST. Good communication skills must. Salary no bar. Contact :- Nisha Rana, RKACA & Associates LLP, Phone :- 0124-4102000, Extn.108, E-mail: nisha.rana@rka-india.com

ICAI in Media : Glimpses of October - November, 2020

Education TIMES

New Delhi, 26th Oct. 2020

Will early CA Foundation make students career-driven

Class X students applying for the CA Foundation course can start their preparation for a professional career early along with their regular school studies

Rajalakshmi Ghosh

Earlier and revised entry requirement for appearing in Foundation examination

Particulars	Under earlier scheme	After amendments in regulations
[illegible]	[illegible]	[illegible]

early TIMES

ICAI launches "WE CARE"- an initiative of ICAI for senior Chartered Accountants

Jammu, Oct. 29, 2020

The Institute of Chartered Accountants of India (ICAI) has recently launched an initiative "We Care - A Unique Social Security Scheme and Benevolence Program for Senior CAs", a unique social security and benevolence program for Senior CA members of age 75 years and above.

This initiative would provide support to this valuable segment of ICAI fraternity which endeavors for providing respect, continuous engagement, care and support of the Profession by creating a sense of belonging. The initiative was launched by Arjun Ram Meghwal, Minister of State for Parliamentary Affairs & Heavy Industry and Public Enterprises through virtual mode in the presence of President, Vice-President & Central Council Members of ICAI.

Meghwal while applauding the efforts being made by ICAI said "Such initiatives are need of the hour as care for elderly has been the pillar of Indian Heritage and our value system. It is heartening to learn that ICAI is taking concrete steps for expressing gratitude towards its elderly members & showing concern for their well-being & extending support to them as & when required."

The Minister further added "This initiative undertaken by ICAI is laudable and will set an example for many other organizations to emulate. This will also instill Indian traditional values in the younger generation & inculcate the sentiments of appreciating, respecting & caring for elders."

"We Care" initiative aims to take stock of the wellbeing, health, financial condition and any other issue being faced by the senior Members.

On this occasion, CA. Atul Kumar Gupta, President, ICAI said "The Institute assiduously aspires to attain the Absolute Best for all its members and is diligently dedicated to their constant improvement and growth. ICAI stands tall as a facilitator and crusader of affirmative action and thereby letting consequent growth and development flow."

President, ICAI further added "The Institute, over the years, has garnered paramount respect for meeting business environment changes with decisive action and discerning reaction.

Jagran Josh

ICAI Launches Global Management Development Programme on World Accountants Day

By JAGRAN JOSH, PUBLISHED ON: NOV 11, 2020

The Institute of Chartered Accountants of India has launched the Global Management Development Programme (GMDP): Leadership Beyond Boundaries on the occasion of World Accountants' Day. The GMDP programme is in line with the institute's efforts towards knowledge up-gradation and professional enrichment even amid pandemic. The programme garnered a massive response and took in a total of 75 participants from all over the world including the countries of Singapore, Australia, and Middle East countries.

About the Programme

ICAI's first-ever Management Development Programme focuses on providing a platform for learning, relearning and upgrading 21st Century Managerial and Leadership skills. The programme also focuses on developing inquisitive, predictive, descriptive, prescriptive and pre-emptive skills in the Finance Professionals which will help them upskill today and remain relevant for the future. The program is developed with contribution from renowned CAs, Media Personalities, IIM/ISB/International Faculty and highly experienced Master Trainers. The GMDP has been said to be the brainchild of the ICAI Central Council Member CA Dayaniwas Sharma.

The Launch Ceremony

The Chief Guest of the Launch ceremony was CA Keshav R. Murugesh, also known as 'Turnaround Turk' in the world of business, Group CEO of WNS Global Services, an NYSE-listed Business Process Management company. He outlined the progression of the global financial environment and the changes in the role of the Chartered Accountants and Finance Professionals. He also talked about the disruption that affected the companies differently, which thus, required different thinking and skillsets as well as efficient leadership qualities.

The GMDP launch ceremony also saw the presence of ICAI President CA Atul Kumar Gupta who said that the programme will inculcate the competencies and skillsets considered essential to succeed in the present environment. With the pandemic presenting its challenges that affected the businesses and economic activities across the world in a low touch manner, something not witnesses in over a hundred years said CA Kumar. This has taught the industry leaders to innovate think out of the box and prepare for any kind of disruptions, he further added.

Greater Jammu

November 18, 2020

MP Ladakh inaugurates ICAI office in Leh

MP Ladakh, Jamyang Tsering Namgyal inaugurating newly-constructed office of ICAI in Leh on Tuesday.

GJ REPORT

LEH, NOV 17: Member Parliament Ladakh, Jamyang Tsering Namgyal inaugurated the newly constructed representative office of the Institute of Chartered Accountants of India (ICAI) in presence of Joint Secretary ICAI, Neeraj Srivastava today at Eliezer Joldan Memorial (EJM) College Leh.

Secretary ICAI, Rakesh Sehgal; Principal EJM College, Deskong Namgail; Vice-president, Nihar Jambusaria; Chairman NIRC of ICAI Shanshak Aggarwal; Chairman J&K Branch, Lalit Kumar Gupta; CAs, Centre and Regional Council members joined the inaugural occasion through video conference.

On the occasion, MP Ladakh congratulated the team of ICAI for achieving the milestone of having its own representative office for aspirants of Chartered Accountants in Ladakh. He further appreciated the team of ICAI for their role in the set-up of the representative office in the newly created Union Territory. He expressed his hope to extend this representative office towards the Ladakh branch in the coming years and also described the role of ICAI in nation building and importance of Chartered Accountants in changing the economic scenario of Ladakh.

He further expressed his gratitude to the president, Vice president and all the members of ICAI towards their contribution in expanding this profession in Ladakh. Keeping in view the rapid growth in Ladakh's economy, MP Namgyal stated that Chartered Accountants play an important role in the economy like Capital budgeting, Budget forecasting, Financing and other activities.

Speaking to the media persons, the MP stated that by opening up the office in Ladakh, the Chartered Accountancy Course, one among the most economical courses, will be provided to the interested candidates at minimum fees. He further informed that ICIA will provide this four-year course to the candidates at 75% discounted rate and only 25 % will be charged from the students/candidates. The ICAI is the national professional accounting body of India which was established in July 1949 as a statutory body under the Chartered Accountants Act, 1949 enacted by the Parliament to regulate the profession of Chartered Accountancy in India.

Joint Secretary Srivastava also stated that the ICAI office will act as a facilitation centre to spread awareness about Chartered Accountancy courses as a tool for social empowerment and provide much needed professional employment opportunities among the youth.

Earlier, Secretary ICAI detailed the role and function of ICAI.

Atul Kumar Gupta, President , ICAI said, "The ICAI Office in Leh will act as a centre to spread awareness about Chartered Accountancy Course as a tool for Social empower

NEWS by CAREERS360

ICAI launches 1st Batch of the Virtual Executive Master Program- New Age Auditors

Team Careers360 | New Delhi | Nov 20, 2020

The Institute of Chartered Accountants of India (ICAI) over the years, has reinforced the role that the accountancy profession plays in providing high-quality financial information, facilitating market discipline and fostering confidence of various stakeholders by being a prudential Regulator.

To make available a conducive environment for research and develop a systematic audit quality framework, ICAI recently established The Centre for Audit Quality ('CAQ') as Special Purpose Directorate, to help ensuring consistent improvement in audit quality and boost Indian firm's global standing. India is on the cusp of a huge data revolution. The Centre for Audit Quality can play an important role that would further build Investor's confidence and develop public trust, at large.

The future of the profession lies in its ability to change, evolve, and adapt to the changing environment, which is a central element of the various reforms. Keeping this in mind, ICAI would be launching 1st batch of the "Virtual Executive Master Program – New Age Auditors" on November 23, 2020. This program envisages acquainting the Chartered Accountants professionals with the evolving regulatory and technological advances in the economy, equipping the new age auditors with the futuristic skillsets in digital technologies and practices in the changing environment to help protect the public interest.

CA. Atul Kumar Gupta, President, ICAI stated "Audit quality is the hallmark of the audit profession. To be future ready, professional accountants should learn and equip themselves in new age technology skills, acquire strategic managerial skills besides continuing their prowess in accountancy, finance, taxation and business laws. Auditors today need to reinvent themselves and such programs would help to keep them abreast, equip them with the skillsets required for global environment, organization sustainability and practices in the changing environment." Eminent faculty from Practice Portfolio shall be addressing the participants- Chartered Accountants, Regulatory Authorities like SFIO, CBI, RBI and Banks, Member of MRA countries, Overseas Chapters of ICAI.

Invitation to Write Articles

Chartered Accountants and other subject experts, with academic passion and flair for writing, are invited to share their expertise through the ICAI Journal – *The Chartered Accountant*. The article may cover any topic relevant to the accounting world covering auditing, finance, laws, strategy, taxation, technology and so on. While submitting articles, please keep following aspects in mind:

- The length of articles should be about 2500 words.
- Articles should be original in nature
- An executive summary of about 100 words should accompany the article.
- Articles should not have been published or sent for publishing in any other print or electronic media.

Please send articles to Journal Section - The Chartered Accountant, The Institute of Chartered Accountants of India, ICAI Bhawan, A-29, Sector 62, NOIDA – 201309. Attach photograph, editable soft copy of file, declaration of originality and assignment of copyright in the prescribed format along with the article. E-mails may be sent to eb@icai.in.

Visit https://www.icai.org/post.html?post_id=2557 *for detailed guidelines and formats of declaration of originality and assignment of copyright.*

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