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JOURNAL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

Spreading Financial Literacy for Better Growth

ICAI | 21-22 January 2022
Mumbai, India
INTERNATIONAL CONFERENCE 2022
Accountants Creating a Digital and Sustainable Economy

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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, Indraprastha Marg, New Delhi 110 002. 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.

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The Institute of Chartered Accountants of India

Spreading Financial Literacy for Better Growth

India is the land of a rich cultural heritage with a history of tireless perseverance, fervently dedicated towards building a better and more inclusive tomorrow. As a nation, since our very independence, we have pledged umpteen resources and immense time and effort towards bridging the gap between haves and have-nots, and continue to put forth the same. The economic conditions in the emerging Indian economy have raised serious concerns about financial security of the individuals and, accordingly, strengthening financial inclusion in the country has been one of the important developmental agendas of the Indian Government. Financial education helps in the overall well-being of society as people are able to access appropriate financial products and services to their advantage. A financially literate person is more likely to plan for future expenses, life exigencies and be ready for retirement.

According to various surveys, it has been observed that majority of the Indian population lack understanding of basic financial concepts and the corresponding risks. Due to lack of crucial financial knowledge they do not plan and thus, fail to make effective decisions to manage their finances. It is a matter of priority to find effective approaches to improve the level of financial literacy amongst the population and implement a national strategy for financial education to provide learning opportunities throughout a person's life.

The Institute of Chartered Accountants of India has always been at the forefront of spreading financial literacy. ICAI firmly believes in the role of financial literacy coupled with knowledge of taxation in the inclusive growth of the nation. ICAI recognises the profound role of transparent taxation and financial literacy in moderating the disparity of income across India and therefore urges fellow members to sincerely take up this cause in their day to day working. As a part of its action plan for the year 2021-22 ICAI has taken a major initiative – Financial and Tax Literacy Drive, *Vitiya Gyan, ICAI Ka Abhiyaan* – and launched a website www.vitiyagyan.icai.org. The drive attempts to educate the public about the basics of taxation, insurance, banking and various other important areas of finance.

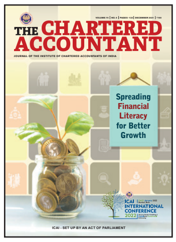
Over the past many years being a preferred partner in the nation building, the ICAI is spreading awareness on enhancing financial literacy among public at large about the do's and do not's of investing their money in financial securities and to promote financial literacy. ICAI has been organizing Investor Awareness Programmes under the aegis of Investor Education and Protection Fund (IEPF) of the Ministry of Corporate Affairs. ICAI is also working towards enhancing awareness in the area of taxation.

Chartered Accountants hold the cognitive awareness, comprehensive specialisation as well as the influence to manifest the redistributive effect of financial knowledge at a macro level, given financial literacy establishes precedence for improved rates of savings, lower levels of debt, increased rates of asset accumulation. Not only this, ICAI believes that honest and responsible auditing of businesses can accelerate India's economic growth via its structural reformation and alter the landscape of Indian population in terms of its income divide for the better. The scope of financial and tax literacy drive is also extended to MSMEs and other small scale businesses that need professional guidance on finance and tax matters. Disseminating the right financial and tax knowledge amongst the individuals working with MSMEs, NPOs and other small scale sectors will increase financial literacy and help in the better presentation of financial statements by following standard accounting practices and lead to improved financial reporting. It will help the auditors in smoothly conducting their tasks as the chances of errors would be reduced.

The ICAI is leveraging its diverse resources to take the program across the country. Equitable distribution of income does not just promise social cohesion and harmony, but also helps catalyse greater economic prosperity on an all-encompassing level; after all it is an imperative step in the direction of making India truly shining again.

-Editorial Board ICAI: Partner in Nation Building

Contents



DECEMBER 2021
IN THIS ISSUE...

Contents

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

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From the President

CA. Nihar N. Jambusaria
President, ICAI

Dear Professional Colleagues,

As the last month of the year approaches, it is the time when most of us introspect about our past and plan for the future. We review this year's progress and plan the resolutions to achieve our goals for the coming year. The year 2021 has been a year of consolidation, where together, we have taken many positive steps to move from pillar to pillar, as a result, our economy is showing green shoots of growth. With great efforts, we are slowly and steadily coming out of the pandemic. India's continuous growing presence at the global level is just one of the many positive things that can be built on the future roadmap for success and prosperity over the next year. In the last issue of this calendar year, where global challenges have reigned across the globe, we will look at how we will continue the path forward to overcome all challenges.

Even in the shadow of COVID-19 pandemic, India has shown its underlying strength and risk-taking abilities to the world. The RBI and Finance Ministry have recently opined that the economy is coming out of the shadows of the pandemic and is rising again as the fastest growing economy globally. With recovering macro and micro factors, improving job markets, new investment cycle poised to kick start, the economy is on the verge of revival. In this scenario, it is essential that policy and legislative formation and their understanding amongst all the stakeholders is proceeded in a supportive manner to achieve the above objectives with focus on smooth implementation, ease of doing business and lesser complexity. We have set up an expert Group, to undertake analysis of new upcoming laws and/or to suggest amendments in the existing laws. The group intends to undertake regulatory studies and will share the findings/ insights with the Government to support decision making and policy formulation. The idea is to constructively support the Government to maximize governance for the benefit of all stakeholders.

In our country, it is very important to unleash the productivity potential of our citizens by promoting financial inclusion through financial literacy. Financial Literacy is an important catalyst to augment the country's growth, as improving the financial well-being of the citizens will lead to channelise the household savings into productive investments, which will further strengthen the economy from inside. With the measures and initiatives taken by our government and institutions, our profession has an important role to play with our professional expertise and reach across all strata of the societies in building an ecosystem

FROM THE PRESIDENT

to promote financial and tax literacy amongst all. As an institute, we have already initiated a vision to promote financial literacy through *Vitiyagyan – ICAI ka Abhiyaan* and I would urge our members to come forward for taking this drive to the grassroot levels to reduce poverty and build an inclusive society.

Technology Augmenting Financial Inclusion

Recognizing financial inclusion as an important strategic agenda item for growth of the country, the Government has taken numerous initiatives and harnessed the power of technology. Bank transactions are brought to the farthest places in the country through Jan Dhan Accounts and linking it to mobile and Aadhar numbers popularly known as JAM Trinity. Technology has truly enabled and empowered the agenda of financial inclusion. The value of UPI transactions, exceeding USD 100 billion in the month of October 2021 since its launch five years ago is a good example. It shows the potential of technology in building a financially inclusive society.

Adoption of technology and the democratization of the internet is paving the way for launching citizen centric and friendly initiatives. Technology has ushered in a revolution where all the financial products and services are available on our mobile at one click, and it imposes moral obligations on all learned professionals specially chartered accountants to educate the common man about the same including the associated risks and perils.

ICAI International Conference: *Accountants Creating a Digital and Sustainable Economy on January 21-22, 2022*

I am happy to inform that ICAI is organizing its flagship event, the ICAI International Conference on the theme "Accountants Creating a Digital and Sustainable Economy" on January 21-22, 2022 in Mumbai. The Conference will be a hotspot of emerging intellectual ideas and trends that will shape the global economy and marketplace. In your knowledge quest, the Conference is recommended to be attended by all those who wish to remain updated with the current issues and insights from the crisis in the pursuit of knowledge. Due to limited space, it is recommended to register for the Conference at the earliest to grab the opportunity to experience and be part of this world class event.

ICAI Past President's Meet

As quoted by Isaac Newton, *"If I have seen further, it is by standing on the shoulders of giants".* In our quest for perpetual excellence and to be ready for the future challenges, a meeting of ICAI Past Presidents was held on 13th November, 2021 in Mumbai, to learn from the rich experience, wealth of knowledge and wisdom of our illustrious Past Presidents and develop a strategic roadmap for the growth of the profession in the changing paradigm. Discussions were held on adopting technology, further strengthening ICAI regulatory functions, and the need for skill enrichment and capacity building of the profession to enable members to explore diverse professional opportunities.

Sustainability and Role of Chartered Accountants

In conjunction with the 26th UN Climate Change Conference of the Parties (COP26) in Glasgow where all the countries impressed upon the need to work towards promoting sustainability and protecting climate change, an important development was the creation of a new standard-setting board—the International Sustainability Standards Board (ISSB) by IFRS Trustees, signifying the increasing fervour amongst the global investors community

From the President

calling for high quality, transparent, reliable and comparable reporting by companies on climate and other environmental, social and governance (ESG) matters.

ICAI is also strengthening its actionable efforts in this light. The institute continuously engages with various stakeholder groups to discuss, debate and deliberate about sustainability issues and way forward roadmap. Recently, ICAI conducted a Global Virtual Sustainability Summit on the theme "Accelerating Sustainability Agenda: Opportunities for Professional Accountants". Ms. Asmaa Resmouki, Deputy President (IFAC) was the Guest of Honour at the summit. The summit focussed on promoting dialogue, building awareness and brainstorming on developing a blueprint for shaping an equitable, inclusive and sustainable environment.

FROM THE PRESIDENT

Submission of Pre-Budget Memorandum

As an annual exercise, suggestions for inclusion in the Pre-Budget Memorandum-2022 were sought from members from all over India. The suggestions received were compiled, duly considered, complemented, and then submitted to the Central Board of Direct Taxes (CBDT) for the consideration of the Government while formulating the tax proposals for the year 2022-23. The suggestions are broadly relating to policy and provisions of Income-tax Act, 1961, improving tax administration and citizen services and pertaining to international taxation. Further, the institute shall also shortly be submitting suggestions relating to GST and Indirect Taxes to the Government that are under finalisation.

Celebrating the Audit Diwas – Pointers to the Future of Audit

Professional and dexterous auditing is the key for any nation's strong economy. Giving due value and honour to the institution of Comptroller and Auditor General of the country, the first ever Audit Diwas was celebrated on 16th of November this year, highlighting the institution's stellar contribution to boost transparency and good Governance. At the event, the Hon'ble Prime Minister in his speech highlighted the importance of technology and data. Since most government processes are being modernized to serve the citizens, the key message emanating for the audit profession is to adopt technology and analytical tools in financial reporting.

ICAI Elections 2021

As you all know, elections for the 25th Central and 24th Regional Council will take place on 3rd and 4th December 2021. Since the success of any election depends on the turnout, I once again urge to all my professional colleagues to exercise their right to vote with sincere responsibility towards the profession.

The recent pandemic, climate change and environmental challenges are inevitably changing the way markets and consumers are taking decisions that affect things in the long run. As professionals with an insight into these events, we have the power to influence decision making in the echelons that can prepare the present as well as the future for better outcomes. I urge you all to continue to make these impactful changes in your own ways and abilities.

I also take this opportunity to wish you all a merry Christmas and a promising New Year's Eve.

Stay safe, stay healthy. Best wishes.

CA. Nihar N. Jambusaria
President, ICAI
New Delhi, 25th November, 2021

Photographs

ICAI President CA. Nihar N. Jambusaria with Dr. Bhagwat Kishanrao Karad, Hon'ble Minister of State for Finance inaugurating the Interactive Meet with members at the Pune Branch of WIRC of ICAI (11.11.2021)

ICAI President CA. Nihar N. Jambusaria felicitating Dr. Bhagwat Kishanrao Karad, Hon'ble Minister of State for Finance at the Pune Branch of WIRC of ICAI. (11.11.2021)

ICAI President CA. Nihar N. Jambusaria with RBI Governor Shri Shaktikanta Das and Chairman, Professional Development Committee CA. Babu Abraham Kallivayalil in Mumbai (03.11.2021).

ICAI President CA. Nihar N. Jambusaria with RBI Deputy Governor Shri M.K. Jain, Executive Director Shri Rohit Jain and Chairman, Professional Development Committee CA. Babu Abraham Kallivayalil in Mumbai (03.11.2021).

ICAI President CA. Nihar N. Jambusaria with RBI Executive Director, Shri S.C. Murmu and Chairman, Professional Development Committee CA. Babu Abraham Kallivayalil in Mumbai (08.11.2021).

ICAI President CA. Nihar N. Jambusaria at the National Conference on GST Organized by GST & Indirect Taxes Committee of ICAI at the Ahmedabad Branch of WIRC of ICAI (29.10.2021)

Photographs

ICAI President CA Nihar N. Jambusaria addressing the gathering at the ICAI Past President's Meet, Mumbai (13.11.2021).

Group photograph undertaken at the ICAI Past President's Meet held in Mumbai (13.11.2021).

ICAI President CA. Nihar N. Jambusaria felicitating Past-President CA. V. B. Haribhakti at the ICAI Past President's Meet, Mumbai (13.11.2021).

ICAI President CA. Nihar N. Jambusaria inaugurating the National Conference on GST organized by GST & Indirect Taxes Committee of ICAI in the presence of Managing Committee members of the Ahmedabad Branch of WIRC of ICAI (29.10.2021)

ICAI President CA. Nihar N. Jambusaria launching 'MSME Sarthi: Guidebook on Micro, Small and Medium Enterprises, 2021 Edition' at the National Conference on GST organized by GST & Indirect Tax Committee of ICAI at Ahmedabad (29.10.2021)

Photographs

ICAI President CA. Nihar N. Jambusaria being felicitated at the Ahmednagar Branch of WIRC of ICAI. Also present ICAI Past President CA. Prafulla P. Chhajed and CA. Manish Gadia, Chairman WIRC (10.11.2021)

ICAI President CA. Nihar N. Jambusaria at the Interactive Meet and Seminar on Tax Audit organised by Vadodara Branch of WIRC of ICAI. Also seen CA. Jay Chhaira, Central Council Member and Branch Managing Committee Members. (28.10.2021).

ICAI President CA. Nihar N. Jambusaria at the Interactive Meet at the Pimpri Chinchwad Branch of WIRC of ICAI. Also present ICAI Past President CA. Prafulla P. Chhajed (11.11.2021).

ICAI President CA. Nihar N. Jambusaria with members at the 'Gyan Milan,' Western Maharashtra Conference at Satara branch of WIRC. (12.11.2021).

ICAI President CA. Nihar N. Jambusaria at the Kohlapur Branch of WIRC of ICAI (12.11.2021).

ICAI President CA Nihar N. Jambusaria receiving memento at the Ahmednagar Branch of WIRC of ICAI. Also present ICAI Past President CA. Prafulla P. Chhajed and CA. Manish Gadia Chairman WIRC (10.11.2021).

Azadi Ka Amrit Mahotsav

21-22 JANUARY 2022
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ICAI INTERNATIONAL CONFERENCE 2022

21-22 January 2022
Mumbai, India

Accountants Creating a Digital and Sustainable Economy

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- Building a Sustainable Economy Through Tax Reforms
- Accountants Creating a Sustainable World
- Future of Finance in Digital Era
- Unleashing India's Export Potential through ICAI Global Presence
- Accountants Building Globally Competitive MSMEs
- India@75- Vision for Self-Reliant India
- Fintech leading India's Growth Story
- Building Trust through Assurance Function
- Build your Practices in Emerging Avenues
- Post COVID Challenges for Finance Professionals

BE THERE
TO NETWORK
EXCHANGE IDEAS
INSPIRE
GET INSPIRED
TRANSFORM YOURSELF
AND
THE WORLD

ABOUT THE CONFERENCE

Accountants Creating a Digital and Sustainable Economy

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

The ICAI, recognizing its role and responsibility to the stakeholder community and contributing in promoting public interest through resilient practices for a vibrant economy, organize the International Conference every year. ICAI is excited to organize its flagship event – the ICAI International Conference "Accountants Creating a Digital and Sustainable Economy" on January 21-22, 2022 at Jio World Centre, Mumbai. The conference would dwell deeper on various issues and challenges being faced by the profession, especially the importance of digitization and the need to create a sustainable world.

The International Conference would be an apt platform for exchange of ideas through interactive discussion amongst the global and local stakeholders and is recommended to be attended by all those who wish to remain updated with the current issues and learnings from the crisis.

Early Bird Registrations till 31st December 2021	Registration Fees from 1st January 2022
For Members / Non-Members INR 4000 + GST = 4720/-	**For Members / For Members** INR 4500 + GST = 5310/-
For Foreign Delegates USD 100	**For Foreign Delegates** USD 125

Members / Non-Members
https://bit.ly/3xoNYFG

Foreign Delegates
https://bit.ly/3CWcgIl

WHO SHOULD ATTEND

- Professional Accountants in Practice & Industry
- Global CEOs/ CFOs/ CXOs from industry
- Academicians, Consulting Practitioner's
- Global Accounting Institutions

ic2022@icai.in

Speaking Opportunities
ia@icai.in

Sponsorship Opportunities
spal@icai.in

Pavilion / Stall
ic2022@icai.in

If you would like to get involved in the ICAI International conference 2022, please contact us:
ICAI International Conference Secretariat
The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi - 110 002.
Phone: [+91] (11) 3011 0487 | Fax: [+91] (11) 30110591 | Email: ic2022@icai.in | Website : www.icai.org

Know Your Ethics

Q. Can a Chartered Accountant in practice/ firm give advertisement in press?

A. No, however, the members in practice may advertise the services setting out the services provided by him or his firm, and particulars of his firm, through a 'Write-Up', subject to Advertisement Guidelines issued by the Council.

Q. Whether Companies in which Chartered Accountants have been appointed as directors on their Board can publish description about the Chartered Accountant's expertise, specialization and knowledge in any particular field or add appellations or adjectives to their names in the prospectus or public announcements issued by these companies?

A. The Council's attention has been drawn to the fact that more and more companies are appointing Chartered Accountants' as directors on their Boards. The prospectus or public announcements issued by these companies often publish descriptions about the Chartered Accountants' expertise, specialization and knowledge in any particular field or add appellations or adjectives to their names. Attention of the members in this context is invited to the provisions of Clause (6) and (7) of Part I of the First Schedule to the Chartered Accountants Act, 1949.

In order that the inclusion of the name of a member of the Institute in the prospectus or public announcements or other public communications issued by the companies in which the member is a director does not contravene the above noted provisions, it is necessary that the members should take necessary steps to ensure that such prospectus or public announcements or public communications do not advertise his professional attainments and also that such prospectus or public announcements or public communications do not directly or indirectly amount to solicitation of clients for professional work by the member. While it may be difficult to lay down a rigid rule in this respect, the members must use their good judgement, depending upon the facts and circumstances of each case to ensure that the above noted provisions are complied with both in letter and spirit.

It is advisable for a member that as soon as he is appointed as a director on the Board of a company, he should specifically invite the attention of the management of the company to the aforesaid provisions and should request that before any such prospectus or public

Follow us on: www.esb.icai.org | esb@icai.in |@icaiesb announcements or public communication mentioning the name of the member concerned, is issued, the material pertaining to the member concerned should, as far as practicable be got approved by him.

Q. If a member is a partner in more than one firm, is it permissible to print the names of all the firms on visiting cards, letter-heads, stationery etc.?

A. Yes, there is no violation under Clause (7) of Part I of the First Schedule to the Chartered Accountants Act, 1949

Q. Whether a member in practice/ Firm of Chartered Accountants is permitted to use logo on letter-heads, stationery, etc.?

A. No, the use of logo/monogram of any kind/ form/style/design/colour etc. whatsoever on any display material or media e.g. paper stationery, documents, visiting cards, magnetic devices, internet, signboard by the members in practice and/or a firm of Chartered Accountants, is prohibited. Use/ printing of member/firm name in any other manner tantamounting to logo/monogram is also prohibited.

Q. Whether members of the Institute can use common CA logo?

A. Yes, the common CA logo can be used by all members, whether in practice or not. Encapsulating the current beliefs, attitudes and values of the profession, the CA logo seeks to enhance the identity of the members. The logo consists of the letters 'CA' with a tick mark (upside down) inside a rounded rectangle with white background.

Q. Whether a member may put CA Logo on his website on the same background colour as that of the website?

A. As per Logo Guidelines issued by ICAI, in the CA logo, the background colour of Logo has to be white. It is to be complied with accordingly, irrespective of the background colour of website.

Q. Can a Chartered Accountant in practice use/fix a monogram of the Institute on any column/wall located inside the office or on professional documents?

A. No, in view of the Council directions under Clause (7) of Part I of the First Schedule to the Act, a Chartered Accountant in practice is not permitted to use/fix a monogram of the Institute on any column/wall located inside the office or on any professional documents.

Q. Whether the office of a Chartered Accountant is permitted to go in for ISO certification or other similar certifications?

A. Yes, there is no bar for a member to go in for ISO certification or other similar certifications. However, the member cannot use the expression like "ISO Certified" on his professional documents, visiting cards, letter-heads or sign boards, etc.

Q. Whether public notice published in the newspaper by a Chartered Accountant individually or jointly with an Advocate in respect of acquisition of land by their client is permitted?

A. Yes, in terms of the provisions of Paragraph 3.8.1 of Council Guidelines for Advertisement, 2008, appearing in Volume II of the Code of Ethics, the public notice published in the newspaper in respect of acquirement of land by their client is permissible.

Q. Whether the members in practice can print their photograph on their visiting cards?

A. No, it is not permissible for the members in practice to print their photograph on their visiting cards.

Q. Whether it is permissible for a member in practice to publish an advertisement in the press for recruiting staff in the member's own office?

A. Yes, in terms of the provisions of Paragraph 3.8.1 of Council Guidelines for Advertisement, 2008, appearing in Volume II of the Code of

Ethics, it is permissible for a member in practice to publish an advertisement in the press for recruiting staff in the member's own office provided that only the name and address of the member or that of his firm, with the description Chartered Accountant(s) is mentioned in such advertisement and the advertisement is not displayed more prominently than is usual for such advertisements or the name of the member or that of his firm with the designation Chartered Accountant(s) appears in type not bolder than the substance of the advertisement.

Q. What should be the sequence /order of designations, while a member also uses the designation 'Dr.' along with 'CA'?

A. The member is free to use the designation 'Dr.' along with 'CA' in whichever sequence/order he wants to.

Q. Whether a member in practice empanelled as "Insolvency Professional" may mention the same on his visiting cards, letter heads and other communication?

A. A member in practice empanelled as Insolvency Professional may mention "Insolvency Professional" on his visiting cards, letter heads and other communication, as this is recognized by the Central Government in terms of Clause (7) of Part –I of First Schedule to Chartered Accountants Act, 1949. Mention of any other nomenclatures/designations, including membership of any IPA is not allowed.

Q. Whether a Chartered Accountant who is appointed as tax auditor for conducting special audit under the Income-tax Act by the IT Authorities is required to communicate with statutory auditor?

A. Yes, Council direction mentioned in Paragraph 2.14.1.8(xiii) under Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, appearing in Volume II of the Code of Ethics, prescribes that it would be a healthy practice if a tax auditor appointed for conducting special audit under the Income-tax Act, 1961 communicates with the members who has conducted the statutory/tax audit.

Q. Whether the Chartered Accountant who is appointed as a liquidator of a company can do the audit of that company?

A. No, Clause (4) of Part I of the Second Schedule to the Chartered Accountants Act, 1949, and Regulations framed there under may be referred.

Q. Whether the Chartered Accountant will be guilty of professional misconduct, if he:

(i) accepts the auditorship of a college, if he is working as a part-time lecturer in the college.

(ii) accepts the auditorship of a trust where his partner is either an employee or a trustee of the trust.

A. Yes, the Chartered Accountant will be guilty of professional misconduct in both the above referred circumstances.

Q. Can a Chartered Accountant working in a Firm of Chartered Accountants hold Certificate of practice?

A. Yes, a Chartered Accountant working in a Firm of Chartered Accountants can hold Certificate of practice. However, w.e.f.1.4.2005, he is not entitled to do any attest function.

Q. Whether a member in practice owning intellectual property rights of domain names sell these domain names to some entity for earning royalty on the same?

A. No, since the activity of selling domain names for earning Royalty would amount to "other business/occupation", which is prohibited under Clause (11) of Part-I of the First Schedule to the Chartered Accountants Act, 1949.

Q. Whether a member in practice can also practice simultaneously as an Actuary?

A. No, the members in practice have not been permitted by the Council to practice as Actuary simultaneously.

Allocation of manpower cost during project implementation phase

A. Facts of the Case

1. A Company (hereinafter referred to as 'the Company'), engaged in City Gas Distribution (CGD), is promoted by two Public Sector Unit (PSU) majors in the petroleum sector, namely A Ltd. and B Ltd. As per authorisation granted by Petroleum and Natural Gas Regulatory Board (PNGRB), the Company has the following Minimum Work Program (MWP) to be completed in the geographical areas (GA) of Ambala-Kurukshetra, Haryana and Kolhapur, Maharashtra within a 5-year period commencing from the respective authorisation dates.

Geographical Area (GA)	Date of PNGRB authorization	Minimum Work Program (MWP)	Date of completion of MWP
Ambala-Kurukshetra	22.02.2018	Laying of 1142 Inch – Km of pipeline #Infrastructure for 20624 Nos. of domestic PNG connections	21.02.2023*
Kolhapur	06.03.2018	Laying of 1800 Inch – Km of pipeline #Infrastructure for 38760 Nos. of domestic PNG connections	05.03.2023*

* PNGRB vide PNGRB/Monitoring/1/CGD-COVID-19/2020/Vol-II (P-1804) letter dated 24th November 2020 gave an extension on MWP target timeline by 129 days for Ambala – Kurukshetra GA and 251 days for Kolhapur. Accordingly target completion date is 07-Aug-2023 for Ambala GA and 7-Dec-2023 for Kolhapur.

Infrastructure includes City Gas Station (CGS), Mother Station (MS), facilities within domestic households for PNG connections apart from pipelines.

2. *Appointment of auditors and conduct of the audit:*

The appointment of auditors is done by the Comptroller and Auditor General of India as per powers conferred by section 139 of the Companies Act, 2013. The Comptroller and Auditor General of India reserves the power to conduct supplementary/test audit under sections 143(6) and (7) of the Companies Act, 2013.

Status of Implementation of MWP:

The table below shows implementation:

Geographical Area (GA)	Date of PNGRB authorization	Minimum Work Program (MWP)	Status of MWP completion till 30.09.2020
Ambala-Kurukshetra	22.02.2018	Laying of 1142 Inch – Km of pipeline Infrastructure for 20624 Nos. of domestic PNG connections	547.60 Inch-Kms 1981 connections
Kolhapur	06.03.2018	Laying of 1800 Inch – Km of pipeline Infrastructure for 38760 Nos. of domestic PNG connections	255.61 Inch-Kms 218 Connections

3. The Company has three offices, which include head office (HO), Mumbai and two project Offices at each of GAs mentioned above. A Ltd. and B Ltd., by virtue of being the promoters, have entered into a Joint Venture Agreement under which officers on the payroll of the two companies have been posted on deputation in the Company. Each GA has three officers on deputation comprising the Head-GA, Head-Engineering and Head-Marketing. HO, Mumbai has three more officers on deputation

comprising the CEO, CFO and Accounts Officer. The GA offices are primarily focused on implementation of the work program. For this purpose, all technical, financial, commercial and administrative support and guidance are provided by HO to ensure smooth and timely completion of the work program. As per agreement, the promoters raise debit notes on the Company in respect of manpower cost of their officers posted on deputation in the Company.

4. The querist has informed that the current practice being followed is as follows:

The Company prepares financial statements in accordance with the Indian Accounting Standards (Ind ASs), notified under section 133 of the Companies Act, 2013.

Depending on the nature of the job profile of each of the officers on deputation, the Company follows the following practice of booking the deputation cost of manpower:

(i) All costs in relation to the GA based officers are charged directly to Capital Work-in-Progress (CWIP) as the Company is currently engaged in the creation of facilities/infrastructure as per MWP.

(ii) As far as officers posted in HO are concerned, the Company, based on assessment/ evaluation of their job profile, charges 15% of the manpower cost to revenue and the balance 85% to CWIP.

5. *Observations of the Comptroller and Auditor General of India (CAG):*

The CAG while conducting the audit for financial year (F.Y.) 2019-20 has observed as below in their provisional comments:

Statement of Profit & Loss

<u>Expenses:</u>

<u>Manpower Deputation Expenses:</u> ₹ 23.58 lakhs

This does not include an amount of ₹116.07 lakhs (entire deputation expenses for Accounts Officer (AO) and 85 percent of deputation expenses in respect of Chief Financial Officer (CFO) situated in headquarters of the Company) which have been charged in Capital Work in Progress as on 31 March 2020. Similarly, an amount of ₹19.13 lakhs was also charged to CWIP during 2018-19.

In this regard, attention is invited to para 16 (b) of Ind AS 16, 'Property, Plant & Equipment', as per which 'any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management' can only be considered as cost of the asset for capitalization. As such, charging in the CWIP -as cost of asset - the manpower deputation expenses pertaining to Marketing heads of two geographical areas and AO & CFO situated in headquarters of the Company not being directly attributable cost of the asset- is thus not correct.

Charging the CFO and Accounts Officer related manpower costs in CWIP has resulted in overstatement of CWIP by ₹116.07 lakhs and understatement of Other Equity by ₹116.07 lakhs and Loss for the period by ₹ 96.93 lakhs.

The relevant paragraph of Ind AS 16, 'Property Plant and Equipment' referred to by the C&AG in their provisional comments is reproduced as under:

> **"Elements of Cost**
>
> The cost of an item of property, plant and equipment comprises:
>
> …
>
> (b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
>
> …"

6. The querist has informed that the Company's management's stand on the matter is as follows:

The Company is currently in project implementation phase which involves creation of various facilities in the two GAs, viz., Ambala-Kurukshetra and Kolhapur. As per PNGRB authorisation, all facilities must be created within a 5-year period commencing from the date of authorisation. The primary responsibility of implementing the work programme planned for the GAs lies with the manpower deployed on deputation basis by the promotor companies. Based on an assessment of the contribution made by different personnel on deputation, it was found that except for CEO and CFO, all others are fully involved in project implementation.

The top management, comprising the CEO and CFO, is responsible for accomplishment of the Company's objectives. Listed below are some of the broad activities of the CEO and CFO during the project implementation phase:

- Review and finalisation of consolidated GA budgets including that of the HO.
- Review of actual physical progress vis-a-vis approved budget.
- Direct interaction with different government agencies, viz., municipal authorities, forest, land revenue department etc. in connection with project work.
- Review meeting with suppliers/contractors including PMC consultant to ensure compliance with the stipulated timeline.
- Tendering bid evaluation and awarding of contracts for the GAs.
- Review of DOP & Procurement rules to meet the emerging requirement of GAs as well as HO.
- Meetings with suppliers/service providers of GAs /HO.
- Processing of all payments pertaining to the GAs/HO.
- Project financing and banking activity.
- Quarterly and annual audit.
- Responding to the queries of board, promoters and other outside agencies.
- Review and monitoring of human resource (HR) and administration policy and ensuring compliance.
- Holding of Board meetings, annual general meeting (AGM), finalisation of agenda, minutes etc.

7. With the project implementation phase continuing till 2023 and considering the involvement of CFO in all project activities, as discussed above, 85% of the manpower cost attributable to him has been capitalised and balance 15% has been charged to revenue. Since the CEO and CFO are equally responsible for all functional matters, the Company in its assessment treated them alike in 2019-20 and considered capitalisation of manpower expenses in the same proportion. None of the key business decisions can be taken by either of them alone. Hence, it is reasonable that manpower cost attributable to both should be treated similarly.

8. Accounts officer posted on deputation at HO handles all project related financial activities pertaining to both the geographical areas. The roles and responsibilities of the AO are evaluation of tenders floated for laying pipelines, procurement of various capital equipment, arranging for permission for laying pipelines, participating in price negotiation with bidders, helping in arranging debt financing, maintaining fixed assets/insurance and stores account of the project for the project apart from making vendor payments against all project activities. As AO's functions are largely related to project implementation, manpower cost attributable to him is being capitalised to the extent of 85% and balance 15% is debited to revenue.

9. The Company will be able to supply domestic gas to the households only after all facilities and infrastructure required for the said purpose are created. This implies that the Company's revenue from Piped Natural Gas (PNG) sales will accrue after the requisite facilities are put to use.

10. Based on a careful analysis of the job profile of the afore mentioned officers, the Company concluded that 15% of the manpower cost of CFO and AO in terms of both time spent and nature of job may not be directly attributable to asset/facility creation. Accordingly, the Company decided for charging 85% of the cost to CWIP and balance 15% to revenue.

11. The querist has mentioned that the reasons for the Committee to address this issue is that a significant portion of manpower cost is capitalised every year and there is no clear guidance on the treatment as per Ind AS 16, 'Property Plant and Equipment' on this

matter. The published literature of some of the large accounting firms also does not highlight the exact treatment of the cost and the ratio of allocation.

B. Query

12. In view of above, the opinion of the Expert Advisory Committee of the Institute of Chartered Accountants of India (ICAI) has been sought as to : (i) whether manpower cost of CFO and AO can be capitalised and if so, in what ratio; or whether the cost should be expensed off. (ii) The basis of changes (if required) to the current treatment and whether it can be done retrospectively or prospectively.

C. Points considered by the Committee

13. The Committee notes that the basic issue raised in the query relates to accounting treatment of manpower cost of CFO and AO during the project implementation phase. The Committee has, therefore, considered only this issue and has not examined any other issue(s) that may arise from the Facts of the Case, such as, analysis of status of implementation of MWP or accounting for any other expense incurred by the company in relation to the project, accounting for manpower cost in relation to other employees including other officers posted on deputation, such as, CEO, Head GA, Head Engineering, Head Marketing etc. Further, the Committee has not examined as to whether the costs incurred in relation to arrangement of borrowings (funds) for the Project in the extant case can be considered as 'borrowing costs' as per the requirements of Ind AS 23, 'Borrowing Costs'.

14. At the outset, the Committee notes that the querist has stated that 85% of manpower cost of Accounts Officer and CFO, deputed to the HO of the Company, has been capitalised to the capital work in progress by the Company. Further, although the query has been raised in respect of Accounts Officer and CFO on deputation, the specific details of the activities performed by the CFO have not been provided; rather the details of combined activities of CEO and CFO have been provided. In the absence of the separate details for the CFO, it is presumed that CFO performs all those activities, as provided by the querist in the Facts of the Case (paragraph 6 above).

15. The Committee notes the following paragraphs of Ind AS 16, 'Property, Plant and Equipment', notified under the Companies (Indian Accounting Standards) Rules, 2015:

"16 The cost of an item of property, plant and equipment comprises:

(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

(b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

(c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

17 Examples of directly attributable costs are:

(a) costs of employee benefits (as defined in Ind AS 19, *Employee Benefits*) arising directly from the construction or acquisition of the item of property, plant and equipment;

..."

"19 Examples of costs that are not costs of an item of property, plant and equipment are:

...

(d) administration and other general overhead costs."

16. From the above, the Committee notes that the basic principle to be applied while capitalising an item of cost to a property, plant and equipment (PPE) is that it is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The Committee is of the view that 'directly attributable' costs are generally such costs which are necessary to enable the construction activity, i.e. these costs are directly related to the construction activity and without the incurrence of which the asset cannot be brought to the location and condition necessary for it to be capable of operating in the manner intended by management. Further, the Committee notes that paragraph 17 of Ind AS 16 gives examples of directly attributable costs and it includes costs of employee benefits (as defined in Ind AS 19, Employee Benefits) arising directly from the construction or acquisition of the item of property, plant and equipment. Therefore, the

Committee is of the view that the employee benefit expenses arising directly from the construction or acquisition of the PPE/project, such as employee costs of an entity's own employees, workers, labourers, engineers, architects etc. engaged in construction activity should only be capitalised and the rest should be charged to the Statement of Profit and Loss.

17. As far as capitalisation of the manpower cost of Accounts Officer and CFO is concerned, the Committee notes that normally Accounts Officer is engaged in overall book keeping and accounting related activities and CFO of an organisation is generally involved in overall finance related activities of the Company as a whole.

The Committee is of the view that normally these activities cannot be considered to be arising directly from the construction or acquisition of the PPE/ project and the costs thereof cannot be considered to be a directly attributable cost for the Project/PPE. The Committee is of the view that manpower cost of Accounts Officer and Chief Financial Officer are normally of the nature of administration and general overheads and should, ordinarily, not be capitalised with the item of PPE. However in certain exceptional cases where it can be clearly demonstrated that these are directly attributable cost for bringing the Project/ PPE to the location and condition necessary for it to be capable of operating in the manner intended by management, these can be capitalised.

As far as the ratio/proportion in which such expenses may be capitalised, the Committee is of the view that it needs to be determined by the company itself considering the nature of expenses/activities and the extent to which these are directly attributable as per the requirements of Ind AS 16 in its specific facts and circumstances and using proper rationale.

18. In this context, the Committee notes that the roles and responsibilities of the AO in the extant case have been stated to be evaluation of tenders floated for laying pipelines, procurement of various capital equipment, arranging for permission for laying pipelines, participating in price negotiation with bidders, helping in arranging debt financing, maintaining fixed assets/insurance and stores account of the project for the project apart from making vendor payments against all project activities. The Committee is of the view that although some of these activities are undertaken in connection with the construction or acquisition of PPE/project, the costs incurred thereon cannot be completely considered to be arising directly from the construction or acquisition of the PPE/Project. The Committee is of the view that the extent to which these costs are directly attributable to PPE/Project is a matter of judgement in the specific facts and circumstances, which should be exercised and demonstrated by the management of the Company. Accordingly, to the extent, such costs are directly attributable to bringing the PPE/Project to the location and condition necessary for it to be capable of operating in the manner intended by management, should be capitalised to the PPE/Project by the Company and the rest should be charged to the Statement of Profit and Loss.

The Committee further notes the activities mentioned by the querist as the activities of the CFO in paragraph 6 above. The Committee is of the view that the activities, such as, review and finalisation of consolidated GA budgets including that of the HO, review of actual physical progress vis-a-vis approved budget, interaction with government agencies, meeting with suppliers, tendering bid evaluation and awarding contracts, project finance and banking activities, review of DOP & Procurement rules to meet the emerging requirement of GAs as well as HO, quarterly & annual audit, responding to the queries of board, promoters and other outside agencies, review & monitoring of HR and Admin Policy and ensuring compliance, holding of Board meetings, AGM, finalisation of agenda, minutes etc. are overall policy making and control and supervision related activities; and are in the nature of administrative and general overheads, which as per paragraph 19 (d) of Ind AS 16, are not costs of an item of property, plant and equipment. However, if in certain exceptional circumstances, where the management can clearly justify and demonstrate that some of the activities performed by the CFO are directly attributable to bringing the PPE/Project to the location and condition necessary for it to be capable of operating in the manner intended by management, to that extent, the manpower costs incurred by the Company in relation to CFO should be capitalised to the PPE/Project and the rest should be charged to the Statement of Profit and Loss.

19. With regard to the issue raised by the querist as to whether changes required to the current treatment are to be done retrospectively or prospectively, the Committee notes that Ind AS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors' states as follows:

> "41 Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Ind ASs if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial

performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are approved for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period (see paragraphs 42–47).

42 **Subject to paragraph 43, an entity shall correct material prior period errors retrospectively in the first set of financial statements approved for issue after their discovery by:**

(a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or

(b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.”

The Committee notes from the above that as per Ind AS 8, material prior period errors are corrected retrospectively by restating the comparative amounts for prior period(s) presented in which the error occurred. If the error occurred before the earliest period presented, the opening balance of assets, liabilities and equity for the earliest period presented are adjusted. Therefore, any changes in the accounting treatment required in the extant case due to above-mentioned discussion, should be considered and corrected by the Company as a prior period error retrospectively in the first set of financial statements approved for issue after the discovery of the error.

D. Opinion

20. On the basis of the above, the Committee is of the opinion on the issues raised in paragraph 12 above that although some of the activities of Accounts Officer are undertaken in connection with the construction or acquisition of PPE/project, the costs incurred thereon cannot be completely considered to be arising directly from the construction or acquisition of the PPE/Project. The extent to which these costs are directly attributable to PPE/Project is a matter of judgement in the specific facts and circumstances, which should be exercised and demonstrated by the management of the Company. Accordingly, to the extent, such costs are directly attributable to bringing the PPE/Project to the location and condition necessary for it to be capable of operating in the manner intended by management, should be capitalised to the PPE/Project by the Company and the rest should be charged to the Statement of Profit and Loss. Similarly, the activities undertaken by the CFO in the extant case are overall policy making and control and supervision related activities; and are in the nature of administrative and general overheads, which as per paragraph 19 (d) of Ind AS 16, are not costs of an item of property, plant and equipment. However, if in certain exceptional circumstances, where the management can clearly justify and demonstrate that some of the activities performed by the CFO are directly attributable to bringing the PPE/Project to the location and condition necessary for it to be capable of operating in the manner intended by management, to that extent, the manpower costs incurred by the company in relation to CFO should be capitalised to the PPE/Project and the rest should be charged to the Statement of Profit and Loss, as discussed in paragraph 18 above. Further, any changes, required in accounting treatment in the extant case due to above-mentioned discussion should be considered and corrected by the Company as a prior period error retrospectively in the first set of financial statements approved for issue after the discovery of the error, as discussed in paragraph 19 above.

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 April 03, 2021. 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 forty volumes. This is 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.

CAs as Vitiya Mitra – A Call to Action

On an average, worldwide, only 1 out of 3 adults is financially literate. As per the survey conducted by S&P Global FinLit, Financial Literacy rate in India is 24% as compared to 57% in developed economies such as United States. As partners in nation building Chartered Accountants can play the role of force multipliers in the Financial & Tax Literacy (FTL) initiatives of our country. Read on....

CA. Huzeifa Unwala

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CA fraternity has been a silent contributor at various life stages of our clients, family, and friends, acting as the lender of last advice to innumerable people. Let us re-visit few illustrative real-life examples on how CAs play the role of Vitiya Mitra: -

a. When there is an unfortunate and sudden demise in extended family or network, a CA friend (Vitiya Mitra) would receive a stress call from the surviving family members on how to claim monies lying in the deceased bank account or make an urgent mutual fund redemption to tide over the financial crisis

b. When a young citizen responds to a job offer, he or she would reach out to a CA friend (Vitiya Mitra) seeking assistance on the net take home salary that would be deposited in his/ her bank account post TDS implications

c. When a start-up entrepreneur seeks guidance from CA friend (Vitiya Mitra) on share-based compensation payments or tax implications of ESOPs in the hands of his/ her star performing employee

d. When a senior employee reaching his retirement age seeks advise on how to invest his life savings to ensure corpus protection and regular income, he or she reaches out to a CA friend (Vitiya Mitra)

Above are daily life examples where our fraternity keeps selflessly guiding our society in national interests.

As a developing nation our country faces several key challenges and one of them is the low rate of financial literacy in India. Globally financial literacy is now on the agenda of the G 20, financial services regulators, statutory bodies and financial services players

as there is an awakening on the significance of the financial literacy or Vitiya shaksharta. This article provides an outline to CAs whether in practice or employment on how they could look at making FTL initiatives as one of their life goals in the interest of nation building.

Financial Literacy – For Individuals

"Financial literacy is 'a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial well-being." - OECD/ INFE High-level Principles on National Strategies for Financial Education (2012)

Financial Literacy – For MSMEs

"Financial literacy is the combination of awareness, knowledge, skills, attitudes and behaviour that a potential entrepreneur or an owner or manager of a micro, small or medium sized enterprise should have in order to make effective financial decisions to start a business, run a business, and ultimately ensure its sustainability and growth."

- OECD/INFE Core Competencies Framework on Financial Literacy for MSMEs 2018

The concept of financial literacy is surrounded by several myths, one of them is educated people are financially literate. Global studies have shown that highly educated people can also be financially illiterate. Published data from various states in India show that highly literate states such as Kerala where literacy rate is as high as 84-90% have only 36-40% of financial literacy (as per National Centre for Financial Education Report 2015). A former governor of RBI states that "the most fundamental reason why people should strive to become financially literate is to help them reach their personal financial goals. From a national perspective, the payoff is large", therefore financial and tax education is a strategic concept as: -

- Stability of financial system is intrinsically linked to the quality of decision making at the individual level.
- Financial literacy contributes to global economic growth and sustainable development by improving financial inclusion and well-being outcomes. Improving financial literacy levels around the world helps bridge remaining socio-economic gaps and inequalities across and within countries, thus leading to more inclusive societies for all.
- Financial education dissemination can support the achievement of broader economic and social outcomes by strengthening consumers' resilience to major financial shocks.
- Building trust is a primary condition for growth and stability in digital age.

By virtue of promoting financial literacy and robust financial consumer protection frameworks countries empower consumers to become effective users of financial products

Financial Inclusion is on the Global Agenda

The Sustainable Development Goals (SDGs), also known as the Global Goals, were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity.

Financial inclusion has been identified as an enabler for 7 of the 17 Sustainable Development Goals (SDGs) set up by the United Nations:

a. SDG 1 on eradicating poverty -

   Financial inclusion ensures accessibility of financial tools for savings, insurance, and credit to poor people, which can help whole communities lift

Globally financial literacy is now on the agenda of the G 20, financial services regulators, statutory bodies and financial services players as there is an awakening on the significance of the financial literacy or Vitiya shaksharta.

themselves out of poverty. CAs can conduct clinics on dissemination financial tools.

b. SDG 2 on ending hunger -

Financial inclusion of farmers can empower them for bigger investments in the planting season. This can lead to better yields and progress toward greater food security. People from the rural areas should be included in the financial system so that they come out of poverty trap and eradicate hunger. CAs through their extended network in the rural heartland can conduct orientation sessions for farmers in distress.

c. SDG 3 on profiting health and well-being -

A CA friend (Vitiya Mitra) can help throw light on the benefits of health insurance which helps improve access to healthcare and lowers out-of-pocket expenses in case of medical emergencies.

d. SDG 5 on achieving gender equality -

It is essential for women to access and use digital transactions to become financially independent. Findings of the NCFE-FLIS 2019 Survey highlighted that Financial literacy rate in India among women is 21% against a 29% rate among male respondents. Financial inclusion targeted to women can help achieve gender equality.

e. SDG 8 on promoting economic growth and jobs -

The financial inclusion through credit, can increase investment in production activities, thereby increasing jobs and economic growth in the country. CAs can identify credit needs and provide lending access to first time borrowers.

f. SDG 9 on supporting industry, innovation, and infrastructure -

Investment in infrastructure and innovation are crucial drivers of economic growth and development. Moreover, due to digitization and advent of UPI based digital payments, India has observed a huge surge in Digital transactions. This boom in digital payments is an indicative of increase in ease of access to financial services. A CA as a Vitiya Mitra can Support digital payments to promote digital financial literacy and financial inclusion.

g. SDG 10 on reducing inequality -

With the outbreak of Covid-19 pandemic, widening disparities in income levels of people are much more evident. Its only through financial inclusion that we can empower lower income earners and promote economic inclusion of all classes of people.

Chartered Accountants are well known for their expertise in finance and tax. They can play a vital role in promoting financial inclusion by creating awareness among the people about financial literacy and can foster gradual nation building.

It is evident from the facts that in our country financial illiteracy is widespread and can be seen as a concern for the global and national economy.

Chartered Accountants are well known for their expertise in finance and tax. They can play a vital role in promoting financial inclusion by creating awareness among the people about financial literacy and can foster gradual nation building.

There exists a gap in financial literacy around the world. Chartered Accounts can use this global challenge as an opportunity to test ourselves as a Vitiya Mitra. Financial Literacy can be posed as a new area of focus and a new field of practice in order to contribute to development of the nation. ICAI has formalized FTL initiatives by launching a comprehensive and dedicated national portal viz., https://vitiyagyan.icai.org/. This portal provides a good starting point for CAs to build on their general FTL related guidance to clients, family and friends with basic concepts explained in English and regional languages.

Financial Literacy

Although internet connectivity in rural areas is still low as compared to urban area, due to the tremendous growth of the Internet, more people are having access to technology at a faster rate. Many CA's are using this opportunity to educating masses and students through short and interactive videos on various social media platforms such as YouTube, WhatsApp and Instagram to encourage financial freedom.

Scams and manipulations on the rise, it is the gate keeping duty of a CA friend to advocate financial safety and protect the general public from financial fraud schemes by promoting financial awareness. CAs in their day to day practice guide their family and clients on tax basics while also assisting them in selecting safe and right tax investments. CAs can take a further step as a Vitiya Mitra and Conduct seminars/ webinars on importance of tax literacy to educate the masses.

In summary, a CA friend can educate the masses on: -

1. Benefits of record keeping– Having an effective record keeping can help an individual and business track their money and organize financial activities. It also provides an evidence of financial transactions and wealth creation.
2. Benefits of Budgeting – Masses should be educated on spending on needs first, wants later and never on waste! This can help in better money management to reduce expenses, improve savings and building of assets to meet financial goals faster. Awareness can be created about budgeting rule such as 50:30:20.
3. Benefits of positive Debt Cycles – Borrowers must have clear knowledge of interest rate, tenure, repayment terms and charges and the focus should be on building income generating assets.
4. Benefits of Financial Risk Management – Masses can be advised on how financial risks can be managed by having multiple sources of income, creation of an emergency fund and by purchasing insurance policy in order to transfer risk.

CA as Vitiya Mitra can be a financial friend to the masses who can guide the society on "Life Skills" such as Investment basics, Tax basics, Insurance basics, Savings for short term & retirement, Estate planning, Will writing and so on.

Role of an Aspiring CA Student

As young CA students, the curriculum includes accounting, taxation and financial management which imparts sound financial knowledge on a wide range of topics.

Concepts of capital budgeting, borrowing, investment decisions and tax laws are few among the key financial concepts that a CA Student is well aware of that can be used to alleviate the problem of financial and tax illiteracy.

Moreover, Articleship experience also adds to the theoretical knowledge of students by providing exposure to real life situations.

Take Initiative! Volunteer!

- Students can attend seminars and workshops on financial literacy to widen their knowledge base

"CA as Vitiya Mitra can be a financial friend to the masses who can guide the society on "Life Skills" such as Investment basics, Tax basics, Insurance basics, Savings for short term & retirement, Estate planning, Will writing and so on.

- Students can start with their own college and encourage such educational institutions to conduct seminars on financial literacy
- Active volunteering work can be undertaken by students to promote financial literacy.
- Students can contribute articles on financial and tax literacy to various publications

India being the 5th largest economy in the world also happens to be at 101st position among 116 countries in the Global Hunger Index (GHI) 2021, which is an indicator that millions of people in India are living in extreme poverty. Financial literacy is low across the world. However, it is alarming to know that the financial literacy rate in India is way behind other countries. We Chartered Accountants as Vitiya Mitras, can use our knowledge as our potent force to aid the people of our country towards better financial prospects. It is through better access to financial and tax literacy that, we can improve India's situation in current times and make judicial use of our demographic dividend. **India needs CA Vitiya Mitras to uplift our country out of the tag of a developing nation.** ■■■

Financial Literacy in India

Economic development of a country is resultant of a robust financial ecosystem which includes, a set of sub system of financial institution, financial markets, financial instruments, and services. A comprehensive ecosystem helps in formation of capital. It provides a mechanism through which savings are transformed to investments. For centuries, India has been a "saving" country that conventionally invests in cash or its kind. However, this saving may not be in formal manner. Read on....

CA. Krishna Kanhaiya

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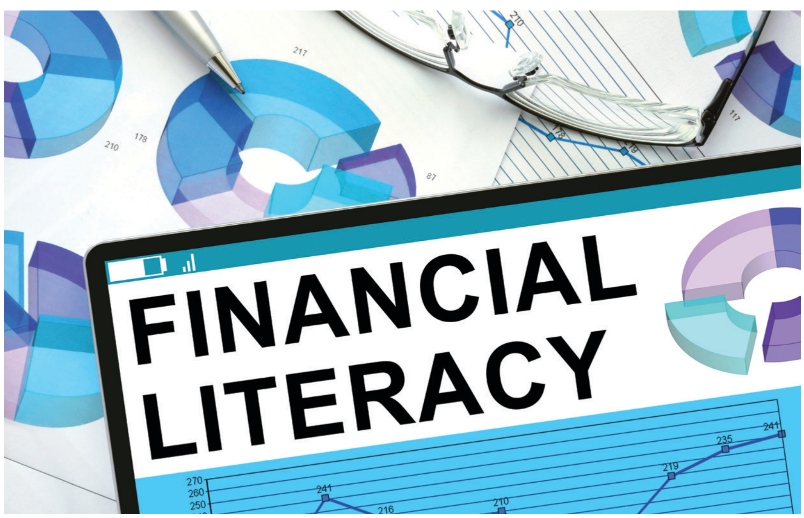
The most preferred investment avenues for the people of our country from generations are in gold and real estate. Gold is one of the most conventional investments in India and is often considered as an alternative to fiat money, and well accepted as a medium of exchange. India is the second highest consumer of gold, as the yellow metal is considered auspicious and has high emotional value. One of the reasons for the investment in gold and real estate compared to other financial products could be financial exclusion and lack of financial literacy regarding different financial products.

Governments since independence have made conscious efforts to promote financial literacy as its directly related to financial inclusion, which in turn, plays major role in fostering economic growth of the country. The regulatory bodies RBI, SEBI, IRDA and PFRDA are working together for the improvement of financial literacy and inclusion in the country.

It is alarming to note that financial literacy in India lags behind that of many countries. According to a survey about 27% of Indian adults are financially literate and understand key financial concepts, including risk diversification, inflation, and compound interest. Financial literacy in India though lower



than global average, but is in line with other BRICS and South Asian nations.

Consequences of Low Levels of Financial Literacy

In the recent times, the issue of financial literacy has acquired great significance globally, not limited to developing countries with otherwise low literacy rates. The negative effects of inadequate financial planning spread beyond economic well-being and hinder a decent quality of life. The consequences of poor financial decision-making at an individual level are not just confined to an individual but the outcomes are borne by the future generations. The mishandling of financial resources can pull an individual into spiralling debts, which at times may lead to bankruptcies. Financial illiteracy results in inaccurate and inefficient decisions. Limited knowledge and inability to plan for future, lead to insufficient savings and unplanned retirement that in turn lead to financial difficulties in later stage of life.

Another implication of limited financial literacy is limited financial market participation as most of the individuals are not aware about various financial products. However financial literacy is important not only for financial markets but also for banking and various financial products, as a wrong decision in choosing insurance product or taking loan could cost one dearly. Similarly, there are various rules and conditions of various products and not adhering to same may attract penalty. Therefore, financial illiteracy exposes an individual to perils and risk associated with various financial products. Financially illiterate individuals are usually targeted by Ponzi-finance scheme operators where gullible investors have lost lakhs and crores in the lure of high returns.

> One of the reasons for the investment in gold and real estate compared to other financial products could be financial exclusion and lack of financial literacy regarding different financial products.

At a country level, financial illiteracy puts a huge liability on a nation in the form of higher cost of financial security and lesser prosperity. An illustration to this is the fact that most people choose to invest more in physical assets and short-term instruments, which conflicts with the greater need for long-term investments, both for individuals to meet their life stage goals and for the country to meet its long-term capital requirements for its welfare and prosperity.

Why is financial literacy important?

Financial markets have evolved becoming more complex and complicated. With emergence of new products and financial innovations, information gap between markets and the traditional investor has increased, leading to problems in making correct financial decisions. Indian financial markets are recognized amongst the most effectively regulated financial markets globally. India as a country has one of the highest savings rates in the world. Indians prefer to save, but the savings are not invested in an efficient manner to earn higher return. A majority of the Indian population do not have access to all financial products and most of them do not use modern financial products. Making an individual informed and literate about the changes in the financial markets and products could help one to protect himself from financial distress, and lead to wealth creation for the common man and the economy.

> The consequences of poor financial decision-making at an individual level are not just confined to an individual but the outcomes are borne by the future generations. The mishandling of financial resources can pull an individual into spiralling debts, which at times may lead to bankruptcies.

Financial literacy will equip an individual with the knowledge about personal management of finances and strategies that are crucial for financial growth and success. It gives the individual the two-fold benefit of planning a financially secured future as well as protection from various prevalent financial frauds. It equips consumers with the requisite knowledge and skill required to comprehend the suitability of various financial products and investments available in the financial market. *A financially evolved consumer takes prudent financial decisions which not only helps him but also the economy as a whole.*

Financial Literacy Education Initiatives

In India, Financial Literacy is crucial to improve financial inclusion and a cohesive strategy is being developed wherein various stakeholders like financial regulators, financial institutions, educationists and other agencies are working in tandem to promote financial literacy. Continuous efforts are made to improve the level of financial literacy across the country especially at the grassroot level. Increasing financial literacy is a long-term project, the efforts made in this direction are already yielding dividends. Some of the initiatives undertaken are discussed below: -

Securities Exchange Board of India (SEBI)

The Securities Exchange Board of India (SEBI) has addressed the issue of financial literacy for investors and acted by mandating that all mutual fund companies set aside 2 bps of their asset under management (AUM) for investor education and awareness initiatives. At the current level of AUM, it translates into an annual budget of around 750 cr. Also, there are multiple workshops organised by SEBI Certified professionals on different investment topics like financial planning, retirement planning, wealth management and insurance investments etc. to educate investors and the general public across the country.

> India as a country has one of the highest savings rates in the world. Indians prefer to save, but the savings are not invested in an efficient manner to earn higher return.

Reserve Bank of India

The Reserve Bank of India (RBI) has initiated *Project Financial Literacy,* with an objective to disseminate information on the subject of basic banking concepts to various target groups, including school and college students, women, rural and urban poor and senior citizens. The project is carried out with the help of banks, self-help groups, local government agencies, schools and colleges and knowledge is disseminated by material provided by RBI.

Insurance Regulatory and Development Authority (IRDA)

The Insurance Regulatory and Development Authority have also taken numerous steps in the field of financial literacy. IRDA conducts awareness programmes regularly to teach about the rights and duties of policyholders, mechanism available for dispute and grievance redressal etc. through National Strategy for Financial Education (NSFE).

Status of Financial Literacy in the Country

India is demographically a young nation and to take advantage of be amongst the fastest growing economies, financial literacy and education has a huge role to play. As part of efforts or inclusive growth, India launched National Strategy for Financial education in 2013. Since then the financial literacy in the country has increased to 27.18 % in 2019 from 20% in 2013 as per NSFE 2020-2025. Financial literacy is on the rise with increasing participation of retail investors across the asset class like Stocks mutual funds, insurance products etc.

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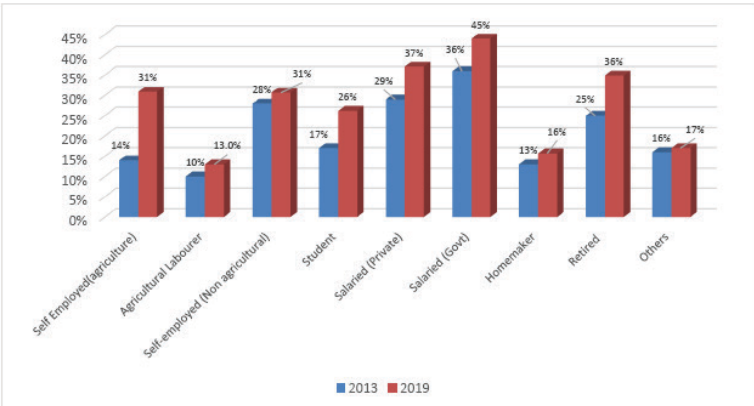
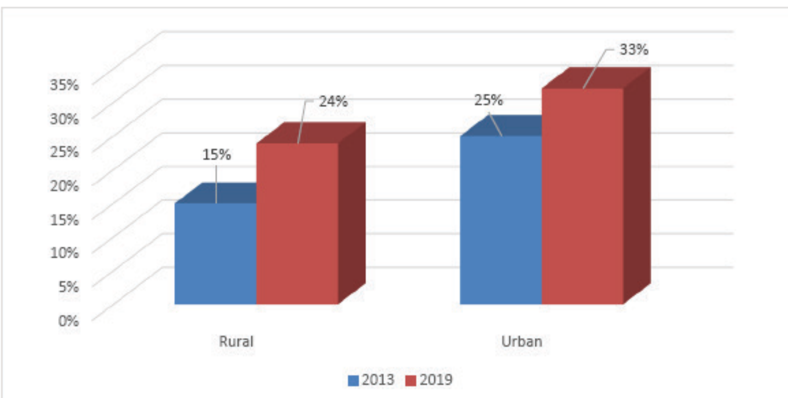
Today the youth is taking interest in financial literacy and with easy availability of information through internet and mobile the trend will increase. We need to understand that financial literacy needs are universal and the phenomenon observed is concentrated to urban areas, and lot of work is needed to build the financial literacy in rural areas. The various initiatives like UPI, Aadhar based banking is improving the financial inclusion and education across the country. Steps are being taken to build financial literacy as part of curriculum to inculcate these habits amongst the children and youth.

organizations, fintech companies must work together to propagate Financial literacy for building a financially inclusive society.





Source : NSFE- 2020-25 Report

Another important aspect is proper financial planning for which financial literacy is the basic requirement. In this uncertain economic environment, where interest rates are dwindling, building wealth for a secure future needs financial skills and knowledge for participation in the financial markets.

Overall, financial literacy is poised to grow in the country and as proposed in NSFE all stakeholders like regulators, institutions, financial service

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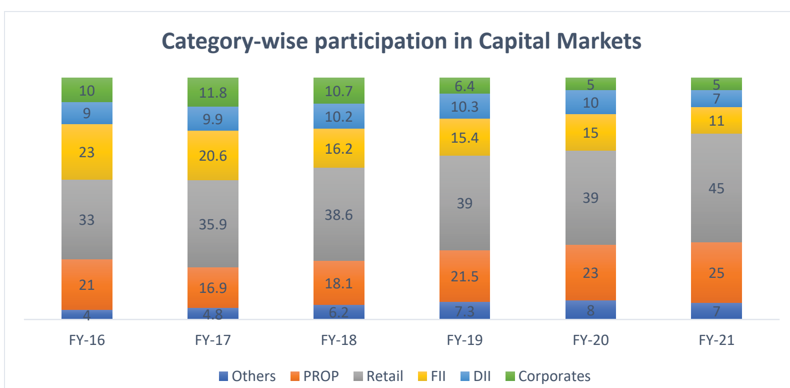
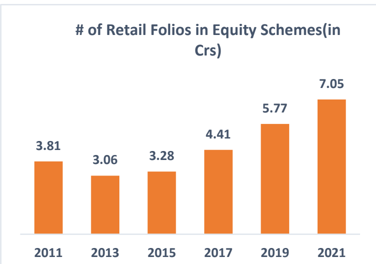
With increased awareness about financial products in the past decade, Indian markets have witnessed a rise of retail investors flocking to the stock markets. India's stock markets have evolved with increase participation by retail investors, who now contribute 45% of trading turnover on the stock exchange. As per data released by NSE, the retail investors market share has slowly moved up from 33% since 2016, to 45% in 2021. In addition to capital markets,

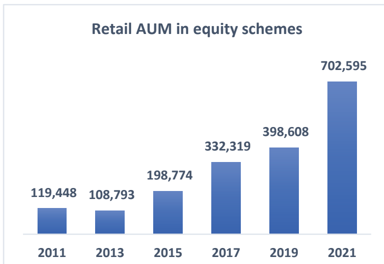
Increase of Retail Participation in Capital Markets and Mutual Funds



Source: NSE

equity mutual funds in India have also seen a steep rise in number of retail folios and assets under management in the past decade. The number of retail folios investing in equity schemes have increased 85% from 3.81 crore folios in Sep 2011 to 7.05 crore folios in Sep 2021. The assets under management have grown at a CAGR rate of 19.4% from Rs. 1,19,448 Cr in Sep 2011 to Rs. 7,02,595 Cr at the end of Sep 2021.





Source: AMFI; Data as of Sep 30, 2021; Data mentioned is only pertaining to equity schemes

Drivers of the Rise of Retail Investment in Capital Markets & Mutual Fund

The reach of Internet to the remotest corners of the nation opened a whole new world of online opportunities for Indians. Internet connectivity led to improved accessibility to market news and various investing instruments leading to enhanced learning about investment and financial products. Additionally, with internet's penetration to tier-2 and tier-3 cities, a significant percentage of investors emerged with access to newer asset classes, investment channels and options to diversity portfolio for optimal returns. The emergence of investors from these towns is playing a pivotal role in the expansion of financial products markets as well as retail participation in the capital market. Diminishing returns on traditional investment instruments, such as fixed deposits and debt instruments are becoming unattractive. Investors with new knowledge and access to various investment products are looking at new investment avenues to earn higher returns.

Increased use of banking products in India

With an increase in the working population, growing disposable income and increased awareness about banking products, the demand for banking and related services is on a rise. As per the latest available World Bank's Findex 2017 Report, 80% adults covered under formal banking system increased from 53% in 2014 and from 35% in 2011. India has also made exemplary improvement in lowering the country's gender gap in account ownership, falling from nearly 20% in 2014 to 6% in 2017. These improvements can be accredited to the flagship initiative of the Government of India towards financial inclusion, namely the Pradhan Mantri Jan Dhan Yojna (PMJDY), supported by the conducive ecosystem created by the financial sector regulators.

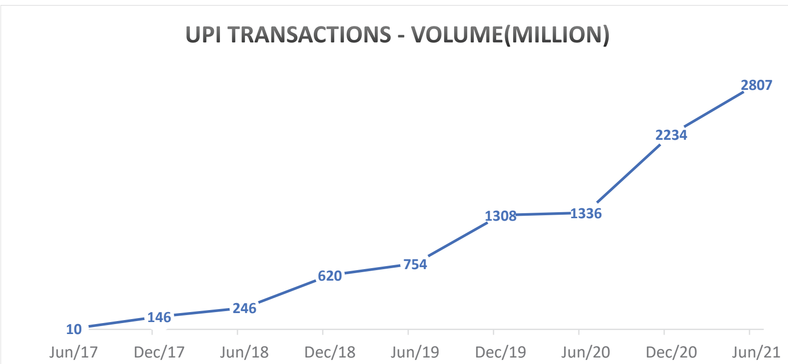
> With increased awareness about financial products in the past decade, Indian markets have witnessed a rise of retail investors flocking to the stock markets. India's stock markets have evolved with increase participation by retail investors, who now contribute 45% of trading turnover on the stock exchange.

Source: *World Findex Report, 2017*

Increased Digital Financial Literacy among masses

Over the past decade or so, three major trends have contributed to the creation of a robust foundation for digital financial inclusion in India. Two of these major initiatives were directly driven by the central government. The first was the introduction and rapid development of the Aadhar card and its use as a validation tool. The second was the mandate to open basic bank accounts to support Direct Benefit Transfer of cash under various government schemes. This has resulted in millions of citizens becoming a part of

India's formal banking system. The third major tilt was the revolutionary evolution of Unified Payments Interface (UPI) infrastructure by the National Payments Corporation of India (NPCI) to enable inter-bank peer-to-peer (P2P) and person-to-merchant (P2M) payment transactions. The volume of transactions has increased at CAGR of 309% from 10 Million transactions in June-17 to 2,807 million transactions recorded at the end of June-21.



Source: UPI Statistics, NPCI

How does financial literacy help in efficient Portfolio Management?

Investment pattern of Indian investors are often limited to fewer asset-classes. Investors are more inclined towards traditional investments like gold, real estate and fixed deposits etc. Traditionally, gold and real estate are believed to be good for long-term investments. Investment options like fixed deposits and bank savings may not be able to generate enough return to beat inflation. There is no concept of goal-based investing. This investment approach might lead to investments getting utilised in short-term duties and liabilities with very little being left for long term goals like retirement and welfare of the family.

Financial literacy essentially helps in broadening the investment horizon of an individual to develop a holistic and diversified investment approach, based on selecting investment instruments with specific goals, from a concentrated investment approach. A diversified investment approach will minimize the overall risk associated with the portfolio and would allow the individual to seek advantage of investing in different instruments across varied asset-classes.

Being financially literate will allow the individual to understand the importance of risk-based investing where one should invest in less risky investments in the short-run like debt funds or money market instruments and get exposure to relatively riskier asset-classes like equity in the long run,

"Financial literacy essentially helps in broadening the investment horizon of an individual to develop a holistic diversified investment approach, based on selecting investment instruments based on specific goals, from a concentrated investment approach.

which have a higher potential for creating wealth in the long term which in turn can be used to fulfil crucial goals like child's marriage, retirement, paying-off mortgage etc.

A financial literate individual would be aware that staying invested in safer instruments like bank fixed deposits can negatively affect his/her savings in the long term. In comparison to equity mutual funds and ETFs, returns on long-term investments are taxed at 10% for gains of more than 1 lakh, for a period of more than 1 year, whereas returns from bank deposits are taxed as per the investor's tax slab. The higher the income, the lower fixed deposit return will be. Moreover, investments in instruments like debt funds and international ETFs enjoy the benefit of indexation which means paying taxes only on returns earned over inflation. Thus, financial literacy can be one of the key ways to bridge the gap between wealth creation journey and economic growth.

Technology Enabled Ecosystem for Financial Inclusion

Technology has become all pervasive in our day to day lives. Financial Technology (FinTech) ecosystem has now been accepted as the "GOTO" ubiquitous platform for transforming customer experience, increasing the speed, accuracy and transparency of financial services. The Fintech ecosystem enables easy and cheap availability of financial services through its rapid penetration and its accessibility in remote locations to MSME, small business owners and consumers. The easy accessibility of FINTECH has ushered in Financial Inclusion and has brought in a new generation of customers who, in pre-FINTECH era, could never imagine opening and operating bank accounts or having access to formal channels of financial services. Read on....

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Financial Inclusion

In words of former RBI governor- Financial inclusion is the process of ensuring access to financial services and timely and adequate credit for vulnerable groups such as weaker sections and low-income groups at an affordable cost. Unlike traditional banking and financial service model, financial inclusion targets to cover entire population by extending them basic financial services without looking at a person's credit standing, income or savings. Financial inclusion provides financial products and solutions to the economically and or socially underprivileged sections of the society.

Over 40% of the population does not meet minimum criteria laid by banks like formal job, work experience minimum income, credit score, etc. to avail banking services. Economically underprivileged people face challenges like no regular job, no guarantor, no resources, unemployment, lack of education and they also do not have proper documents to submit to the banks for proof of identity, address, or income. This situation has created many unbanked people who must either keep surplus cash at home or invest in dubious schemes. Similarly, they had to borrow from unorganized sector at predatory terms and conditions which resulted in lifelong indebtedness.

Time and again we have come across common people getting scammed by illegal deposit schemes, whether pyramid schemes or gold purchase schemes and umpteen such other cleverly designed products in which common investors have burnt their hard-earned lifetime savings. Financial inclusion will largely eliminate such misdeeds.

Financial inclusion captures the significant percentage of economic activities, which are otherwise thriving in the illegal parallel economy. This in turn enhances the pace and scale of economic activity through the multiplier effect. At the same time, it also enforces a great amount of financial discipline by channelizing the savings into legal channels. It enables the Government to directly transfer benefits to beneficiary bank accounts, thereby plugging revenue leakages in social welfare schemes and reducing subsidy burden

Impact of FINTECH on Financial Inclusion

FINTECH, by its' core nature of being agile and having open access architecture, has become a modern alternative to the traditional banking and financial services model. In developing nations, FINTECH has ensured unimpeded access to the weaker sections of the society. This entire process has hastened financial Inclusion. The technology enabled ecosystem allows low-income households, rural labours and small family businesses to use online money transfers, direct payment services, family remittances, savings accounts and credit services.

With the emergence of technology backed digital banking and growth of telecom / internet coverage across the length and breadth of our country, solutions are available for "anywhere banking" which has virtually taken banking to the doorsteps of the people. This has practically done away with the urban – rural divide in terms of accessibility to reliable and secure transactions.

The entire technology ecosystem provides manifold advantages in digital financial inclusion.

- **Digital penetration-** The penetration level of financial products in India was very low and largely restricted to the urban areas. The large rural population was not served either due to higher cost of customer acquisition or non-availability of capable banking personnel or harsh climatic conditions or even owing to fear of high NPA. As a result, the informal sector took advantage of the situation and exploited the rural masses by levying exorbitant charges. FINTECH has ensured that most of the financial products are now available to many previously under-serviced customers.

- **Financial awareness-** Physical accessibility to financial institutions in the rural areas is a great challenge. The cost of transaction shoots up both in terms of time value as well as charges. This discourages many from availing the services. FINTECH awareness has helped in financial knowledge dissemination. It has ensured that majority of the population is becoming aware of the financial facilities available and the monetary benefits that can accrue to them by using the facilities.

"FINTECH, by its' core nature of being agile and having open access architecture, has become a modern alternative to the traditional banking and financial services model.

- Mobile based services and FINTECH apps have overcome challenges of accessibility to financial institutions due to poor infrastructure is posing a great challenge resulting in financial exclusion of those affected.

Building blocks for Digital Ecosystem

The financial technology ecosystem has been growing exponentially over last decade or so. Due to this exponential growth and omni present mobile access, the entire tech landscape has been undergoing transformation every 2-3 years.

The cloud-based technology stack with extremely Big Data Systems (BDS), Application Programming Interface (API), Artificial Intelligence (AI), Machine Learning (ML), Natural Language Processing (NLP) has provided strong support to the entire financial inclusion technology ecosystem. For example, API, BDS, AI & ML allow technology-based solutions to receive and process credit application in minutes and emerge with 'First time Right' decision. ML allows building of robust algorithms while constantly enriching them through self-learning mode (Deep Learning). AI ensures that the decision making is liberated from pre-existing biases and decision turnaround time is consistent. API not only allows multiple stakeholders to build their own technology solutions and communicate with other standard technology solutions with ease but also acts as a universal communicator tool. NLP has changed the user interaction with application, voice-based command and bot driven applications have enhanced the adoption and usage of the application.

It will be pertinent to mention here that the JAM trinity (Jan Dhan, Aadhaar & Mobile) has been the bedrock of the entire financial technology ecosystem. JAM has allowed quick deployment of FINTECH products with easy but with secure API access. The building blocks of financial inclusion can be categorised in two broad segments:

1. **Technology in Hand** – With over 1.2 billion mobile connections and lowest telecom and data tariffs in the world, it became very easy to reach the target audience. The government, financial institutions, service providers and app developers just focussed on mobile based tech solutions which could be accessed by customers anytime on their mobile phones. This most crucial phase of technology adoption with minimum friction, has not only accelerated financial inclusion but it has also brought in financial liberation. This is a classic case where, due to ease of use and embedded financial benefits like DBT, both push and pull factors have worked with equal success in bringing new financial services customers on board. UPI based Google Pay, Paytm, Phonepe etc. are the best examples of technology in hand innovation. They have brought a roadside vendor or an auto driver into formal financial ecosystem and enabled them to have financial track record. The immediate benefit from financial track record has been easy availability of business and housing loans.

2. **Technology driven** – Since the requirements of every customer is different and everyone does not have a smartphone or may not be tech savvy, the stakeholders stepped in with technology driven solutions. The technology driven solutions, in form of service/solutions like e-ATM or banking correspondent or e-suvidha kendra, have done yeoman service for the purpose of financial inclusion. The technology driven solutions have the freedom of being deployed on cloud or on the mobile based device and reach out to the service consumer through an intermediary or service centre. This model ensures that poorest of the poor can also be brought in the formal financial ecosystem.

Worthy Examples for Technology Ecosystem for Financial Inclusion

Following are the four selected examples of the way technology ecosystem is smoothly operating in the financial world and how they are contributing towards successful financial inclusion:

1. **Digital Lending**

   Digital lending has become immensely popular, and it is hard to imagine life without

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it. It has ensured that unorganised sector, low- & mid--income households, small borrower can seek and obtain loan using any digital channel. Digital lending has emerged from the distress caused by the traditional model of lending, which entailed cumbersome and intimidating procedures consuming lot of time and at end, caused stress to the borrowers. Digital lending provides freedom to the borrowers to avail any loan.

The technology ecosystem allowing the borrowers to seek business and personal loans is so advanced that the credit decisions are made in less than an hour if not in few minutes. The API ensures that, if desired, borrower's request can be channelled to multiple lending platforms for achieving best possible terms. The credit rating could be done on real time basis and a 'GO' or 'NOGO' decision can be made instantaneously. Traditional mode of lending involved cumbersome paperwork, long hours of wait and limited avenues for borrowers which have been eliminated with the advent of digital form of lending.

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Various initiatives of the government have fuelled the growth of digital lending in India. In the last few years, a considerable amount of money has been allocated for digital India initiatives.

2. UPI Payments

UPI stands for Unified Payments Interface. It is a way to make secure payments from bank account in real-time which is an inter-operable payment infrastructure. UPI facilitates instant online payments from any smartphone using a Virtual Payment Address (VPA). VPA is a user-generated unique payment identifier, such as xyz@bank where 'xyz' is like a user-ID and is chosen by the accountholder (it is allocated based on availability), and 'bank' is the name of the bank/app where the user has signed up for UPI. VPA is mapped to the bank account without disclosing actual account number or other details. User can also map multiple bank accounts to a single UPI enabled bank app with separate VPAs for each bank account. At the time of financial transaction like purchase of goods or services, user can initiate the payment via scanning of QR code (containing VPA of seller) and authorising the transfer of money from his account via VPA to sellers account using seller's VPA.

The UPI platform operates on a broker model where it facilitates role-based transfer of information between all the parties involved in a transaction. The role-based brokering allows a flexible four-party transaction model, due to which the entire banking system becomes highly interoperable.

Similarly, the seller or business can also use UPI to collect payment online. They also only must select and set VPA. Thereafter they can send a payment collection request to the customer's VPA, which the customer authenticates by using MPIN on his UPI enabled bank app.

The UPI platform operates on a broker model where it facilitates role-based transfer of information between all the parties involved in a transaction. The role-based brokering allows a flexible four-party transaction model, due to which the entire banking system becomes highly interoperable. UPI broker differentiates the entity sourcing the transaction from the entity remitting the funds. Similarly, it differentiates the entity that accepts the transaction from the entity that receives the funds. The broker component of the UPI platform forwards request, sends responses, and relays exceptions asynchronously to ensure that all parties are in sync.

3. **BNPL Payments**

BNPL also known as 'Buy Now Pay Later' is a payment option where buyer can make a purchase without having to pay upfront for the purchase. For BNPL, users sign up with a company providing this facility upon providing certain pre-requisite information.

Once the sign up is done and profile is created, technology in the backend allows BNPL service provider to create credit and spending profile and dynamically allot the credit limit(s). As long as the customer is signed up on the BNPL platform, the service provider constantly keeps on updating the 360-degree credit profile of borrowers. This is done with the help of AI, ML, API and BDS technology stack. The purchasing and repayment behaviour on BNPL platform also provides feedback for building the credit profile and has direct impact on credit limit.

4. **Aadhar Enabled Payment system**

Aadhar Enabled Payment System (AEPS) is a bank led model which allows online interoperable financial transaction at a Point of Sale (PoS) or Micro ATM. The AEPS is used by the Business Correspondent (BC) or the Bank Mitra of any bank for providing the underlying services. At PoS level AEPS uses the Aadhaar authentication via biometrics. The app functions with a fingerprint scanner.

Challenges in Financial Inclusion

Despite massive strides of technology led FINTECH, the challenge is to educate and train people on the availability, benefits and importance of financial services. The financial literacy is the precursor to the financial inclusion. For overcoming the challenges and achieving Financial Literacy & Inclusion, following initiatives are required on a continuous basis:

- Accessibility to financial services from anywhere at affordable costs – whether for deposits, loans, insurance, payments etc.
- Establishment of institutions like Small and Micro finance banks focused towards needs of low-income people, but which are regulated by RBI.

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- Encouragement of fair competition amongst micro and small lending institutions, so that risk of exploitation of the vulnerable is minimised.
- Educate and build awareness amongst the under privileged about products available and their benefits. Improve financial literacy and awareness through constant engagement via multiple channels like TV, radio, print and outdoor media.
- Creation of financial products focused towards needs of the underprivileged section.
- Availability of digital financial solutions through mobile / internet banking to the economically underprivileged class especially those in the rural areas. ■■■

Old Pension Scheme Vs National Pension System: Which Scheme is Better for Employees?

The article aims to find the difference between Old Pension Scheme (OPS) and National Pension System (NPS), and which scheme is beneficial for the employees. The article has given a mathematical function to calculate the pension under both systems. The article concludes that if the average annual growth rate of salary is higher than Compound Annual Growth Rate (CAGR), and if the employee has fewer years of service and CAGR is very low, then OPS is better. NPS would be better for employees if CAGR is higher than the average annual growth rate of salary and employees work for a more extended period. Read on ...

Rahul Rangotra

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Governments all over the world offer two types of pensions plans: *defined benefit* and *defined contribution.* In a *DB* plan, employers give a committed pension to the employee until death and take the risk of the non-fulfilment of pension liability. The employee is free from longevity risk in the DB pension plan. Whereas, in the DC plan, employers contribute a specified amount towards the employee pension during the service and free themselves from the pension liability. The third category is a hybrid pension plan, with characteristics of both DB and DC pension plans. There are several variants of these pension plans worldwide, but broadly, all pension plans can be categorized into DB or DC. Invariably, in all the pension plans, sponsors, mostly employers, invests the pension assets in different investment instruments such as government bonds, stock markets, corporate bonds, etc.

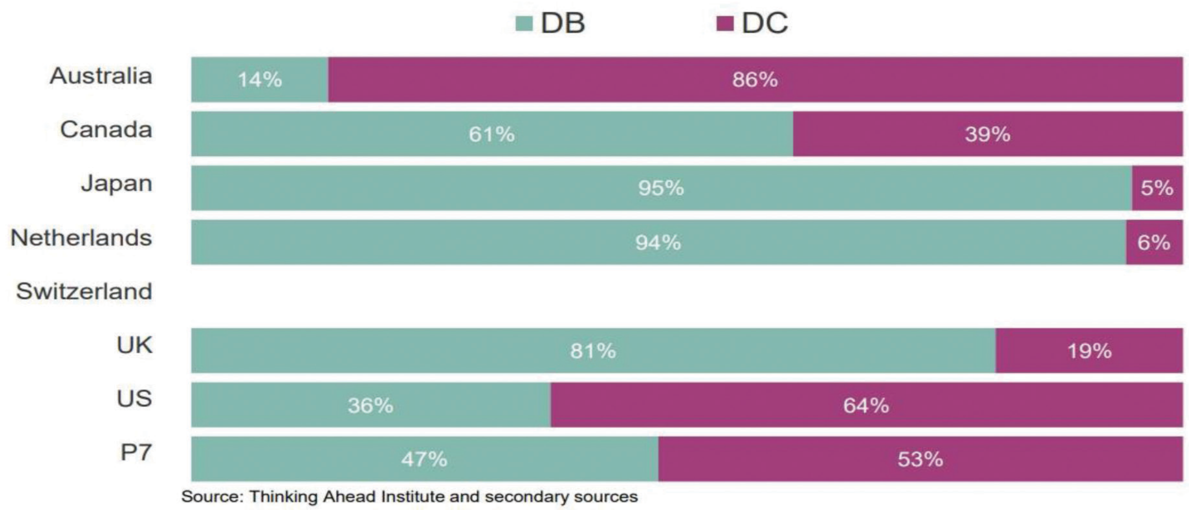
As per the Global Pension Assets Study (2021) which covers the twenty-two major pension markets, including the seven largest pension markets, namely Australia, Canada, Japan, Netherlands, Switzerland, UK, and the USA showed that

assets under management of DC pension plan have increased from 35 percent to 53 percent from 2000 to 2020. The figure below shows the split between DB and DC from the study.

China, which records 21 percent in the last decade.

Table 1 shows the total population, total estimated assets, assets/gross domestic product (GDP) ratio, and total estimated assets per capita. India's per capita assets are only $135.39, which is the lowest among the group of 22 largest pension fund markets.

Figure 1: Defined Benefit (DB) and Defined Contribution (DC) Split



Despite the Covid 19 pandemic, the pension fund's assets in 2020 have increased by 11 percent, amounting to $ 2.2 trillion in the twenty-two largest pension fund markets, out of which 92 percent are from the seven largest pension markets.

According to the study, India has a total estimated asset of $184 billion, which is only 7.1 percent of its GDP (an increase from 4 percent of GDP in the last decade). Netherlands has the highest with $1,900 billion, which is 214.4 percent of GDP; the USA tops in the total assets of $32,567 billion, which is 156.5 percent, and Australia has $2,333, which is 175.8 percent of its GDP. India has the second-highest growth with 10.7 CAGR (Compound Annual Growth Rate) (in USD) of assets after

Table 1: Asset Size and Per Capita Asset Total Assets

Country	Total Pupulation 2019[1]	Total Estimated Assets 2019 (USD Billion)[2]	Assets/ GDP Ratio (%)[2]	Total Assets/ Total Population (USD)[3]
Australia	25364307	2,077	150.90%	81886.72
Brazil	211049527	253	13.70%	1198.77
Canada	37589262	1,924	111.20%	51184.83
Chile	18952038	218	74.10%	11502.72
China	1397715000	223	1.60%	159.55
Finland	5520314	261	96.70%	47279.92
France	67059887	155	5.70%	2311.37
Germany	83132799	502	13.00%	6038.53
Hong Kong	7507400	188	50.40%	25041.96
India	1366417754	185	6.30%	135.39
Ireland	4941444	184	47.80%	37236.08
Italy	60297396	210	10.60%	3482.74
Japan	126264931	3,386	65.70%	26816.63
Malaysia	31949777	254	69.50%	7949.98
Mexico	127575529	237	18.60%	1857.72

Netherlands	17332850	1,690	187.30%	97502.72
South Africa	58558270	231	64.30%	3944.79
South Korea	25666161	821	50.40%	31987.64
Spain	47076781	43	3.10%	913.40
Switzerland	8574832	1,047	146.40%	122101.52
United Kingdom	66834405	3,451	125.80%	51635.08
United States	328239523	29,196	136.20%	88947.24

Source: *[1]The World Bank; [2]Thinking Ahead Institute and Secondary Sources; [3]Author's Calculations*

In India, different pension schemes are made available for government (both state and central) employees, the organized private sector, and the unorganized sector. For the organized private sector, the pension scheme is organized by Employee Provident Fund Organization (EPFO), for unorganized sector Pradhan Mantri Shram Yogi Maan-Dhan Yojna, (PM-SYM) and National Pension Scheme for the Traders and Self-Employed Persons (NPS-Traders), Atal Pension Yojana, etc. Besides these schemes, various pension schemes are provided by the insurance companies in India. For public sector employees (except defence), India shifted from DB (Old Pension Scheme, OPS) to DC pension plan (National Pension System, NPS) in the year 2004. This article analyses the NPS and OPS to find out which pension scheme is better for government employees under different circumstances. Before 1 January 2004, for all government employees, pension was calculated on 50 percent of their basic salary at the time of retirement plus dearness allowance. It was a burden on the taxpayers. Under OPS, employees were allowed to deposit some percentage of their salary in the GPF (General Provident Fund) account on which the government provided interest. The government changes the interest rate on GPF from time to time.

Whereas NPS is a DC pension plan, in which every month employees contribute 10 percent, and the employer (government) contributes 14 percent of the basic salary plus dearness allowance. Every month, this amount is invested in a Tier I account managed by the pension fund managers registered under Pension Fund Regulatory & Development Authority (PFRDA). There are eight registered pension fund managers. Investors are given two choices of active and auto mode. At the time of retirement or the age of 60, (if retired) employee can withdraw a maximum of sixty percent (forty per cent tax-free) of corpus and invest the rest 40 % to buy an annuity (under different annuity plans) from annuity service providers (ASPs) empanelled by PFRDA.

As NPS is a DC pension plan, there is no guaranteed fixed or minimum pension. The employees are vulnerable to fluctuations in the financial markets. In the case of voluntary retirement or fewer years of service (e.g., contractual employees become permanent later than 45), employees get less pension in NPS than in the OPS. In case of death/invalidation during the service, either NPS or OPS rules apply as per the choice given by the employee at the time of joining the service (DOPT, 2021).

Every public sector employee is curious to know which plan would be beneficial OPS or NPS? The question is, which scheme is beneficial for employees? And under what circumstances? The following equations help to answer these questions:

> In India, different pension schemes are made available for government (both state and central) employees, the organized private sector, and the unorganized sector.

> NPS is a DC pension plan, in which every month employees contribute 10 percent, and the employer (government) contributes 14 percent of the basic salary plus dearness allowance. Every month, this amount is invested in a Tier I account managed by the pension fund managers registered under Pension Fund Regulatory & Development Authority (PERDA).

V=IBS*[{(1+r)^n- (1+g)^n}/r-g] *.24 if r ≠ g

V=IBS*n*(1+r)^n
if r = g

P_n=[V*a*r/{1-(1+r)^m}]

P_o= IBS*[{(1+g)^n/2}]

P_n: Pension in NPS

$P_{o:}$ Pension in OPS

a: Percentage of the corpus invested in the annuity

r: Monthly rate of return (CAGR/12)

m: Number of months of life after retirement

V: Value of Investment at the time of retirement

IBS: Initial basic salary

g: Monthly growth rate of salary (annual growth/12)

n: Number of months of service

(Equation multiplied by .24 because the total contribution of employer and employee in NPS is 24%)

Assumptions

1. Average CAGR remains fixed throughout the life of the employee, i.e., both before and after retirement.
2. The average growth rate of salary per year remains fixed.
3. Both CAGR and growth rate of salary are compounded monthly.
4. Pension calculated is per month in both NPS and OPS.

Table 2: Pension Under NPS and OPS for initial basic salary plus dearness allowance of Rs 1; Scenarios 40 or 60 % annuity.

S. No.	Average growth rate of salary per annum (%)	CAGR (%)	Total Service (Months)	Life Expectancy After Retirement (Months)	Pension Under OPS	Pension Under NPS (60% Annuity)	Pension Under NPS (40% Annuity)
1.	8	10	240	360	2.463401385	1.820696003	1.213797336
2.	8	10	420	360	8.146274949	12.39397037	8.262646912
3.	10	8	420	360	16.31932522	10.36297972	6.908653148
4.	10	8	240	360	3.664036817	1.52234	1.014893275
5.	12	15	240	360	5.446276827	6.425921413	4.283947609
6.	12	15	420	360	57.85537011	86.78305516	32.65479736

***Source:** Authors Calculations*

Table 2 showcases only four possible scenarios. We can conclude from the above table that, if the average annual growth rate of salary is higher than CAGR, and if the employee has fewer years of service and CAGR is very low, then OPS is better.

NPS would be better for employees if CAGR is higher than the average annual growth rate of salary and employees work for a more extended period. Similarly, the pension under NPS and OPS can be calculated using the above formulas under different circumstances.

Alternatives for the Government

As inferred from Table 2, in some circumstances, NPS pension is higher than OPS and vice versa. If the pension is less than OPS, the government can contribute the balance at the time of retirement or voluntary retirement. If the NPS pension is more than OPS, an extra amount can be deposited in the government's account. This can create a balance and compensate the government for the additional burden. To reduce the taxpayer's burden, instead of forty percent at the time of retirement, the employee, who opt for a pension as per the OPS, can be allowed to withdraw only twenty-five to thirty percent, and the rest of the amount can be used to buy an annuity.

The following table shows the NPS pension under these circumstances:

Table 3: Pension Under NPS and OPS for initial basic salary plus dearness allowance of Rs 1; Scenarios 70 or 75 % annuity.

S. No.	Average growth rate of salary per annum (%)	CAGR (%)	Total Service (Months)	Life Expectancy After Retirement (Months)	Pension Under OPS	Pension Under NPS (75% Annuity)	Pension Under NPS (70% Annuity)
1.	8	10	240	360	2.463401385	2.27587	2.12414534
2.	8	10	420	360	8.146274949	15.492463	14.4596321
3.	10	8	420	360	16.31932522	12.9537247	12.090143
4.	10	8	240	360	3.664036817	1.90292489	1.77606323
5.	12	15	240	360	5.446276827	8.03240177	7.49690832
6.	12	15	420	360	57.85537011	108.478819	101.246898

Source: *Authors Calculations*

Table 3 shows that if seventy to seventy-five percent of the corpus is invested in an annuity, then the difference between pension under NPS and OPS would be reduced. The difference can be reduced further if, instead of ten percent contribution, employees also contribute fourteen percent of basic plus dearness allowance. This can reduce the pension expenditure of the government and save the taxpayers money. The proposed system can be adopted with very few changes in the present statutes. In this system, the employee must give an option at the time of joining of service whether they want the pension under NPS or OPS and contribution of employer and employee remain as it is in the present system of NPS throughout the service. For the overall good, employee satisfaction, reducing taxpayer's burden and reducing longevity risks, these changes can be introduced.

> If the pension is less than OPS, the government can contribute the balance at the time of retirement or voluntary retirement. If the NPS pension is more than OPS, an extra amount can be deposited in the government's account.

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GST- Tool for Development of Society

The article narrates Balancing the imposition of tax versus burden on people, which is a tough act for any country in modern revenue laws, based on Axiom – Caveat Emptor and as advised in Arthasastra, whether GST laws, comply to these or not. Also discussed whether the GST, taxes are harsh or not, transparent or controlled from the view point of a common man. Briefly discussed the aspects such as registration details, Invoice, Tax on Value Addition, Algorithm of GSTIN, Removal of cascading effect of taxes, Anti-profiteering and expectations. This is a plain article to create awareness among everyone on the basic aspects. Read on....

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Introduction

The axiom "Caveat Emptor" - Let the buyer beware, which indicate that the buyer must protect himself from the malpractices adopted by the market. Every common man should have knowledge of legislation, especially revenue legislation that is enacted which implicates his financial affairs. No revenue law can be drafted without harsh provisions is an established notion and in India, law makers always state that they follow what Chanakya propounded in Arthashastra, "Taxation should not be a painful process for the people. There should be leniency and caution while deciding the tax structure. Ideally, governments should collect taxes like a honeybee, which sucks just the right amount of honey from the flower so that both can survive. Taxes should be collected in small and not in large proportions".

Balancing the imposition of tax versus burden on people is a tough act for any country in the modern revenue laws. Thus, I was under full of doubts when the Government announced proposal to introduce GST laws, whether they will be legislating the laws keeping the above principles or not was million-dollar question to my mind. The Indian GST laws are complicated greatly because two different sets of Governments have to come

together and legislate the same if not similar laws under the Indian Constitution. It is a contradiction akin to finding the solution to the 'Bermuda Triangle' as collection of taxes without pain to the tax payers while making them aware of the practices towards transparency, chargeability and to bring under one common mechanism. With this background, how a consumer can protect themselves in GST - taxes are not transparent or controlled from the view point of a common man, discussed in this article.

Implementation of GST

Indian GST is said to be the most complex one across the globe and the Government has implemented the Act in the midst of the year 2017 making it more complex for everyone including the government that implemented that too not from the beginning of the financial year but upon completion of the first quarter of the financial year. Let us find out whether Indian legislatures have followed the above principles in the GST Law which are directly / indirectly help the common man to safe guard them while collecting the revenues as per what Arthashastra propounded.

Caveat Emptor & Arthashastra in GST

To follow the axiom "Let the buyer beware", GST laws have introduced transparency in the eco-system, such as Mandatory Invoicing, publication of registration information, specifying HSN Code for goods & services in the Invoice, availability of the registration information over public domain and so on. To comply with the methodology stated in "Arthasastra" the laws contain Anti-profiteering, reduction of cascading effects in the taxes which directly appear to be aimed at the common man and certain other aspects, transparency about final tax paid on the services or goods consumed being utmost important consideration.

To make a buyer aware, the laws introduced registration details to be displayed at business premises of each seller and to let the consumer know the seller is a tax agent for the government or not and also the tax amount can be collected by him or not. It is statutory obligation of every person having GSTIN to display certain information at a prominent place in the business premises, their GSTIN, Name of the entity, whether the registered person is having 'Regular GSTIN' or 'Composition GSTIN'. Apart from this, the copy of the GSTIN has to be displayed in the business premises, which is visible to all the customers / visitors. With this information the customers are well informed about the entity or person whom they are dealing with and whether the seller is eligible to collect the tax on behalf of the Governments. It is also very much important to know two more points, (1) The GST Law prohibits the collection of GST from customers without having valid GSTIN and (2) A composition dealer is prohibited to collect tax from the customers and he has to pay GST out of his collections.

Demand for Invoice

In addition, to ensure reduction of tax evasion, the laws have mandated the issue of invoice if the value exceeds Rs 200/- and a right is bestowed upon the customer to demand such invoice if the value is in excess of Rs 200/-. In order to reduce compliance burden for small traders, the invoice value is kept at Rs 200/- for which no tax invoice is required to issue for each of such transactions. Every consumer and businessmen who is paying GST to his/her supplier (Seller) shall demand for Tax Invoice (Invoice is called as Tax Invoice in GST, because it contains the details of Tax) other than the above mentioned value, and if the customer is unregistered, then the supplier may not issue a Tax Invoice in those cases, where the value of each transaction is lower than Rs 200/- while at the end of each day, the seller has to prepare a

"To make a buyer aware, the laws introduced registration details to be displayed at business premises of each seller and to let the consumer know the seller is a tax agent for the government or not and also the tax amount can be collected by him or not.

consolidated Tax Invoice for all the transactions lower than Rs. 200/- during the day.

Thus, it is very clear that, whether the customer demands for the Tax Invoice or not, the registered supplier has to prepare the Tax Invoice for all transactions of the day individually when more than the Rs. 200/- value and one consolidated for less than Rs. 200/- value transactions. Therefore, if every consumer, especially, the common man should demand for the Tax Invoice, as a measure of policing for and on behalf of the exchequer so that the taxes collection by the supplier reaches the exchequer and make use in economic growth of India. Therefore, a small gesture of demanding the Tax Invoice, by common people, will result into huge gains in tax-collection which indirectly reduces the incidence of new or additional taxes on different people/components of goods/ services.

Tax on Value Addition

Similar to Value Added Tax provisions, the tax has to be paid by a tax collector / seller, only the value addition but not on the full amount. However, the real difference that helps a common man as well as the exchequer is uploading the invoice data / sales data in the GST servers to ensure matching principle and reduction of the evasion. Every registered person is eligible to claim the ITC as per the law i.e., the benefit to a common man is that, one can claim input of the taxes paid provided he has a registration.

Algorithm of GSTIN

The legislature has made the Registration number in GST which is called "Goods & Services Tax Identification Number (GSTIN)" very simple to ensure even a common man to understand the way it is designed. The primary objective being to know to which state the seller belongs to and goods or services are originating in India. Further, this is linked to the already established well known number that is "PAN" – Permanent Account Number allotted under the Income Tax Act, to every person or business. To explain better, let me detail now. It contains fifteen digits, first two digits signifies the State in which the registration is obtained, next ten digits is PAN of the entity or person, thirteenth digit signifies number of that particular registration in that particular State and last two digits are system generated. With this algorithm of GSTIN, anyone can understand the significance of the GSTIN and the users can very well bring out and analyse the same and can take an informed decision and avoid fraudsters with fake GSTIN.

The same is illustrated with an example, if GSTIN starts with '36' which means the registration is obtained in the State of Telangana and if the address is not belonging to Telangana State is provided on the invoice, then user can easily understand that it is a fake GSTIN. If, with analysis of first two digits and a cursory glance at the address mentioned, one can find out "genuine ness/ fake-ness', one can be amused if all the 15 digits are used to understand the "genuine ness/ fake-ness", how easy it is to find out. The Official website of GST is "Goods & Services Tax Network (GSTN)" with is available at www.gst.gov.in. Any stakeholder can visit this website and can know certain information about all the GSTIN's. The information of the registered person can be viewed with GSTIN or with PAN, this option is available at "Search Taxpayer" icon in the home page. Apart from this, certain other information about GST also can be viewed at this website. Any person can visit Central Board of Indirect Taxes and Customs (CBIC) website at www.cbic.gov.in and get information about GST.

> Whether the customer demands for the Tax Invoice or not, the registered supplier has to prepare the Tax Invoice for all transactions of the day individually when more than the Rs. 200/- value and one consolidated for less than Rs. 200/- value transactions.

Removal of cascading effect of taxes

Another direct benefit is reduction of cascading tax effect to end user i.e., common man. Various Taxes and Duties were subsumed (clubbed) into GST, whereby the earlier practice of the tax paid under one statue was not allowed as input under different statute, causing cascade of taxes. Which created mounting of the tax on taxes resulting into the price of the goods or services to higher rates during pre-GST regime. On subsuming various taxes & duties, the cascading effect of taxes is maximum eliminated and the prices of goods and services have come down in the year 2017 which everyone has noticed.

Anti-profiteering

GST Law has a special provision called Anti-profiteering which stipulates the businessmen to reduce the price of the goods or services where the rate of tax is reduced by the Government during the GST Regime. It says, any reduction in the rate of tax, a commensurate reduction has to be done in the sale price of the goods or services.

It is illustrated by an example, a particular good was sold at Rs. 1,000/- with GST rate of 18%, the sale price would be Rs. 1,180/-. In case the GST rate of tax is reduced from 18% to 12% on that particular good, the seller which he purchased the good for Rs. 900/- with GST @ 18%, that means he as paid Rs. 162/- as GST, after reduction in rate of tax the tax on his purchase @ 12% on Rs. 900/- will be Rs. 108/-, the net difference of Rs. 54/- (162 – 108) to be reduced from the sale price on the stock which he is holding on the date of reduction in the rate of tax. After reduction of GST rate of tax, the sale value will be Rs. 946/- (1,000 – 54) and GST will be Rs. 114/- on Rs. 946/- @12%, the total sale price will be Rs. 1060/- as compared to Rs. 1,180/-.

GST Law has a special provision called Anti-profiteering which stipulates the businessmen to reduce the price of the goods or services where the rate of tax is reduced by the Government during the GST Regime.

Any consumer is aware of reduction in rate of tax on any particular good or service, as per the provisions of the GST Law he can demand for reduction from the supplier. In case the supplier does not reduce the price, the same can be brought to the notice of National Anti-profiteering Authority by way of a complaint.

Expectations of common people

Common people are eagerly looking at the governments

Any consumer is aware of reduction in rate of tax on any particular good or service, as per the provisions of the GST Law he can demand for reduction from the supplier.

i.e., Union & State to bring petroleum products into GST regime, whereby the rates of most of the goods will come down and may result in the reduction of prices of petrol and diesel as well as lower taxes, which will reduce the prices of many products whose costs include transportation cost as major cost next to manufacturing or procuring, which will also reduce the inflation in the country.

Conclusion

Although, Indian GST is one of the complex in the world and both Union and State governments majorly focus on the incremental revenue to their respective exchequer, certain measures to help common people are definitely included in the frame work of the Acts. At the same time, the laws have not strictly been made following "Arthasastra and "Let the buyer beware" concepts stated supra nevertheless have tried to deliver some justice to the aforesaid concepts. ■■■

The Unsung Sectors in the Indian Manufacturing Industry: An Empirical Study on Influence of Accounting Variables with Share Price

The term unsung sector comprises nine sectors listed in BSE. Despite steady and robust growth in terms of revenue in these sectors from 1997 to 2020, their contribution is unaccounted in the studies that propagated the future of manufacturing sectors in India. Hence the term unsung. An attempt is made to establish the association among accounting variables and share price of these sectors along with pre and post analysis based on the crisis of 2008, for enabling the investors to understand the reliability of these sectors from a fundamental point of view and to invest in them. Read on...



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1. Introduction

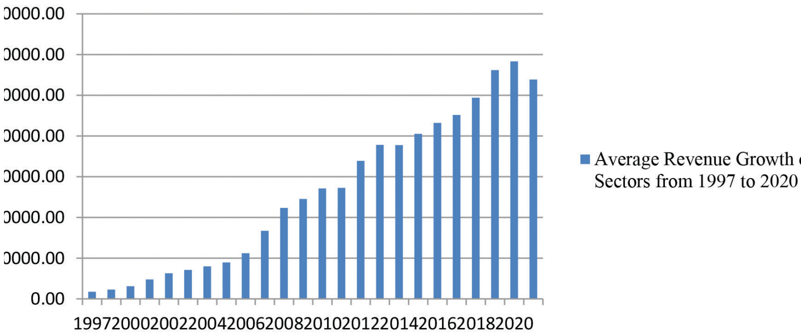
The enormous presence of the manufacturing sector in India has often invited many debatable research conclusions among researchers. It was Ahluwalia (1985) who observed that total factor productivity growth in the manufacturing sector in India was not robust during the post reform period of 1991. But the other research contributions have completely rejected the claim made by the former researcher. The research contributions of Balakrishnan & Pushpangadan (1994) claim that TFP growth in the Indian manufacturing sector stood strong and created a positive impact on the Indian economy. Several studies of such kind have disclosed that the manufacturing sectors that were liberalised in terms of FDI and Tariff, experienced 15 percent and 20 percent productivity growth during post reform period (Sivadasan, 2003).

This increase in productivity growth has led to a momentum of skill intensive industries in India which would gradually convert India to a manufacturing hub. In the study put forward by Sakhardande & Gaonkar (2021) twenty-five sectors were recognized to be under MII. Apart from that, among these sectors, five

sectors come under the category of superstar sectors (DPIIT, 2014). But there are many other performing sectors in the category of manufacturing sector in India, which does not find a place in above mentioned studies.

This has made the researcher think about such sectors and to study their growth prospect for the prospective investors to invest in them. The share prices are uncertain and there is all possibility of fluctuations. In this scenario, it would be useful for the investors in attaching the share price to a component that displays the strength of a company. The robust performance of a company is disclosed by its accounting variables, and this is made as a component in this research that establishes a relation with share price. The researcher attempted identifying nine sectors based on the revenue they generated for the past 24 years. Among these nine sectors, eighty-four companies based on market capitalisation were selected. The market capitalisation indicates the total value of a firm, and is an indicator of business valuation preferred by the investors for their investment purpose (Jaya & Sundar, 2012). Further the market capitalisation also has a positive association with profitable accounting ratios (Prasad, 2015). The average revenue generated by these sectors are presented below:

Average Revenue of Unsung Sectors from 1997 to 2020



Source: CMIE prowess data for the period 1997 to 2020

The above graph shows an impressive performance of these sectors in terms of revenue generated by them for the Indian economy. These nine sectors comprise of: Aluminium, Cement, Commodity chemicals, Heavy Electrical Equipment, Industrial Machinery, Other Electrical Equipment, Other Industrial Goods, Other Industrial Products and Plastic Products. Despite their supreme performance in terms of growth in revenue, even during the pandemic, they could not find a place in the studies that propagated future prospects of the manufacturing sector in India. Hence the researcher has coined the term *unsung sectors* for these nine sectors mentioned in the study.

The objectives of the study is emphasis on determining the accounting variables that have an association with the share price of these unsung sectors. The second objective focuses on determining the relation of share price and accounting variables on a pre and post analysis based on crisis which occurred in 2008. The third objective focuses on the sufficiency of variables to remove collinearity. This study focuses its attention on the entire nine sectors as a whole rather than emphasising on a specific or individual sector.

2. Literature Review

There are numerous studies that were performed in finding out the relation between share price and accounting variables. All these studies emphasised on several accounting variables. This has formed the basis for the researcher to select the accounting variables for the study.

Among the six accounting variables considered for the study, Book value per share, Earnings per share, Dividend per share and profit were also considered in the studies of Ball & Brown (1968), Ohlson (1995). The study conducted by the former was wrapped with the conclusion that profit is value relevant towards the stock price. Whereas the latter in his study proved that all financial information disclosed in balance sheet and income statement has an impact on share price.

The other two variables used in this study are Return on Total Assets and Return on Capital Employed. These variables were used in the study conducted by Lev (1989), Penman (1992), Marx (2010). All these studies exposed the fact that these accounting variables have explanatory power on stock price. The methodology used in the above studies for establishing an association with share price was the Ohlson Model. It has been framed as follows:

Pt = βo + β1Bit + β2Xit + β3vit + eit

Based on this Ohlson equation, there were several studies that has established association with accounting variables and stock price. This equation was used in the studies of Ali & Hwang (2000), Barth, Landsman, & Lang (2008), Dong & Stettler (2011) and Clarkson, Hanna, Richardson, & Thompson (2011). In all these studies, accounting variables and share price are based on time elements. Hence time series analysis is implemented along with Ohlson Model for a conclusive solution.

3. Analysis

The hypothesis used in the study is based on the Ohlson Model, which describes the relation between accounting variables and share price. In this study, the accounting variables are independent variables and the share price is the dependent variable. The hypotheses framed are as follows:

H1: There is a positive relation between Stock price and Book Value per share

H2: There is a positive relation between Stock price and Earning per Share

H3: There is a positive relation between Stock price and Net Profit to sales

H4: There is a positive relation between Stock price and Return on Capital Employed

H5: There is a positive relation between Stock price and Return on Assets

H6: there is a positive relation between Stock price and Dividend per Share

3.1 Application of Ohlson Model

Coefficients

Model		*Unstandardized Coefficients*		*Standardized Coefficients*	*t*	*Sig.*
		B	*Std. Error*	*Beta*		
	(Constant)	-192.686	16.255		-11.854	.000
	Earnings per share	-.985	.576	-.036	-1.709	.088
	Book value per share	4.375	.112	.766	38.974	.000
	Return on capital employed	.123	.123	.013	1.001	.317
	Return on Asset	-.172	.263	-.009	-.652	.514
	Net Profit Margin	-.025	.005	-.069	-5.252	.000
	Dividend Per share	15.440	2.137	.125	7.225	.000

a. *Dependent Variable: Share Price of Companies*

The above table indicates that the accounting variables that have significant values less than .05, has a positive relation with share price. In this case, Book value per Share, Net profit margin and Dividend Per Share would only be taken ahead for establishing an association with share price. As the data collected for the study relates to time series, there could be two obstacles that would hinder the progress of this research. These two obstacles are: 1) Multi collinearity and 2) Auto Correlation.

The multi collinearity is checked among the independent variables. If independent variables are collinear, then it would affect the validity of the result. The multi collinearity result are as follows:

Coefficients

Model		*Unstandardized Coefficients*		*Standardized Coefficients*	*t*	*Sig. Tolerance*	*Collinearity Statistics*	
		B	*Std. Error*	*Beta*			*VIF*	
1	*(Constant)*	-189.984	16.049		-11.838	.000		
	Book value per share	4.263	.092	.746	46.266	.000	.647	1.546
	Net Profit Margin	-.027	.005	-.073	-5.611	.000	.984	1.016
	Dividend Per share	14.057	1.978	.114	7.108	.000	.655	1.527

a. Dependent Variable: Share Price of Companies

If the VIF value lies between 1to10, then there exists no multicollinearity. At the same time if the VIF value is less than 1or more than 10, then there is multicollinearity. In the above table, the three significant accounting variables so selected based on Ohlson have VIF values below 10 and not less than 1, hence they are not collinear.

The next obstacle is to ensure that there is no auto correlation among the residuals of variables used in the study. The problem of auto correlation arises if the residuals of the variables are correlated. To address this problem, the Durbin–Watson test is implemented. The result is given below:

Model Summary					
Model	*R*	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*	*Durbin-Watson*
1	*.814*[a]	*.662*	*.661*	*629.27000*	*.464*
a. Predictors: (Constant), Dividend Per share, Net Profit Margin, Book value per share					
b. Dependent Variable: Share Price of Companies					

The Durbin–Watson test states that if the result of DW is less than 1 and more than 3 then the residuals are correlated and time series analysis must be performed. In this case, the Durbin–Watson test is less than 1, hence residuals are correlated. To solve this exponential, Smoothing model is used.

3.2 Application of Exponential Smoothing Model

Model Description			
			Model Type
Model ID	*Book value per share*	*Model_1*	*ARIMA (1,0,0)(1,0,1)*
	Net Profit Margin	*Model_2*	*ARIMA (0,0,1)(0,0,0)*
	Dividend Per share	*Model_3*	*ARIMA (2,0,2)(1,0,1)*

This table describes the time series model applied for each independent variables based on their respective nature of data. The next table reveals that whether these variables are made fit to the model with the help of time series analysis.

Model Statistics						
Model	Number of Predictors	Model Fit statistics	Ljung-Box Q(18)			Number of Outliers
		Stationary R-squared	Statistics	DF	Sig.	
Book value per share-Model_1	0	.687	21.547	15	.120	0
Net Profit Margin-Model_2	0	.013	.167	17	1.000	0
Dividend Per Share-Model_3	0	.242	15.100	13	.301	0

In these results, the p-values for the Ljung-Box statistics are all greater than 0.05, which states that the residuals are made independent. The study has overcome the second hurdle that the residuals of selected independent variables are not correlated. This enabled the data to overcome the issues of autocorrelation. The next table shows the result of application of Ohlson model on the dataset that has tamed all issues of time series elements.

3.3 Re-Applying Ohlson Model

Coefficients						
Model		*Unstandardized Coefficients*		*Standardized Coefficients*	*t*	*Sig.*
		B	*Std. Error*	*Beta*		
1	*(Constant)*	*-206.027*	*23.163*		*-8.895*	***.000***
	Predicted value from BPS-Model_1	*4.372*	*.149*	*.635*	*29.409*	***.000***
	Predicted value from NETPROFITMARGIN-Model_2	*-.203*	*.052*	*-.065*	*-3.924*	***.000***
	Predicted value from DPS-Model_3	*15.383*	*5.369*	*.061*	*2.865*	***.004***
a. Dependent Variable: Share Price of Companies						

The above table states that as significance value is less than .05 for all the three accounting variables, hence after eliminating all time series issues from the independent variables, they have a positive relationship with the share price.

Predictability of Share Price				
Model	*R*	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*
1	*.672[a]*	*.451*	*.451*	*801.29342*
a. Predictors: (Constant), Predicted value from DPS-Model_3, Predicted value from NETPROFITMARGIN-Model_2, Predicted value from BPS-Model_1				

This table indicates that the three accounting variables explains 45.1% of variations occurring in the stock price of unsung sectors in the manufacturing industry. Hence, it can be concluded that the share price of the sectors are predictable by 45% through these accounting variables.

3.4 Analysis of Pre and Post Crisis

This analysis is done to understand the stability of these sectors. The stability is understood through sturdiness in the share price. After finding out fundamental strength of these sectors by establishing a relation with accounting variables and share price, an attempt is made to understand the reliability of these sectors. The reliability on these sectors depends on stability of share price. The share price fluctuates even with a minute change in the economy. In this context, to establish the robustness of these sectors, an analysis is done on the share price and accounting variables of these sectors with a comparison of pre and post crisis that occurred in 2008 which named as sub-prime crisis. During this crisis, many established companies went bankrupt. In this context, the stability and reliability of these sectors are analysed based on pre and post crisis comparison.

H1 = There is no significant difference in the Accounting Variables between Pre and Post Crisis.

H2 = There is no significant difference in the Share Price between Pre and Post Crisis.

The results are exhibited as below:

Paired Samples Test									
Mean		*Paired Differences*					*t*	*df*	*Sig. (2-tailed)*
		Std. Deviation	*Std. Error Mean*	*95% Confidence Interval of the Difference*					
				Lower	*Upper*				
Pair 1	*sharepriceprecrisis- sharepricepostcrisis*	*-213.29405*	*1746.54415*	*76.00858*	*-362.61105*	*-63.97705*	*-2.806*	*527*	*.005*
Pair 2	*epsprecrisis - epspostcrisis*	*-.58500*	*50.39734*	*2.19326*	*-4.89361*	*3.72361*	*-.267*	*527*	*.790*
Pair 3	*bpsprecrisis - bpspostcrisis*	*-64.92464*	*254.26474*	*11.07595*	*-86.68316*	*-43.16612*	*-5.862*	*526*	*.000*
Pair 4	*roceprecrisis - rocepostcrisis*	*-5.72231*	*202.78453*	*8.83343*	*-23.07545*	*11.63083*	*-.648*	*526*	*.517*
Pair 5	*roaprecrisis - roapostcrisis*	*6.85941*	*99.44585*	*4.32783*	*-1.64250*	*15.36132*	*1.585*	*527*	*.114*
Pair 6	*netprofitprecrisis - netprofitpostcrisis*	*127.62028*	*2999.51414*	*130.53710*	*-128.81666*	*384.05723*	*.978*	*527*	*.329*
Pair 7	*dpsprecrisis - dpspostcrisis*	*-1.42977*	*12.37733*	*.53865*	*-2.48795*	*-.37160*	*-2.654*	*527*	*.008*

> The BPS, DPS and Net profit margin has a positive relationship and explanatory power over the share price of unsung sectors.

The above table presents the paired sample 't' test analysis. The P value or significance value of accounting variables like Book Value per share (.000) and Dividend per share (.008) is less than .05. Hence for these two accounting variables, the Null hypothesis is accepted, i.e., there is significant difference in the BPS and DPS between pre and post crisis. Whereas other Accounting Variables and even Share price does not show any difference between pre and post crisis, hence alternate hypotheses are accepted.

4. Conclusion

The BPS, DPS and Net profit margin has a positive relationship and explanatory power over the share price of unsung sectors. It is found that these three variables explain 45% variations in the share price of these sectors. Hence the other 55% of variations in the share price could be due to factors like inflation, interest rate, exchange rate, industry life cycles, labour conditions, trend changes and so on. When pre and post crisis comparison was made, it was revealed that share price of these sectors were same. Along with share price, the accounting variables also remained the same except BPS and DPS. The BPS and DPS were different in both comparison periods. This further discloses the fact that among three accounting variables that showed positive relationship, it is net profit margin that has more explanatory power on share price than DPS and BPS. It further explains that it is the net profit and efficiency of these sectors in maintaining the profit during the adverse condition that have made them more consistent and reliable. Hence the investors can undoubtedly rely on these sectors for investment purpose.

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Keeping a Check on Cash Transactions Under Income Tax

We come across a common saying 'Cash is King'. However, idle cash can alone not generate any interest income. Therefore, channelizing idle money into digital mode creates the potential to generate income. A cashless economy is a system where majority of transactions take place by other modes than cash. These modes may be credit cards, debit cards, wallets or digital modes where flow of cash is non-existent or is bare minimum. Read on…

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A cashless economy can be an effective measure to curb grey economy, terror-financing, corruption etc. The government has been taking many steps towards promotion of cashless economy and introducing many provisions under the Income Tax Act 1961 to restrict cash transactions.

The article shall highlight transactions coming under Income Tax Act where assessees need to say no to cash and the transactions which induce assessees to pay in modes other than cash. So, let us look into these transactions:

1. Cash Restrictions in Immovable Property: Section 43CA and Section 50C of the Income Tax Act, 1961 deal with immovable property transactions.

In case of immovable property, if the date of Agreement fixing the value of consideration and date of Registration are different then full value of consideration for transfer of such asset shall be the Stamp Duty Value on the date of Agreement, provided that the amount of consideration or part thereof has been received through the banking channel.

Further in section 50C and Section 43CA, Stamp duty value to be adopted is **dependent on the mode of consideration if date of agreement and date of transfer are different.**

Scenario	Deemed Full value of consideration
If the whole or part of consideration has not been received by way of account payee cheque/ draft, ECS or through prescribed electronic mode* on or before the date of Agreement.	Stamp duty value on date of transfer
If the whole or part of consideration has been received by way of account payee cheque/ draft, ECS or through prescribed electronic mode* on or before the date of Agreement.	Stamp duty value on date of agreement

Let's understand this with the help of example:

Section 50c

There is a transfer of land held as capital asset by Mr. Ram where the actual consideration is Rs. 1000 lakhs and the stamp duty value as on the date of agreement is 1090 lakhs and the stamp duty as on date of transfer of land is Rs.1120 lakhs. The date of agreement and the date of transfer of land are not same. So, let us check the scenarios.

Scenario	Deemed Full value of consideration
If Mr. Ram receives Rs.500 lakhs by account payee cheque before the date of agreement.	The actual consideration of Rs.1000 lakhs would be the full value of consideration since stamp duty on the date of agreement i.e., Rs. 1090 lakhs does not exceed 110% of actual consideration i.e., 1000 lakhs.

Section-43ca

Let's see another example where Ram holds a building as stock in trade. Mr. Ram transfers the building on 01/05/2020 where actual consideration is Rs.1000 lakhs and the stamp duty value as on the date of agreement (01/09/2019) is 1200 lakhs and the stamp duty as on date of transfer of land is Rs.2100 lakhs. Here the date of agreement and the date of transfer of land are not same. So, let us check the scenarios.

Scenario	Deemed Full value of consideration
If Mr. Ram receives Rs. 500 lakhs by account payee cheque on 01/09/2019.	Stamp duty value to be adopted as full value of consideration as per section 43CA. It shall be the stamp duty value as on the date of agreement i.e., Rs.1200 since Rs.500 lakhs have been received by A/c payee cheque on the date of agreement and stamp duty value on 01/09/2019 exceeds 110% of consideration i.e., Rs.1100 lakhs.
If Mr. Ram receives Rs.500 lakhs by cash on 01/09/2019.	The stamp duty value as on the date of transfer i.e., Rs.2100 lakhs shall be the full value of consideration as it has exceeded 110% of actual consideration of Rs.1000 lakhs and Rs.500 lakhs has been received in cash.

> "In Section 50C and Section 43CA, Stamp duty value to be adopted is dependent on the mode of consideration if date of agreement and date of transfer are different.

2. Section 269SS of Income Tax Act,1961: As per the provisions of section 269SS of the Income Tax Act 1961, no person shall take or accept any loan or deposit or specified sum (herein referred to as advance or otherwise) from any person (herein referred to as depositor) by any mode other than account payee cheque/bank draft or by use of electronic mode where:

1. The amount of loan, deposit or such specified sum is Rs.20,000 or more or

ii. The aggregate of total amount of loan, deposit and the specified sum is Rs.20,000 or more or

iii. Where a person has received such loan, deposit or specified sum from the depositor at an earlier date but the repayment of such loan, deposit or specified is outstanding, if such outstanding loan or deposit or specified sum or the aggregate outstanding amount is Rs.20000 or more or

iv. The aggregate of all the above loans, deposit or specified sum received in above 3 transactions is Rs.20000 or more.

Non-Applicability to Section 269SS

Any loan or specified sum or deposit "taken or accepted by" or "taken or accepted from" the following entities –

a. The Government

b. Any banking company, post office savings bank or co-operative bank

c. Any corporation established under Central, State or Provincial Act

d. Any Government company as defined in Section 2(45) of the **Companies Act, 2013**

e. Any institution, association or body or class of institutions, associations or bodies notified in Official Gazette.

Consequences of violation of Section-269SS

According to Section 271D of Income Tax Act 1961 a loan or deposit or specified sum is accepted violating the provisions of section 269SS, then a penalty may be levied which shall be equivalent to the amount of such loan or deposit or specified sum by the Joint Commissioner.

3. Section 269T of Income Tax Act,1961: Section 269T restricts any person to repay the deposit or specified sum otherwise than by an account payee cheque or account payee bank draft or by use of electronic clearing system as mentioned under Rule 6BBA through a bank account, if –

a. Amount of loan or deposit, along with the interest amount, is Rs.20,000 or more, or

b. The aggregate amount of loans or deposits, including the interest amount, held by such person in his own name, or jointly with any person, is Rs.20,000 or more.

Non-Applicability to Section 269T

(a) Government;

(b) any banking company, post office savings bank or co-operative bank;

(c) any corporation established by a Central, State or Provincial Act;

(d) any Government company as defined in section 617 of the Companies Act, 1956 (1 of 1956);

(e) such other institution, association or body or class of institutions, associations or bodies which the Central Government may, for reasons to be recorded in writing, notify in this behalf in the Official Gazette.

> According to Section 271D of Income Tax Act 1961 a loan or deposit or specified sum is accepted violating the provisions of section 269SS, then a penalty may be levied which shall be equivalent to the amount of such loan or deposit or specified sum by the Joint Commissioner.

Consequences of violation of Section-269T

The assessing officer shall levy a penalty equivalent to 100% of the loan or deposit amount under section 271 E of Income Tax Act 1961.

Let's understand Section 269 SS and 269T with examples

1) Mr. P takes a cash loan of Rs.17000 on 01/05/2019 from Mr. R and repays it on 20/12/2019 in cash. He again takes a loan in cash from Mr. R of Rs.19000 on 01/08/2020 and repays it in cash on 29/10/2020.

   Let's check whether the provisions of Section-269SS and Section-269T have been violated?

   Here in this case, the assessment years are different, and the receipts and repayments are within the limits i.e., below Rs.20,000) as prescribed under Section-269SSand Section 269T.

2) Mr. P receives a cash loan of Rs.18000 on 01/10/2020 and by account payee cheque on 04/10/2020 of Rs.22000. Mr. P repays the entire amount on 20/11/2020 by Rs.15000 in cash and Rs.25000 by account payee cheque.

In this case, the aggregate receipts of loan of Mr. P have exceeded the limit of Rs.20,000. Mr. P received the second loan by way of account payee cheque. Hence there is no violation of section-269SS. The aggregate amount outstanding is Rs.40,000 as on 04/10/2020. Mr. P has repaid the outstanding loan in cash amounting to Rs.15000 on 20/11/2020 and has violated the provisions of section-269T as aggregate amount outstanding was more than Rs.20000.

4. Section-269ST of Income Tax Act,1961: Section 269ST will be triggered in any of the following 3 circumstances where any person receives amount of Rs.2 lakhs or more.

Let's understand the circumstances:

Receipts from 'a person' in 'a day: It means that a person can receive cash amounting to less than Rs.2 lakhs in a day from a single person. So, the next question that comes into our mind is if a person receives cash on different days, then can the provisions of this section be avoided?

Single transaction: This means that a single transaction in cash shall be up to Rs.2 lakhs. Therefore, if a person splits invoices pertaining to a single transaction, then also the payee cannot receive the amount in cash amounting to Rs.2 lakhs or more than Rs.2 lakhs.

Transactions relating to a single event or occasion: It means that even if a person receives cash for different transactions, but the transactions relate to one occasion or an event then also the payee cannot receive cash amounting to Rs.2 lakhs or more.

Non-Applicability to Section 269ST

a) Government/ any banking company, post office savings bank or co-operative bank;

b) Transactions of the nature referred to in section 269SS – i.e., acceptance of loan, deposits etc.;

c) Such other persons or class of persons or receipts etc. that may be notified by the Central Government;

d) Any corporation established by a Central, State or Provincial Act;

Consequences of violation of Section-269ST

Failure to comply with Section 269ST would attract penalty under Section 271DA of the Act, equivalent to the amount receipt in cash.

Let's understand the section with the help of examples:

1) Mr. A receives Rs.2,35,000 in cash for 2 different bills of Rs. 1,00,000 and Rs.1,35,000 for sales made to Mr. B. Since aggregate receipts in day received from a single person exceeds Rs 2. lakhs, Section-269ST has been violated.

2) Mr. A made a sale of Rs.3,50,000 on 02/05/2020 and cash is received on 10/10/2020 and 12/12/2020 amounting to Rs.1,90,000 and Rs.1,60,000. Since cash is received in respect of a single bill(transaction), Section-269ST has been violated.

3) Mr. A receives a catering and decoration contract for marriage and receives Rs.3,00,000 in full. Section 269ST has been violated since he has received cash for a single event.

It is important to note here that Section 269ST is applicable on payee and not payer for any receipt whether capital or revenue. This indicates that a borrower remains out of the purview of Section-269ST.

Further the provisions of Section 269T and Section 269ST are inharmonious. Where Section 269T is applicable on borrower and its scope is restricted to transactions for loans, deposits or specified sum, Section 269ST is imposable on recipient for all types of transactions including loans, specified sum or deposits.

"Failure to comply with Section 269ST would attract penalty under Section 271DA of the Act, equivalent to the amount receipt in cash.

Scenario	Violation U/s	Reason
Mr. Ram repays Rs.60,000 in cash	269T	Mr. Ram is a borrower. Hence Section-269ST shall not be applicable. He has repaid in cash more than the limit prescribed under Section 269T. Hence, he shall be liable for penalty under section 271E.
Mr. Ram repays Rs. 2,60,000 to Mr. Sham in cash	269ST and 269T	Mr. Ram has repaid in cash more than the limit prescribed under Section 269T. Hence, he shall be liable for penalty U/s 271E whereas Mr. Sham has received more than Rs. 2,00,000 and hence has violated Section 269ST and penalty U/s 271DA shall be levied.

5. Section 40A(3) and 40A(3A) of Income Tax Act,1961 read with Rule 6DD: As per this section an expenditure, is if the assessee incurs any expense in relation to which payment or aggregate of payments made to a person in a day otherwise than by an account payee cheque/draft or use of Electronic clearing system or any other electronic modes prescribed under rule 6ABBA vide notification no 8/2020 dated 29.01.2020 exceeds Rs.10,000.

However, in cases payment is made for plying, hiring or leasing of goods carriage, the limit is Rs.35,000 instead of Rs.10,000.

Section 40A(3A): As per section 40A(3A) if an assessee had claimed a deduction in respect of any expenditure incurred in a previous year and payment to such expenditure is made during the current year otherwise than by an account payee cheque/ draft any other electronic modes prescribed under rule 6ABBA vide notification no 8/2020 dated 29.01.2020 exceeds Rs.10,000.

Let's understand the above section with the help of examples

1) Payments of 5 invoices of Rs.6000 each made in cash to Mr. Ram who is engaged in leasing of goods and carriages as on 4/08/2020.

   Disallowance of expenditure Section 40A (3) shall not be attracted since the aggregate payments made are Rs.30,000 and do not exceed Rs.35,000.

2) Payments of 2 Invoices of Rs. 19000 each made to Mr. Ram engaged in leasing of goods and carriages on 27/10/2020 and 28/10/2020.

   Disallowance of expenditure Section 40A (3) shall not be attracted since the aggregate of payments has not exceeded Rs.35,000 **in a day.**

3) Payments of Rs. 38000 made in cash to Mr. Ram who is engaged in leasing of goods and carriage against an invoice booked in 2017-18.

Disallowance under section 40A(3A) shall be attracted as expense has been booked in 2017-18 and had been allowed in previous year 2017-18.

6. Tax exemptions to Political Parties: Section 13A of Income Tax Act,1961 allows tax exemption to political parties which are recognized (Registered with Election Commission of

> Section 269ST is applicable on payee and not payer for any receipt whether capital or revenue. This indicates that a borrower remains out of the purview of Section-269ST.

India) if they comply with the following requirements with respect to cash:

- The above political party shall not receive any donation in excess of Rs. 2,000 otherwise than by an account payee cheque/draft or use of electronic clearing system or any other electronic modes prescribed under rule 6ABBA vide notification no 8/2020 dated 29.01.2020.
- For each such voluntary contribution [other than contribution by way of electoral bond] in excess of twenty thousand rupees, the eligible political party shall maintain and furnish a record of such contribution of the details of the person making such a contribution.

Violation consequences: Consequences of violating the above cash related provisions will be taxability of income to the extent of income from house property, income by way of voluntary contributions, income from capital gains and income from other sources which is otherwise exempt in hands of political parties.

> Section 80G covers contributions made to charitable institutions and certain relief funds. The deduction under Section 80G is available to all persons whether a company, individual, firm or any other person. Donations in kind are not entitled for any tax benefits.

7. Donation under Section 80G: Section 80G covers contributions made to charitable institutions and certain relief funds. The deduction under Section 80G is available to all persons whether a company, individual, firm or any other person. Donations in kind are not entitled for any tax benefits. The donations under this section in excess of Rs.2,000 should be made in any mode other than cash to qualify as a deduction under section 80G.

8. Deduction under Section 80D: Deduction under this section can be availed for two types of expenditure medical insurance premium (which includes preventive health check-up) and medical expenditure. The deduction under this section is allowable if mode of payment for the expenditure incurred (other than preventive health check-up) is other than by cash.

9. Disallowance under section 35AD R/w section 43(1): Second proviso to Section 43(1) states that no expenditure shall form part of actual cost of capital assets, if the payment for acquiring such assets has been made to a person in a day, otherwise than by account payee cheque/ bank draft/ using Electronic Clearing system or any other any other mode prescribed under rule 6ABBA vide notification no 8/2020 dated 29.01.2020 exceeds Rs.10,000.

10. Deduction U/s 80GGA: Section 80GGA provides deduction to an assessee other than an Assessee whose Gross Total Income includes income chargeable under PGBP in respect of certain donations for scientific, social or statistical research or rural development program or for carrying out an eligible project or National Urban Poverty Eradication Fund Subject to certain conditions.

> Section 80JJAA provides that deduction of 30% of additional employee cost incurred by the assessee shall be allowed as deduction for 3 assessment years.

In order to discourage cash transactions, section 80GGA provides that no deduction shall be available if payment made by cash exceeds Rs.10,000.

11. Deduction under section 80JJAA of Income Tax Act,1961: Section 80JJAA provides that deduction of 30% of additional employee cost incurred by the assessee shall be allowed as deduction for 3 assessment years. The assessee who has income under head PGBP and is liable to tax audit under section 44AB are entitled for deduction under Section 80JJAA.

In order to discourage cash transaction, no deduction shall be allowed u/s 80JJA, if Assessee has made the payment of emoluments otherwise than by prescribed banking channel i.e., account payee cheque/ bank draft/ using Electronic Clearing System, it is subject to certain conditions.

12.Section 36(1) (ib) of Income Tax Act,1961: Section-36 disallows deduction for expenses in respect of premium paid by the employer for health insurance of its employees if paid in cash.

Faceless Assessment: A New Paradigm

To ensure transparency, efficiency, and accountability by the Income Tax Department, faceless assessment was introduced by assessing officer for optimum utilization of resources and introducing team-based learning with dynamic jurisdiction. With 70% of the Indian population depending upon agriculture for its livelihood, and a country with literacy rate of 77.7%, introducing faceless assessment is a challenge for both the government and the taxpayers. Read on…

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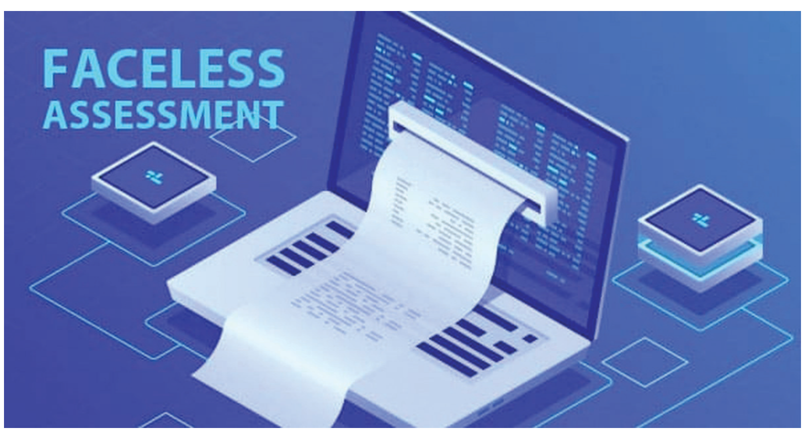
To ensure smooth functioning, the Central Board of Direct Taxes has setup six units each with a different name and function to perform - ***National Faceless Assessment Centre, Regional Faceless Assessment Centre, Assessment Units, Verification Units, Technical Units and Review Units.***

In general, taxpayers may often find the process of tax payment and related processes of the Income Tax Department to be a detailed and time-consuming task. Sometimes, citizens, who normally are unaware of the nitty-gritties of the Indian tax laws may find it challenging to complete the task without qualified assistance. Considering these and other hurdles in the process of taxation, the government continuously aims to iron out these issues and bridge the internal gaps.

With the aim to simplify this cumbersome task among the general public, the current government, via Finance Act, 2018 had amended Section 143 of the Income Tax Act by introducing sub-sections 3A and 3B to Section 143 of the Income Tax Act to be operative from 1st April 2018 so as to give powers to the Central Government to make a scheme, for the purpose of making assessment of total income or loss of the assessee under sub-section (3) [or Section 144] so as **to impart greater efficiency, transparency and accountability** by-

a) eliminating the interface between the Assessing



Officer and the assessee in the course of proceedings to the extent technologically feasible;

b) optimising utilisation of the resources through economies of scale and functional specialisation;

c) introducing a team-based assessment with dynamic jurisdiction.

Accordingly, the Department of Revenue under Ministry of Finance in exercise of powers granted to it under Section 143(3A) of the Income Tax Act issued notification S.O.3264(E) dated12th September 2019 to frame a scheme called the e-assessment scheme, 2019. Later, the Department of Revenue under Ministry of Finance vide notification

S.O. 2745 (E) dated 13th August 2020 amended the notification S.O.3264(E) dated 12th September 2019 and substituted **"Faceless Assessment"** for the word "e-assessment".

However, Taxation and Other Laws (Relaxation and Amendment of Certain Provisions) Act 2020, had inserted Section 144B to be operative from 1st April 2021 onwards and hence all the notifications prior to 1st April 2021 stands withdrawn.

Now let us understand what an assessment under the Income Tax Act is, how it is conducted, what is Faceless assessment Scheme and how it operates?

Assessment under Income Tax Act: Why is it required?

Assessment is verification of statement made by assessee in his return of income. Every year, whether an Individual, HUF, Partnership Firm Company, Trust/NGO, Association of Persons needs to file his income tax return before specified due dates applicable to each of them. Assessment begins when return of income is filed by the assessee.

By doing assessment, the assessing officer who works for Department of Revenue ensures that assessee has not under stated his income or has not computed excessive loss or has not under paid tax in any manner.

How is assessment conducted?

In order to verify the claim of figures made by the assessee, assessing officer shall serve on the asssessee a notice requiring him, on a date specified therein, either to attend the office of the Assessing Officer or to produce, or cause to be produced before the Assessing Officer any evidence on which the assessee may rely in support of the return.

Let us now understand how the scheme would operate and what steps it would follow to carry on the assessment.

What is Faceless Assessment and how it is conducted?

As the name suggests, Faceless Assessment is assessment where the assessee and assessing officer do not meet face to face. The assessee does not know who the assessing officer is, however, the assessing officer knows his assessee's name.

> "Assessment is verification of statement made by assessee in his return of income. Every year, whether an Individual, HUF, Partnership Firm Company, Trust/NGO, Association of Persons needs to file his income tax return before specified due dates applicable to each of them.

Notices calling for details and explanations are issued online through e--proceeding facility available on the income tax e-filing portal. Similarly, responses to the notices are to be made by the assessee through e-proceeding facility available in the income tax e-filing portal.

Which is the designated portal for viewing notices?

incometaxindia.gov.in is the designated portal for viewing the notices uploaded under the e-proceeding facility and to upload reply to the notices.

How Faceless assessment works?

To ensure smooth functioning, the Central Board of Direct Taxes has setup six units each with a different name and function to perform. The six units are as under: -

a) ***National Faceless Assessment Centre:*** Its function is to ensure conduct of Faceless Assessment proceedings in a centralised manner. Through the National Faceless Assessment Centre, communications are made to and received from the assessee. The units given below are National Faceless Assessment Centres.

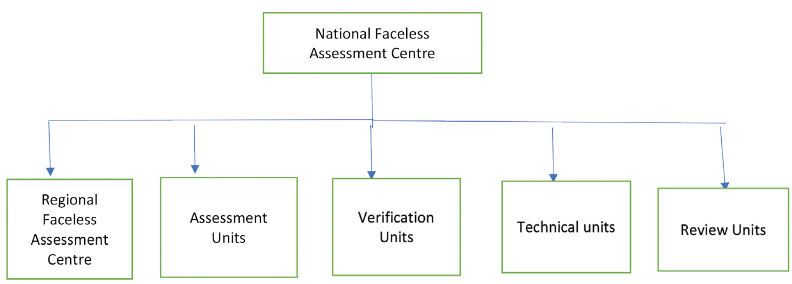
b) ***Regional Faceless Assessment Centre:*** Its function is to facilitate conduct of Faceless Assessment proceedings, which shall be headed by Principal Chief Commissioner.

c) ***Assessment units:*** Its function is to conduct assessment by identifying points or issues material for the determination of any liability (including refund) under the Income Tax Act. It can seek clarification on points or issues so identified, analyse the material furnished by the assessee or any other person.

d) ***Verification units:*** Its function is to verify by way of enquiry, cross verification, examination of books of accounts, examination of witnesses and recording of statements and such other functions as may be required for the purposes of verification.

e) ***Technical units:*** Its function is to provide technical assistance by way of advice on legal, accounting, forensic, information technology, valuation, transfer pricing, data analytics, management or any technical matter which may be required in a particular case or class of cases under this scheme.

f) ***Review units:*** Its function is to review draft assessment order, which includes checking whether the relevant and material evidence has been brought on record, whether the relevant points of fact and law have been duly incorporated in the draft order, whether the issues on which the addition or disallowance should be made have been discussed in the draft order, whether the applicable judicial decisions have been considered and dealt with in the draft order, checking for arithmetical correctness of variations proposed and such other functions as may be required for the purpose of review, and specify their respective jurisdiction.



How do units communicate among themselves and with assessee?

All communications among the assessment unit, review unit, verification unit or technical unit or with the assessee with respect to information or documents or evidence or any other details, as may be necessary for the purposes of making an assessment under this Scheme shall be through the National Faceless Assessment Centre.

What is the procedure for Faceless assessment?

- the National Faceless Assessment Centre shall serve a notice on the assessee under Section 143(2) of the Income Tax Act,1961.
- the assessee may, **within 15 days** from the date of receipt of notice file his response to the National Faceless Assessment Centre.
- (a) where the assessee has furnished his return of income under Section 139 of the Act or in response to a notice issued under section 142(1) of the Act or section148(1) of the Act, and a notice section 143(2) of the Act has been issued by the Assessing Officer or the prescribed income-

> Faceless Assessment is assessment where the assessee and assessing officer do not meet face to face. The assessee does not know who the assessing officer is, however, the assessing officer knows his assessee's name.

tax authority as the case may be or,

(b) has not furnished his return of income in response to a notice issued under sub-section (1) of section 142 of the Act by the Assessing Officer; or

(c) has not furnished his return of income under sub-section (1) of Section 148 of the Act and a notice under section 142(1) of the Act has been issued by the Assessing Officer,

(d) the National Faceless Assessment Centre shall intimate the assessee that assessment in his case shall be completed under this Scheme.

- the National Faceless Assessment Centre shall assign the case selected for the purposes of faceless assessment under this Scheme to a specific assessment unit in any one Regional Faceless Assessment Centre through an automated allocation system.
- where a case is assigned to assessment unit, it may make a request to the National Faceless Assessment Centre for – obtaining such further information, documents or evidence from the assessee or any other person, as it may specify; conducting of certain enquiry or verification by verification unit; and seeking technical assistance from the technical unit.
- where a request for obtaining further information, documents or evidence from the assessee or any other person has been made by the assessment unit, the National Faceless Assessment Centre shall issue appropriate notice to the assessee or requisition to such assessee or person, specifying a time therein, for submitting such information, documents or evidence.
- the assessee shall file his response to the notice within the time specified in the notice or such time as may be extended based on an application in this regard to the National Faceless Assessment Centre.
- where a request for conducting certain enquiry or verification by the verification unit has been made by the assessment unit, the request shall be assigned by the National Faceless Assessment centre to a verification unit in any one Regional Faceless Assessment Centre through an automated allocated system.
- where a request for seeking technical assistance from the technical unit has been made by the assessment unit, the request shall be assigned by the National Faceless Assessment Centre to a technical unit in any one Regional Faceless Assessment Centres through an automated allocated system.
- the assessment unit shall, after considering all the relevant material available on record, make in writing, a draft.
- assessment order either in accepting the returned income of the assessee or modifying the returned income of the assessee, as the case may be, and send a copy of such order to the National Faceless Assessment centre.
- the assessment unit shall, while making draft assessment order, provide details of the penalty proceedings to be initiated therein, if any.
- the National Faceless Assessment centre shall examine the draft assessment order in accordance with the risk management strategy specified by the Board, whereupon it may decide to—

  (a) finalise the assessment, in case no variation prejudicial to the interest of assessee is proposed, as per the draft assessment order and serve a copy of such order and notice for initiating penalty proceedings, if any, to the assessee, along with the demand notice, specifying the sum payable by, or refund of any amount due to, the assessee based on such assessment; or

(b) provide an opportunity to the assessee, in case any variation prejudicial to the interest of assessee is proposed, by serving a notice calling upon him to show cause as to why the proposed variation should not be made; or

(c) assign the draft assessment order to a review unit in any one Regional Faceless Assessment Centre, through an automated allocation system, for conducting review of such order;

- the review unit shall conduct the review of the draft assessment order, referred to it by the National Faceless Assessment Centre whereupon it may decide to- concur such draft assessment order and intimate the National Faceless Assessment Centre about such concurrence; orsuggest such variation, as it may deem fit, to the draft assessment order and send its suggestions to the National Faceless Assessment Centre.
- the National Faceless Assessment Centre on receiving concurrence of the review unit, follow the procedure –finalise the assessment order and serve a copy of such order and notice for initiating penalty proceedings, if any, to the assessee along with demand notice specifying the sum payable by or refund due to the assessee on the basis of such assessment or provide an opportunity to the assessee, in case a verification is proposed by serving a notice calling upon him to show cause as to why the assessment should not be completed as per the draft assessment order.
- the National Faceless Assessment Centre, shall upon receiving suggestions for variations from the review unit, assign the case to an assessment unit other than the assessment unit which has prepared the draft assessment order through an automated allocation system.
- the assessment unit after considering the variations suggested by the Review Unit, send the final draft assessment order to the National Faceless Assessment Centre.
- the National Faceless Assessment Centre shall upon, receiving the revised draft assessment order-

  (a) in case no variation is prejudicial to the interest of the assessee is proposed with reference to the draft assessment order, finalise the assessment order.

  (b) in case a variation is prejudicial to the interest of the assessee is proposed with reference to the draft assessment order, provide an opportunity to the assessee.

Can assessee seek personal hearing?

When a variation is proposed in the draft assessment order, an opportunity is provided to the assessee by serving a show cause notice calling upon him to give his explanation on the proposed variation. In this case, the assessee can seek for personal hearing to make his oral submission. Such a hearing shall be conducted exclusively through video conferencing or video telephony including the use of any telecommunication application software.

What would be the role of Jurisdictional Assessing Officer after introduction of Faceless assessment Scheme?

The National Faceless Assessment Centre shall, after completion of assessment, transfer all the electronic records of the case to the jurisdictional Assessing Officer for-

(a) imposition of Penalty;

(b) collection of recovery and demand;

(c) rectification of mistake;

(d) giving effect to the appellate orders;

(e) submission of remand report, or any other report to be furnished, or any representation to be made or any record to be produced before the CIT(Appeals), ITAT or Courts as the case may be.

(f) proposal seeking sanction for launch of prosecution and filing of complaint before the Court.

Notwithstanding anything contained, the National Faceless Assessment Centre may at any stage of the assessment, if considered necessary, transfer the case to the Assessing Officer having jurisdiction over such case.

Penalty Proceedings for non-compliance of notice

- any unit, during assessment proceedings, for non-compliance of any notice, direction or order issued under this Scheme on the part of the assessee or any other person, may send recommendation for initiation of any penalty proceedings under Chapter XXI of the Act, against such assessee or any other person, as the case may be, to the National Faceless Assessment Centre, if it considers necessary or expedient to do so.

- the National Faceless Assessment Centre shall on receipt of such recommendation, serve notice on the assessee or any other person, as the case may be, calling upon him to show cause as to why penalty should not be imposed on him under the provisions of the Act.
- the response to show-cause notice furnished by the assessee or any other person, if any, shall be sent by the National Faceless Assessment Centre to the concerned unit which has made the recommendation for penalty.
- the said unit shall, after taking into consideration the response furnished by the assessee or any other person, as the case may be,make a draft order of penalty and send a copy of such draft to National Faceless Assessment Centre; or

> When a variation is proposed in the draft assessment order, an opportunity is provided to the assessee by serving a show cause notice calling upon him to give his explanation on the proposed variation.

(a) drop the penalty after the recording reasons, under intimation to the National Faceless Assessment Centre.

- the National Faceless Assessment Centre shall levy the Penalty as per the said draft order of penalty and serve copy of the same on the assessee or any other person, as the case may be.

Conclusion

The introduction of a scheme which is based on the use of internet would certainly be a challenge for both the government and for the taxpayers. However, when we see the objectives to be achieved by Faceless Assessment Scheme, it is surely a game changer for the country, as it helps in accomplishing the Taxpayers Charter whereby the Income Tax Department is committed to-

- provide fair, courteous, and reasonable treatment.
- treat taxpayer as honest.
- provide mechanism for appeal and review.
- provide complete and accurate information.
- provide timely decisions.
- collect the correct amount of tax.
- respect privacy of taxpayer.
- maintain confidentiality.
- hold its authorities accountable.
- enable representative of choice.
- provide mechanism to lodge complaint.
- provide a fair and just system.

> A move towards the introduction of Faceless Assessment Scheme is a welcome step taken by the Government as it has helped the government officers and taxpayers to overcome the restrictions placed by way of nationwide lockdowns on movement of persons.

- publish service standards and report periodically.
- reduce cost of compliance.

A move towards the introduction of Faceless Assessment Scheme is a welcome step taken by the Government as it has helped the government officers and taxpayers to overcome the restrictions placed by way of nationwide lockdowns on movement of persons.

At the same time, it has also brought in additional set of challenges to the professionals to keep them abreast of latest developments in law and to improve their drafting skills. With the introduction of the Faceless Assessment Scheme, the entire procedure of tax payment has been evolved.

As a final remark, introduction of Faceless Assessment Scheme is a gesture of the Government to honour the honest, both taxpayers and professionals. This scheme is a boon for the honest taxpayers and professionals and robust measure to check insincere taxpayers and professionals. ■■■

Equalisation Levy

Now-a-days, digital economy is growing faster than the global economy. In short, a person can carry out a business digitally from anywhere in the world. The need for physical presence in a jurisdiction is diminished. So, due to the increase in digital economy and with the intention of taxing the untaxed income earned by non-residents through digital transaction, the Finance Minister in the budget speech, while introducing The Finance Bill, 2016, introduced the provisions relating to Equalisation Levy. Read on...

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Equalisation levy also called ***Google Tax*** is tax levied globally on certain income earned digitally by the non-resident. It is proposed that a person making payment to non-resident (where non-resident does not have a Permanent Establishment (PE) in India) for ***specified services*** and such payment exceeds the prescribed limit, then in such a case, a person is required to deduct the tax at the prescribed rate under equalisation levy.

Further, the Finance Minister in her budget speech, while introducing *The Finance Bill, 2020*, amended the provisions relating to *Equalisation Levy* to widen the scope of equalisation levy. It is proposed that a person received service from **e-commerce operator** (where e-commerce operator being non-resident person, does not have a Permanent Establishment (PE) in India) for **supply or services**, an e-commerce operator is required to deduct and pay the tax at the prescribed rate under equalisation levy. So, considering the above, **let us understand the provisions one by one...**

The date from which provisions of Equalisation Levy are applicable

The CBDT issued a notification dated 27th May 2016, stating the provisions of Chapter VIII in the Finance Act, 2016 relating to the equalisation levy would come into effect from 01st June 2016. Further, the CBDT issued

a notification dated 28th October 2020, amended the provisions of equalisation levy and widened the scope by covering the concept of **e-commerce supply or service** which shall come into effect from on or after 01st April 2020.

Date of Applicability

For Specified Services – 01st June 2016

For E-Commerce Supply or Services – 01st April 2020

The states to which provisions of Equalisation Levy are applicable

Provisions relating to the equalisation levy extends to the whole of India except, the state of Jammu and Kashmir. Further, equalisation levy is only applicable for Business-to-Business transaction.

Meaning of Equalisation Levy

Equalisation levy is defined under section 164(d) of the Finance Act, 2016. Equalisation levy means the tax leviable on consideration received or receivable for any **specified services** or **e-commerce supply or service**. Let us understand, what is specified service, what is e-commerce supply or service and what is e-commerce in relation to equalisation levy?

Specified Services: This includes,

1. Online Advertisement,
2. Any provision for digital advertising spaces or any other facility or service for the purpose of online advertisement,
3. Any other service as may be notified by the Central Government.

E-commerce supply or service: This covers,

1. **Online sale of goods** owned by the e-commerce operator or
2. **Online provision of services** provided by the e-commerce operator or
3. **Online sale of goods or provision of services or both**, facilitated by the e-commerce operator or
4. any combination of 1), 2) or 3) above.

E-commerce operator: E-commerce operator means **non-resident** who owns, operates, or manages digital or electronic facility or platform for **online sale of goods** or **online provision of services or both**.

"Provisions relating to the equalisation levy extends to the whole of India except, the state of Jammu and Kashmir. Further, equalisation levy is only applicable for Business-to-Business transaction.

Charging section of Equalisation Levy on *Specified Services*

Charging section of equalisation levy on *specified services* is given under section 165 of the Finance Act, 2016. Equalisation levy must be levied at the rate of 6% of the amount of consideration for specified services (Rule 3 of Equalisation Levy Rules, 2016).

Conditions to levy equalisation levy for specified services are as below:

1. Service provider should be a non-resident.
2. Service provider should not have a permanent establishment in India. If, service provider has a permanent establishment in India, but such services are not effectively connected with such permanent establishment in India.
3. Service receiver may be a resident person in India or non-resident person having a permanent establishment in India.

4. Service receiver received the specified services.
5. Service receiver should use the specified services for carrying on business and profession only.
6. Service receivers make payment to non-resident in excess of Rs. 1,00,000/- during a year.

If all the above-mentioned conditions are satisfied, then in such a case, a person making payment is required to deduct the equalisation levy @ 6% of amount of consideration for specified services. In simple terms, liable to deduct and pay to the credit of the Central Government shall be on the person paying to the non-resident.

Equalisation Levy is not applicable on *Specified Services*

The following are the cases where the provisions relating to equalisation levy are not applicable.

1. Service provider is a non-resident but service provider has permanent establishment in India and services provided by him are effectively connected with such permanent establishment in India.
2. Service receiver has taken specified services not for the purpose of carrying on business and profession.
3. Service receivers made payment to non-resident below the amount of Rs. 1,00,000 during a year.

If any one of the above conditions is satisfied, then in such a case, provision relating to equalisation levy is not applicable.

> “Equalisation levy means the tax leviable on consideration received or receivable for any specified services or e-commerce supply or service.

Charging section of Equalisation Levy on *e-commerce supply or services*

Charging section of equalisation levy on *e-commerce supply or services* is given under section 165A of the Finance Act, 2016. Equalisation levy must be levied at the rate of 2% of the amount of consideration received or receivable from e-commerce supply or service.

Conditions to levy equalisation levy are

1. Service provider should be a non-resident.
2. Service provider should not have a permanent establishment in India. If, service provider has a permanent establishment in India, but such services are not effectively connected with corresponding permanent establishments in India.
3. Service provider has sales, turnover or gross receipt from e-commerce supply or service in the previous year of Rs. 2 crores or more.
4. Service receiver may be a resident person in India or non-resident person in the specified circumstance* or a person who buys goods or services or both, using an internet protocol address located in India.
5. Service receiver received the service from an e-commerce supply or services.

If all the above-mentioned conditions are satisfied, then in such a case, an e-commerce supply or service operator is required to deduct the equalisation levy @ 2% of amount of consideration for e-commerce supply or services. Simply put, liability to deduct and pay to the credit to the Central Government shall be on the non-resident e-commerce service or supply operator.

***Specified circumstance**

1. Sale of advertisement, which targets a customer, who is resident in India or a customer who accesses the advertisement though internet protocol address located in India and
2. Sale of data, collected from a person who is resident in India or from a person who uses internet protocol address located in India.

Equalisation Levy is not applicable on *e-commerce supply or services*

Following are the cases, where the provisions relating to equalisation levy is not applicable:

1. Service provider is a non-resident person but service provider has permanent establishment in India and such services provided by him are effectively connected with such permanent establishment in India.
2. Service provider has sales, turnover or gross receipt from e-commerce supply or service in the previous year which is less than Rs. 2 crores.
3. Equalisation levy is applicable as per section 165 of the Finance Act, 2016 and not as per section 165A of the Finance Act, 2016.

If any one of the above conditions is satisfied, then in such a case, provision relating to equalisation levy under section 165A is not applicable but may apply the provision related to section 165 if he mentioned conditioned satisfied.

Section 166 of the Finance Act, 2016 – Other provisions under *specified services*

Section 166 of the Finance Act 2016 provides,

1. A person, being a resident and carrying on business or profession or a non-resident having permanent establishment in India, shall deduct equalisation levy referred to in section 165 above from the amount paid or payable to a non-resident. In short, liability to deduct the equalisation levy is on the person making payment to the non-resident.
2. The amount of consideration, equalisation levy amount, interest, and penalty payable and refund, if any, shall be rounded off the nearest multiple of ten rupees (Rule 3 of Equalisation Levy Rules, 2016).
3. Equalisation levy so deducted during any calendar month, shall be credit to the Central Government by the 7th of the month following the said calendar month. Equalisation levy shall be paid by remitting it into the Reserve Bank of India or in any branch of State Bank of India or authorised bank accompanied by an equalisation levy challan (Rule 4 of Equalisation Levy Rules, 2016).
4. A person who fails to deduct equalisation levy shall, notwithstanding such failure, be liable to pay the levy to the Central Government by the 7th of the month immediately following the said calendar month.

Section 166A of the Finance Act, 2016 – Other provisions under *e-commerce supply or services*

Section 166A of the Finance Act 2016 provides,

1. A person, being a non-resident e-commerce operator of supply or services (where non-resident does not have permanent establishment in India), shall deduct and pay equalisation levy referred to in section 165A above from the amount received or receivable from the service receiver. In short, liability to deduct the equalisation levy is vested upon the non-resident e-commerce operator supply or service.
2. The amount of consideration, equalisation levy amount, interest, and penalty payable and refund, if any, shall be rounded off the nearest multiple of ten rupees (Rule 3 of Equalisation Levy Rules, 2016 as amended by the Equalisation Levy (Amendment) Rules, 2020).
3. Equalisation levy so deducted during any calendar month, shall be credit to the Central Government as per the below due date:

Sr. No	Date of ending of the quarter of the F.Y.	Due date of the F.Y.
1	30th June	7th July
2	30th September	7th October
3	31st December	7th January
4	31st March	31st March

4. Equalisation levy shall be paid by remitting it into the Reserve Bank of India or in any branch of State Bank of India or authorised Bank accompanied by an equalisation levy challan (Rule 4 of Equalisation Levy Rules, 2016 as amended by the Equalisation Levy (Amendment) Rules, 2020).

Equalisation Challan

The amount so deducted by way of equalisation levy by the assessee or e-commerce operator must be deposited or credited to the Central Government. For deposits or payment of equalisation levy, an assessee or e-commerce operator needs to pay via Challan No. 285 **(Challan No./ ITNS 285)**.

Section 167 of the Finance Act, 2016 – Furnishing of statement

An assessee or e-commerce operator shall, within the prescribed time limit, furnish a statement in the prescribed form. Further, an assessee or e-commerce operator shall furnish a statement electronically under digital signature or electronically through electronic verification code in **Form No. 1, on or before 30th June immediately following that financial year** (Rule 5 of Equalisation Levy Rules, 2016 as amended by the Equalisation Levy (Amendment) Rules, 2020). Further, the deadline for furnishing The *Equalisation Levy Statement in Form 1* for the Financial Year 2020-2021 has been extended by Central Board of Direct Taxes (CBDT) by way of Circular No 15/2021 dated 03rd August 2021. Revised due date for filing/furnishing a statement (Form 1) for the FY 2020-2021 is 31st August 2021.

Further, an assessee or e-commerce operator who has not furnished the statement on or before 30th June immediately following that financial year or any omission or wrong particulars therein furnished or to file a revised statement, as the case may be, can file at any time **before the expiry of two years from the end of the financial year** in which the specified service was provided or e-commerce supply or service was made or provided or facilitated.

An assessee or e-commerce operator fails to furnish the statement, the assessing officer has been empowered to issue notice for furnishing such statement. Such statement must be furnished by an assessee or an e-commerce within 30 days from date of serving of such notice (Rule 6 of Equalisation Levy Rules, 2016).

Section 168 of the Finance Act, 2016 – Processing of statement

A statement finished under section 167 by an assessee or e-commerce operator, such statement shall be processed by assessing officer. After processing of statement, if amount is payable or refundable, if any, shall be communicated or intimated to an assessee or e-commerce operator. Intimation issued after processing of statement shall be deemed to be a notice of demand.

Where any equalisation levy, interest, or penalty is payable after processing of statement, such intimation shall be issued in **Form 2** to an assessee or e-commerce operator. However, no such intimation shall be sent after the expiry of one year from the end of the financial year in which the statement or revised statement is furnished.

Section 169 of the Finance Act, 2016 – Rectification of mistake

Any mistake apparent from the record, assessing officer may amend any intimation issued under section 168 within one year from the end of the financial year in which the intimation sought to be amended. Assessing officer may amend the intimation either suo motu or on any mistake brought to his notice by an assessee or e-commerce operator.

> An assessee or e-commerce operator fails to furnish the statement, the assessing officer has been empowered to issue notice for furnishing such statement.

Before amending the intimation, assessing officer shall give an assessee or e-commerce operator a reasonable opportunity of being heard.

Section 170 of the Finance Act, 2016 – Interest on delayed payment of equalisation levy

Assessee or e-commerce operator has deducted the equalisation levy but fails to pay to the credit to the Central Government within the prescribed time limit mentioned under section 166 and 166A of the Finance Act, 2016, in such a case, assessee or e-commerce operator must pay simple interest at the rate of 1% of such levy for every month or part of the month.

Section 171 of the Finance Act, 2016 – Penalty (for failure to deduct or pay the equalisation levy)

Case 1

An assessee fails to deduct the whole or part of the equalisation levy under sec 166 of the Finance Act, 2016, or interest under section 170 of the Finance Act, 2016 then in such a case, assessee is liable to pay the penalty.

> Where any equalisation levy, interest, or penalty is payable after processing of statement, such intimation shall be issued in Form 2 to an assessee or e-commerce operator.

Penalty is equal to the amount of equalisation levy.

Case 2

An e-commerce operator fails to pay the whole or part of the equalisation levy under sec 166A of the Finance Act, 2016, or interest under section 170 of the Finance Act, 2016 then in such a case, e-commerce operator is liable to pay the penalty. Penalty is equal to the amount of equalisation levy.

Case 3

An assessee fails to remit the amount so deducted as equalisation levy on specified services under sec 166 of the Finance Act, 2016, or interest under section 170 of the Finance Act, 2016 then in such a case, assessee is liable to pay the penalty. A penalty of Rs. 1,000 is levied for every day during the continued failure. Further, such penalty shall not exceed the amount of equalisation levy.

Section 172 of the Finance Act, 2016 – Penalty for failure to furnish the statement under section 167 of the Finance Act, 2016

An assessee or e-commerce operator fails to furnish the statement (Form 1) as per section 167 of the Finance Act, 2016, then in such a case, penalty of Rs. 100 for each day is levied during which the failure continues.

Section 173 of the Finance Act, 2016 – Cases where penalty cannot be imposed under section 171 and Section 172 of the Finance Act, 2016

No penalty for failure to deduct or pay equalisation levy or failure to furnish statement shall be imposed, if any assessee or e-commerce operator, proves to the assessing officer that there was reasonable cause for such failure.

No order for imposing penalty shall be issue until an assessee or e-commerce operator has been given a reasonable opportunity of being heard.

Section 174 of the Finance Act, 2016 – Appeal to Commissioner of Income-tax (Appeal)

If an assessee or e-commerce operator is not agreed with the order of assessing officer then in such a case, assessee or e-commerce operator may appeal to the commissioner of Income-tax (Appeals) within a period of 30 days from the date of receipt of order of assessing officer. An appeal shall be filed in **Form 3** with accompanied by a fee of Rs. 1,000/-. It can be filed electronically using digital signature or electronically through EVC.

Section 175 of the Finance Act, 2016 – Appeal to Appellate Tribunal

If an assessee or e-commerce operator is not agreed with the order of Commission of Income-tax (Appeals) then in such a case, assessee or e-commerce operator may appeal to the Appellate Tribunal.

Similarly, if the Commissioner of Income-tax is not agreed with the order of Commission of Income-tax (Appeals) then in such a case, the commissioner of Income-tax may appeal to the Appellate Tribunal.

Appeal shall be filed within a period of 60 days from the date of receipt of order of Commissioner of Income-tax (Appeals). An appeal shall be filed in **Form 4** accompanied by a fee of Rs. 1,000. It can be filed electronically using digital signature or electronically through EVC.

Section 176 of the Finance Act, 2016 – Punishment for false statement

If a person makes a false statement or delivers an account or statement, which is false, and which he either knows or believes to be false, then in such a case, assessee or e-commerce operator shall be punishable with imprisonment for a term which may extend to three years and with fine.

Conclusion

There has been a substantial increase in the digital activity in India. Every individual, as well as corporate, is in receipt of some digital service provided by non-resident entities. However, the revenue generated by virtue of said services remains untaxed. To address the said problem, the Finance Minister introduced the concept of *Equalization levy* in the year 2016. With the introduction of such concept, untaxed income of non-residents can be properly taxed in India.

Dividend Payment and Stock Price Movement: An Analysis With Respect to Select Indian Firms

Researchers have divided opinions on the relationship between dividend payment and stock price movement. This study attempts to examine the nature and strength of association between dividend payment and stock price movement. Besides, the relationship between dividend policy and stock price volatility has also been explored. For the purpose of the study, a sample of 20 companies, listed in the Bombay Stock Exchange, has been chosen and the data for the period from 2010-11 to 2019-20 has been examined. The findings of the study suggest that an increase in the dividend payment leads to an increase in the stock price in the market and vice versa. The study also suggests that firms with greater stability in their dividend policy face lesser volatility in their stock price movement. Read on...

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Introduction

The impact of dividend decisions on the market price of the share has been a subject of long-standing debate. But still, there is no single definite result concerning the relationship between dividend payment and the market price of the stock. When a firm's earnings increase, the shareholders expect more dividends. But earnings are also a source of finance for the firm. The firm can see the impacts of such retained earnings in the form of a decreased leverage ratio, growth of activities, and rise in profit in subsequent years.

In contrast, if the firm distributes its earnings as dividends, it may need to raise capital through the capital market, which may dilute the ownership control of existing shareholders. If the firm takes a loan or raises debenture, it will affect the risk characteristics of the firm. But with the payment of dividend, shareholders' expectation is contented and as a result, their confidence grows. This increased confidence of the investors is expected to be reflected through the firm's stock price performance. Therefore, there are many dimensions to be considered on dividend theories, policies and practices.

Dividend, indeed, is the most exciting aspect of investment in shares of various companies for an investor. Even if dividend affects the firm's value, unless management knows how they affect the value, there is not much that they can do to increase the shareholder's wealth. So, the management must understand how the dividend policy affects the firm's market value or stock prices, or the wealth position of the shareholders. Thus, the present study seeks to find out whether dividend payment has any relationship with the movement of the stock price. Besides, we would also determine whether the dividend policy of a firm is associated with its stock price volatility. For achieving the desired objectives, relevant data of the past ten years of a sample of 20BSE listed companies have been studied and analyzed using various financial and statistical tools.

Literature review

There is a high debate among scholars and professionals on dividend policy and its potential impact on stock prices. In today's rapidly expanding in the stock market, organizations must establish the most beneficial policy related to dividend matters. An organization that wants to be the market leader needs to focus on dividend payout and dividend supervision issues. A lot of researchers have analyzed the impact of dividend payment on stock prices earlier.

The study conducted by Hasan et al. (2013) supports the dividend relevance theory as proposed by Prof. James E Walter and Myron Gordon. Besides, the studies conducted by Nishat and Irfan (2004), Masum (2014), Matthew et al. (2014), Maharshi and Malik (2015), Sharif et al. (2015), and Velankar et al. (2017) also indicated a significant positive impact of dividend policy on the stock price of a company. However, on the other hand, the findings of several past researchers like Hussainey et al. (2011), Hashemijoo et al. (2012), and Song (2012) showed a significant negative relationship between share price volatility and dividend payout.

It was observed that the previous studies gave contradictory results in this context. While some studies found a positive link between dividend policy and stock prices, some other studies found this link to be negative at a given time. Thus, to bridge this gap of divided opinions, the present work was undertaken to ascertain the nature and strength of association between dividend payment and stock price movement. The study also looks at the relationship between dividend policy and stock price volatility.The present study undertakes the following objectives:

- To ascertain the nature and strength of association between payment of dividend and stock price movement.
- To explore the relationship between dividend policy and stock price volatility.

Data and Methodology

Data type and source- The present study is based on secondary data. The company's financial data have been collected from respective annual reports and the moneycontrol database. Stock price data have been extracted directly from the BSE records. Relevant books and articles were consulted for building the conceptual framework of the study.

Sample selection- The study sample comprises 20 companies listed on the Bombay Stock Exchange. The companies have been selected based on their net profits because the dividend payment decision depends upon the surplus of a company. Thus, the first 20 companies on the basis of their net profits, as displayed in the moneycontrol database, were retrieved on 06/01/2021.

Sample period- Data from the past 11 years of the selected companies ranging from the financial year 2009-10 to the year 2019-20 have been analyzed in the present study to arrive at the desired objectives. Data on dividend payments are related to the period of 10 years ranging from 2009-10 to 2018-19, but stock price data are associated with the period of 10 years ranging from 2010-11 to 2019-20. It is due to the assumption that the dividend decision of a particular period will affect stock prices in the next period.

Data analysis tools- The data have been analyzed using different financial tools like ratio, percentage, etc. Further, statistical tools like mean, correlation coefficient, coefficient of variation (CV), etc. have been used. The daily closing prices of stocks were used to compute the average annual stock price as it is assumed that closing price is the sensation of the whole day. Face value of stocks of all the companies being not the same, Dividend Per Rupee Value of Share or DPRS and Average annual closing stock price per rupee value of share were considered being relative measures. Coefficient of Variation (a relative measure) has been considered instead of Standard Deviation (an absolute measure) to ascertain stock price volatility and stability in dividend policy. The results are presented through tables given below.

Methodology- In the present study, correlation analysis between average annual closing stock price per rupee value of share and DPRS of each of the selected companies was done to ascertain the nature and strength of association between dividend payment and stock price movement. An overall value of correlation between the said variables for all the selected companies taken together was also computed. Further, the CVs of DPRSs, DPSs and DPRs and the CV of closing stock prices (daily, average annual and average annual per rupee value) were computed to measure stability in dividend policy and stock price volatility respectively. Then the correlation between the computed CV of closing stock prices (daily, average annual and average annual per rupee value) and CVs of measures of stability in dividend policy (DPRSs, DPSs and DPRs) was done to explore the relationship between dividend policy and stock price volatility.

Results and Discussion

The relevant data of the selected companies have been analyzed, keeping the objectives of the study in mind. First, correlation analysis between the average annual closing stock prices per rupee value of shares and dividend per rupee value of share has been done to ascertain the nature and strength of association between dividend payment and stock price movement.

Here, Dividend per rupee value of share (DPRS)= $\frac{\textit{Dividend per share}}{\textit{Face value per share}}$

For each of the selected 20 companies, average annual closing stock prices per rupee value of share and DPRSs of the past 10 years have been computed at first. Thereafter, correlation coefficients between the two for each of the companies have been worked out. A single correlation coefficient for all the companies taken together has also been computed for ascertaining the overall nature and strength of association between dividend payment and stock price movement for all the sample companies. The resultant correlation coefficients are summarized in Table 1.

Table 1: Correlation between Average Annual Closing Stock Prices Per Rupee Value of Share and DPRSs

Companies	Correlation coefficients
TCS	.715*
Reliance (RIL)	-.268
HDFC	.981**
Infosys	.449
ITC	-.229
HDFC Bank	.949**
ONGC	.947**
Coal India	.047
Power Grid Corp	.735*
NTPC	-.375
HCL Tech	.185
Wipro	.901**
Ruchi Soya	.951**
Tata Chemicals	.659*
Hind Zinc	.702*
Tata Steel	.187
HUL	.849**
Larsen	-.719*
GAIL	.143
Power Finance	.119
Overall correlation coefficient= . 888**	

*Correlation is significant at the 0.05 level.

**Correlation is significant at the 0.01 level.

From Table 1, it was observed that only 4 companies, namely Reliance (RIL), ITC, NTPC and Larsen, showed a negative correlation, while the remaining 16 companies showed a positive correlation between the said variables. Therefore, we can say that the nature of association between dividend payment and stock price movement is positive for the majority of the companies.

The correlation was found to be positive and statistically significant at 5%level for TCS, Power Gird Corp, Tata Chemicals and Hind Zinc. Larsen, however, showed a negative correlation which was statistically significant at 5% level. HDFC, HDFC Bank, ONGC, Wipro, Ruchi Soya and HUL displayed positive correlation which was statistically significant at 1% level.

Further, the overall value of correlation, i.e., 0.888 was found to be statistically significant at 1% level. Thus, we can say that overall, the nature of association between dividend payment and stock price movement is positive and statistically significant. This indicates that an increase in dividend payments increases the stock prices in the market and vice versa.

Now, we shall move on to reaching our second objective. Consistency in either DPS or DPR of a company is the reflector of its stable dividend policy. To measure the stability (or instability) in dividend policy, the CVs of DPSs, DPRSs and DPRs were calculated. Further, the CV of closing stock prices (daily, average annual and average annual per rupee value) was computed to measure stock price volatility. The findings have been summarized in Table 2.

Table 2: CV of closing stock prices (daily, average annual and average annual per rupee value) and DPSs, DPRSs and DPRs

Companies	*CV of closing prices*			*CV of DPSs*	*CV of DPRSs*	*CV of DPRs*
	Daily	**Average (Annual)**	**average annual per rupee value**			
TCS	32.23	31.42	31.42	53.07	53.07	36.06
Reliance (RIL)	19.95	16.83	16.83	19.92	19.92	9.20
HDFC	45.55	38.60	49.59	43.77	31.86	8.01
Infosys	51.81	51.59	51.59	39.52	39.52	33.07
ITC	20.02	18.06	18.06	30.05	30.05	20.54
HDFC Bank	48.27	43.10	58.67	53.44	65.59	2.62
ONGC	88.71	85.41	44.21	71.35	29.67	24.14
Coal India	17.95	16.22	16.22	55.30	55.30	25.08
Power Grid Corp	28.14	28.75	28.75	64.62	64.62	22.29
NTPC	14.92	14.04	14.04	26.37	26.37	24.14
HCL Tech	40.78	39.26	39.26	58.43	58.43	51.88
Wipro	27.41	25.18	25.18	61.95	61.95	54.19
Ruchi Soya	74.91	74.72	74.72	103.71	103.71	156.05
Tata Chemicals	33.30	32.61	32.61	32.43	32.43	21.11
Hind Zinc	103.55	102.60	32.82	103.26	111.39	106.78
Tata Steel	27.48	24.83	24.83	19.31	19.31	33.79
HUL	59.59	61.64	61.64	39.95	39.95	17.47
Larsen	17.41	12.37	12.37	14.90	14.90	36.96
GAIL	23.69	21.83	21.83	19.21	19.21	16.56
Power Finance	39.62	38.31	38.31	54.30	54.30	60.07

All the values of correlation coefficients between the CVs of Stock prices and CVs of dividend policy measures were found to be positive. This indicates that if the stability in dividend policy increases, the stability in stock prices also increases.

To explore the relationship between stock price volatility and stability in dividend policy, the correlation between CV of closing stock prices (daily, average annual and average annual per rupee value) and CVs of measures of stability in dividend policy (DPRSs, DPSs and DPRs) were calculated. Table 3 shows the computed correlation matrix.

All the values of correlation coefficients between the CVs of Stock prices and CVs of dividend policy measures were found to be positive. This indicates that if the stability in dividend policy increases, the stability in stock prices also increases.

The correlation coefficients between CV of stock prices (average annual and daily) and CV of both DPSs and DPRSs were found to be statistically significant at 1% level. The correlation coefficients between CV of average closing annual price per rupee value of share and CV of DPSs and DPRSs, and the correlation coefficients between CV of stock prices (average annual and daily) and CV of DPRs were found to be statistically significant at 5% level. Thus, we can say that the more the stability in dividend policy, the less will be the volatility in stock prices.

Table 3: Correlation between CV of stock closing prices (daily, average annual and average annual per rupee value) and CV of measures of dividend policy (DPS, DPRS and DPR)

	CV of DPSs	CV of DPRSs	CV of DPRs
CV of Average Annual closing prices	**.765****	.620**	.550*
CV of Average Closing Annual Price Per Rupee Value of Share	**.526***	.467*	.360
CV of daily closing prices	**.756****	.603**	.532*

*Correlation is significant at the 0.05 level.

**Correlation is significant at the 0.01 level.

Source: Author's computation

Conclusion

The present study finds that the nature of association between the variables is positive, and the strength of association was found to be statistically significant. These findings are in line with the theories of James E. Walter and Myron Gordon and other researchers (Hasan et al., 2013; Nishat and Irfan, 2004; Maharshi and Malik, 2015; Sharif et al., 2015) who suggest that the dividend decision of a firm affects its market value.

Further, a positive correlation between the variables suggested that the more stability in dividend policy, the lesser the stock price volatility (Hussainey, 2011;Hashemijoo et al., 2012; Song, 2012).

It is so because when companies display consistent dividend histories, they often gain the confidence of investors as they believe that the business is performing well. The investors assume that the firm is a reliable

The investors assume that the firm is a reliable and safe investment venture. As a result, the share price of such companies is often found to be steadily rising in the market, owing to its high-demand among risk-averse individuals looking for stable investment ventures.

and safe investment venture. As a result, the share price of such companies is often found to be steadily rising in the market, owing to its high-demand among risk-averse individuals looking for stable investment ventures. Conversely, the companies choosing to retain their annual earnings for business development purposes fail to incite investors as investors often develop a mind-set that such businesses might have underperformed for a particular year.

Thus, it can be concluded that dividend payment is in a positive relationship with the market value of a firm. Moreover, a stable dividend policy is also desirable for attaining stability in stock price. In today's world, for achieving steady expansion in the stock market, organizations have to establish the most effective policy related to dividend matters. An organization that wants to be the market leader needs to focus on dividend payout and dividend supervision issues.

Lastly, some limitations of the present study, in the absence of which the discussion remains incomplete, should be referred to. It must be noted that there are several other factors, besides dividend, which affect the stock prices of a company. The impact of such factors has not been considered in the present study. The sample period and sample size are also insufficient to conclude on all aspects. The present study considers only the nature of the relationship between dividend payment and stock price movement. It does not measure the impact of dividend policy on the stock price movement of a firm, or the impact of dividend yield on stock price movement. Dividend yield is a financial ratio that shows how much a company pays out in dividends each year relative to its stock price. Historically, dividend yield ratio has been found to have negative impact on the stock prices. Addressing these issues will further help to improvise the study results.

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Detection of Debt Overhang - A Pragmatic Approach

Unsustainable debts create a problem for highly leveraged companies by making their potential investors more conservative about future investments. These companies face a financial crunch to invest in profitable projects due to the trap of debt overhang. Debt overhang obstructs the flow of new investment and leads to insolvency. Operating with high leverage is inevitable in many industries but a comprehensive measure to evaluate the possibility of debt overhang and its discloser is essential for the professional accountants in the current scenario. This paper evaluates some accounting ratios and suggests a regression model to detect debt overhang. Read on…

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Introduction

Every company has a unique composition of debt and equity capital which has a significant role in increasing its valuation and attracting more investment. Judicial use of debt is always appreciated by the shareholders because it may intensify their earnings through trading on equity. But contrary to their expectation, if earnings are not sufficient to cover the contractual payments, it may induce them to shift their fund to other companies which is called capital flight. As investing in a highly leveraged company always invites risk, investors expect return to be high, and if the company has an unsustainable level of debt with a high default chance, investors are not willing to invest in positive net present value projects on the ground that the company will try to settle past debt under compulsion by avoiding new investors' expectation. This is the essence of debt overhang which is nothing but a trap to close the door for inflow of funds as well as struggling with series of defaults in contractual payments which ultimately leads to the insolvency of the company.

Investment of a company may be diminished due to various reasons but when it is due to unsustainable debt and uncertainty of repayment, it is called debt overhang.

The concept of debt overhang was conceived by Myers(1977) in his book, *Determinants of Corporate Borrowings*. Debt overhang is a condition of capital structure where disproportionate debt is restricting new investments since the benefits of future profitable investment in firms are used to meet past debt and very little will be available for the shareholders. Later Krugman (1988) noted that debt overhang is also a country level problem which may restrict flow of investment in a country. Sebnem Kalemli-Ozcan et al. (2015) and Gianluca Antonecchia, Monica Ferrari (2016) have also found the empirical evidence of debt overhang in European firms after the financial crisis 2008.The problem of underinvestment could be diminished, by commitment to such investors that they would have prior claim on the cash flows arising from projects funded by them.

Heavy debt in capital structure does not mean debt overhang. If a company can generate sufficient cash flows from its operation to cover its contractual payments in due time, there is no debt overhang. When a heavily indebted company has short of cash flow generation and chance of default, the company cannot attract new investors even if the company has any profitable investment plan. Investment of a company may be diminished due to various reasons but when it is due to unsustainable debt and uncertainty of repayment, it is called debt overhang.

After the 2008 worldwide recession, sluggish investment was noticed in corporate sectors in the US as well as in many European countries. After 2008, Indian corporate debt has reached a peak in sectors like real estate, telecom, power, steel manufacturing etc. The role of credit rating agencies in reflecting the true credit rating in proper time is often questioned and the auditors are obviously blamed. So the diagnosis of unsustainable debt is not enough, but to detect whether it has already started to demotivate new investors and create the vicious circle of debt overhang is a more important requirement. In this respect, the role of professional accountants and auditors is going to be more critical and depending only on credit rating agencies will not suffice.

The Indian Accounting Standard 107 has laid down detailed guidelines for discloser of credit risk of financial instruments such as details of default, credit risk in terms of amount, timing and cash flow uncertainties, providing quantitative and qualitative information to evaluate credit exposure to users of financial statements etc. It has also stipulated the discloser of maximum possible credit risk without taking any collateral. The increasing probability of defaults can be reported through discloser norms but how it has changed investors' perception that should be judged through some additional studies and also very valuable information for all stakeholders of the company. Professional accountants can design such tools to evaluate the possibility of debt overhang and enrich discloser norms in respect of debt by disclosing how far a highly leveraged company is close to debt overhang.

Debt overhang has some consequential effects on other aspects of the financial health of a company. As debt overhang reduces investment growth so in due course, it affects the performance, sustainable growth and valuation of the company. As debt overhang affects the steady flow of funds

The diagnosis of unsustainable debt is not enough, but to detect whether it has already started to demotivate new investors and create the vicious circle of debt overhang is a more important requirement.

in the company, it may also affect its existing operations. Debt overhang may lead to a company towards insolvency. Therefore, earlier detection by accountants and caution by auditors will help the financial managers to take remedial measures like debt restructuring, debt rescheduling etc. Any imbalance in capital structure caused by debt overhang will deprive the company to take the advantages of wealth generating projects. This study is aimed to design a pragmatic approach by making a very conventional use of financial and analytical tools like ratio analysis to detect debt overhang.

Use of Accounting Ratios

For detection of debt overhang, a few accounting ratios can be used as analytical tools. Each of these ratios has some unique features to reflect debt overhang from different angles. According to Myers, long-term debt overhang is very strong and needs more attention from management so short-term debt may be a possible solution to deal with this problem. But Diamond and He (2014) have found that short-term debt may create stronger debt overhang in a downturn economy. So debt overhang in short as well as long-term must be judged while using suitable ratios. The present study suggests the use of the following ratios which may help accountants to recognize the nature of debt overhang.

1. **Investment (INV)**: The consistent decline of investment is the primary indication of debt overhang. So a suitable ratio to reflect investment in Fixed Assets must be selected. Conventionally, Fixed Asset/Total Asset, Fixed Asset/Equity etc. are used in financial analysis. But investment must be measured for debt overhang by adopting flow concept and by eliminating the depreciation effect on value of fixed assets. So the recommended ratio is Investment = (Increase in Fixed Tangible Assets between Two Accounting periods +depreciation) / Proprietor's fund (opening value)

   However, increase of intangible assets (like patents, intellectual property rights) may also be considered if the company has large investments in intangible Assets which may influence the investors perception and help in developing fixed tangible assets. In such cases, depreciation and amortization should be added and instructions of Indian Accounting Standard 26 should be duly complied with. While calculating increase in fixed assets, changes in revaluation reserve should be adjusted.

2. **Long Term Debt Overhang**: To measure long term debt overhang, the maturity of debt and repayment ability to outstanding debt must be recognized. For this purpose, the following two ratios can be recommended:

   a) **Debt in long term/ Total Debt (LTD)** : This ratio measures the portion of long-term debt in total debt and thereby it reflects the maturity effect in terms of contractual obligation in long term. Any increase of this ratio indicates that long term debts are employed in higher portion than short term debt.

   b) **[Total debt - Cash & Cash Equivalent] / Earnings before interest, tax depreciation amortization (REP)**: This ratio takes into account the cash flow in consideration. Deduction of cash and cash equivalent from total debt means the net outstanding debt and instead of using earnings before interest, tax, the use of

> As debt overhang affects the steady flow of funds in the company, it may also affect its existing operations. Debt overhang may lead to a company towards insolvency.

earnings before interest, tax depreciation and amortization also eliminates noncash items like depreciation and amortization. Any increase in this ratio means repayment ability is decreasing. This ratio is nothing but a ratio of financial leverage and is very popular for measuring credit risk by the credit rating agencies like CRISIL.

3) **Leverage :** The use of leverage ratio is very common in debt related studies. As it is used in many research studies, this study also includes the following ratio:

   Debt –Equity ratio (LV) = Long Term Debt/Equity

   Highly leveraged companies maintain higher debt equity ratio because the investors expect higher returns at the cost of bearing higher risk. But using this ratio alone cannot capture the debt overhang effect as this ratio does not include ability to repay debts and maturity effect. In empirical studies (John and Muthusami, 2011; Raveesh Krishnankutty, 2014), this ratio has a negative or positive effect on investment, but it only represents leverage effect and certainly not the debt overhang effect. Leverage generally has significant effect on investment so debt related studies always incorporate this ratio because very high debt equity ratio is prima-facie evidence of unsustainable debt which may lead to debt overhang.

4) **Short Term Debt Overhang**: Interest coverage ratio is a very common indicator of interest paying ability of a company. To assess the ability of a company to pay interest on debt, this ratio may be used as an indicator of short-term debt overhang by exploring its relationship with investment. This study uses this ratio just in a different form.

   Coverage (CV) = Interest/ Earnings before interest, tax depreciation and amortization.

   Any increase in this ratio means decrease of interest paying ability. The impact of depreciation and amortization is eliminated from earnings as it is non-cash in nature.

   To detect the debt overhang, a multiple regression model in the following manner has been set up

   $INV_t=\alpha+\beta_1 LTD_t+ \beta_2 REP_t+ \beta_3 LV_t+ \beta_4 CV_t+\varepsilon_t$....... Equation(1)

   where α= intercept β=regression coefficient , ε_t= stochastic disturbance term and t= year

   The significant impact of LTD, REP, LV and CV on INV can determine the real existence of debt overhang.

Steps to apply the model

The model can be applied to reveal the debt overhang through the following steps:

1) Identify the company having higher leverage and fall of investment rate for a considerable period of time.
2) Identify the study period by following the graph showing the fall in investment growth.
3) Collect data of such a company from reliable sources and construct the above-mentioned ratios. Conduct data-related tests like Autocorrelation, Multicollinearity, Heteroskedasticity, etc.
4) Determine the descriptive statistics of each ratio to be used in this model and compare them with their industry averages to find out any serious deviation from the industry average.
5) If the descriptive statistics show any symptom of unsustainable debt, then also follow the credit ratings given to that company by the credit rating agencies.
6) Thereafter, run the multiple regression model with the collected data mentioned in Equation, If data related problems are there then take robust measure.
7) Justify the impact of each independent variable on investment by analyzing the significant coefficient values.

> While detecting debt overhang, accounting professionals should pay more attention to the debt default chances and study the cash flow pattern to perceive the reasons of debt overhang.

If investment falls due to the significant effect of the debt-related independent variables, then perform the Granger causality test to confirm the causal effect of the independent variables on investment.

8) Conclude about the existence of debt overhang and its nature (i.e., short-term or long term, or both).

While detecting debt overhang, accounting professionals should pay more attention to the debt default chances and study the cash flow pattern to perceive the reasons of debt overhang. If the periodical accounting reports disclose the above ratios for the current and some past periods as a part of debt sustainability reports, then the above econometric model will enable the accountants to assess the very existence of debt overhang. Again, continuous monitoring of these ratios through the above model will also enable the management to reduce the dependency on credit rating and auditors may include caution statement if any abnormal trend of these ratios has been noticed by them, to ensure transparency of discloser. To rescue a company from debt overhang trap, accounting discloser and statistical techniques should work together to caution the management before any unexpected degradation of credit rating.

Conclusion

Debt related issues are going to be more critical in sectors like Real Estate, Aviation, Power, Steel and Telecom among others. The non recognition of debt overhang trap for a long period has made the situation very tough for the management to deal with, because if a company is at the point of insolvency, it is almost impossible to restructure debt and restore inflow of fund within a short period. So the diagnosis of debt overhang on a suitable basis and its discloser are not only important for internal management but also for other stakeholders. Once this problem is detected, all the operational and financial creditors will negotiate with the management of the company for designing proper debt restructuring policy in their own interest. And if the company lost its investment opportunities, it is not possible for the company to meet their claims. Similarly, new investors may also infuse funds if the company can reschedule and restructure their past debt.

The study does not recommend any ideal or standard for debt related ratios because it must be industry specific as well as company specific but it suggests studying the impact of debt on investment at regular intervals. Mere discloser of credit rating or values of some conventional debt ratios will not suffice under the new regime but additional discloser regarding debt sustainability report together with its effect on investment may serve the purpose of saving the company from debt overhang. The present study has developed a model to detect debt overhang through some conventional accounting ratios but there is ample scope to develop better ratios to make the purpose more fruitful. Accounting professionals may use this model to get an insight of debt position and its possible impact on investment. They can detect the curse of debt overhang trap and through innumerable case studies, they can also develop other ratios and more developed models to serve the purpose.

> "The diagnosis of debt overhang on a suitable basis and its discloser are not only important for internal management but also for other stakeholders.

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Thematic Investment – Era of Substantial Wealth Creation

Thematic Investment has now become a global preference for substantial wealth creation. Investors are investing based on a strategy that suits them. Potential investors are opting for diversified strategies to create risk free, as well healthy portfolios which generate real growth and value in wealth. To exploit extra funds to yield capital, always think of value investing and growth investing. Thematic Investment has grown to become a valuable strategy to generate substantial wealth and financial synergy. Thematic Investing is a technique to build a healthy investment portfolio which generates higher returns because of its diverse research on the market. Read on…

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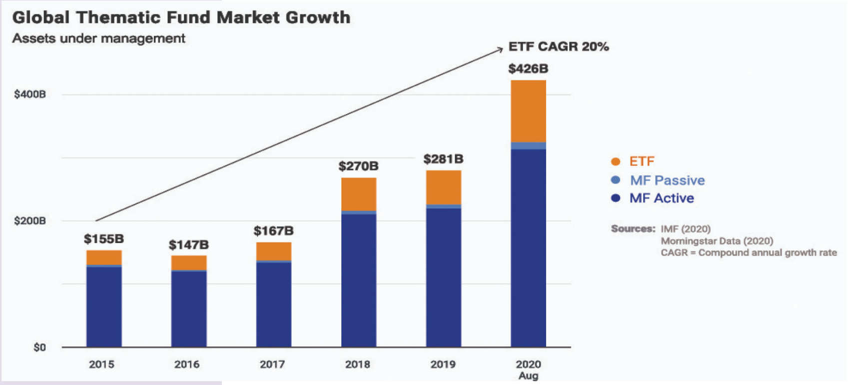
There are several companies whose services and way of providing services influence our lives or their vision correlates with our belief. In the current scenario, Artificial Intelligence and Fin-Tech sectors seem to have substantial and sustainable growth. Various sectors like electric vehicles, renewable energy, automation are visibly expanding and making record growth year after year. When it comes to investing, there are many companies that match with your ideas, but you might face a challenge in selecting the right stock at the right time within the respective sectors. It is very complex to determine a realistic value of a stock and difficult to identify whether the stock is overvalued or undervalued. If you are stuck in this situation, then **Thematic Investment** would be the best selection and solution. The Global Thematic Fund Market is already soaring above $420 billion.[1]



1. *Global Thematic Fund Market Growth Source: - IMF (2020) & Morningstar Data (2020)*

What is Thematic Investment?

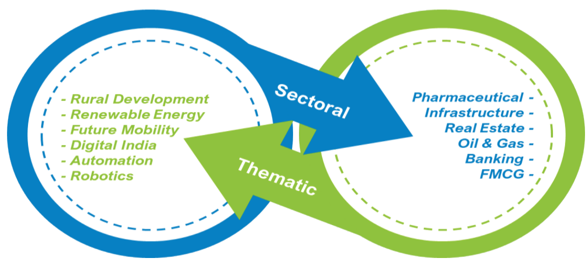
In a broader prospective, **Thematic Investment** means to invest in a certain group of companies which are involved in areas that are anticipated to generate greater market returns over a long period. Thematic Investment is an investing methodology where we identify significant opportunities or invest in latest trends without much efforts to pick an individual stock. For instance, if you believe Finance Technology (Fin-Tech) will have robust growth and opportunities in the coming years, you can choose to invest in those companies or stocks which are explicitly related to that sector.

Most of the time, the investor does not have a proper structured investment portfolio despite having the perfect investment methodology because of the lack of proficiency and time. Thematic investing resolves the issues and helps the investor to recognize the options to invest in trends or companies that can match with your ideas. The primary clarification which everyone has to understand is that thematic funds are not different from mutual funds, they are merely based on specific ideas, trends or themes that can varies from investor to investor. No doubt thematic investment provides diversified benefits along with higher returns with lower risk against market return. One major risk which is associated with theme-based investment is equivalent to putting all the eggs in a single basket i.e., if the basket falls, all the eggs would break. We discuss these advantages and disadvantages in detail in this article.

How Thematic Funds differ from Sectoral Funds

Sectoral funds are known to invest only in specific sectors such as Technology, Oil & Gas, Finance, etc. Sectoral funds are bound to invest a minimum of 80% of their assets in the specified sectors and the remaining 20% can be allocated to other debt or hybrid securities. Thematic funds are those that invest in stocks based on a particular theme. These funds invest across sectors that follow a specific theme. Thematic funds must invest 80% of their assets in stocks of a particular theme, across different sectors. Sectoral funds may come in different types, varying in market capitalizations, investment objectives and set of securities. These funds aim to provide exposure to certain specific sectors that otherwise lack investors' attention in terms of market sharing. Thematic funds invest in sectors of varied themes such as multi-sector, international exposure, export-oriented, rural India, etc.

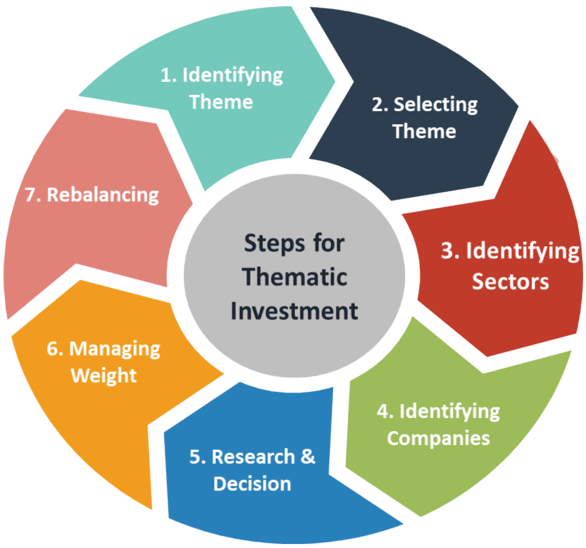
> "Thematic Investment means to invest in a certain group of companies which are involved in areas that are anticipated to generate greater market returns over a long period.



How Thematic Investing Works

Thematic Investment is not limited to identify the broader macro level trend of business or sector thereof, but it is a broader approach to identify financially sound as well sustainably growing companies that have business models based on selective themes or particular ideas. It is wise to study and research the theme in which you are interested and set benchmark risk and performance against the market. For creating a sound thematic investment strategy, either you make your own strategic portfolio or select thematic funds from various Exchange Traded Funds (ETFs), using Thematic Investing to construct a portfolio around your ideas.

A creative and systematic approach to Thematic Investing is the top-down approach which primarily identifies the macro level trend and then follows it to the micro level trend. Fundamentally, the process analyses the macro factors like government policies, targeted schemes, monetary policies etc. to identify sectors where we can make investments and identify companies which stands to profit from the trend. There are thousands of strategies, investment theories and approaches followed across the globe. To make a wealthy thematic portfolio, the following steps are recommended as discussed below:



In the upcoming discussion, let us analyse the steps to build a creative and systematic approach to thematic investing in detail.

1. Identifying Themes

First and foremost, we have to identify trends which are growing and anticipate the future of that. For example, if you have reason to believe that Artificial Intelligence is the future and it would extend to every sector, then it could be your idea or strategy to pursue this trend. Similarly, one can make broader strategies or themes to invest therein. For instance, you may be interested to invest in Machine Learning/ Artificial Intelligence, Future Mobility, Robotics or Fin-Tech companies across the globe. Even broader sectors like Renewable Energy, Electric Vehicle, Space Communication, Biotechnology and Water Management can be a part of thematic investment.

Once the trend or theme is identified, then there are few more factors that need to be understood precisely. First, is to identify the theme's structural nature. Does it have long term implications or just short term? Does the theme have a unique feature and have a visionary approach? Does the trend behave distinctly in certain areas and geographies? As a first step you refine out the themes that you believe in.

Everyone has different ideas, opinions and convictions for the future. Hence, a one idea/ strategy fits all approach is not the best way to investing. It is ideal to invest in several themes that you believe will perform well in the future. It gives you an opportunity to leverage on your ideas without having to go through the herculean task of stock research.

2. Selecting Themes

Choosing themes is really simple. Although we have countless themes surrounding us, we can select the foremost theme with certain criteria and factors. Keeping in mind the wide variety of parameters that people use to pick investments themes, key information about each theme have been displayed which will help to make the best possible investments. The following parameters are derived to build effective themes after considering the factors which may particularly to be considered at the time of selecting stocks/ shares for investment.

i. **Annual Growth**: Good periodical growth in sectors or industries is always relevant to determine future strength of respective industry or companies. Compute historical Annual growth and look into the aggregate investment budget that have been allotted for those respective sectors or industries.

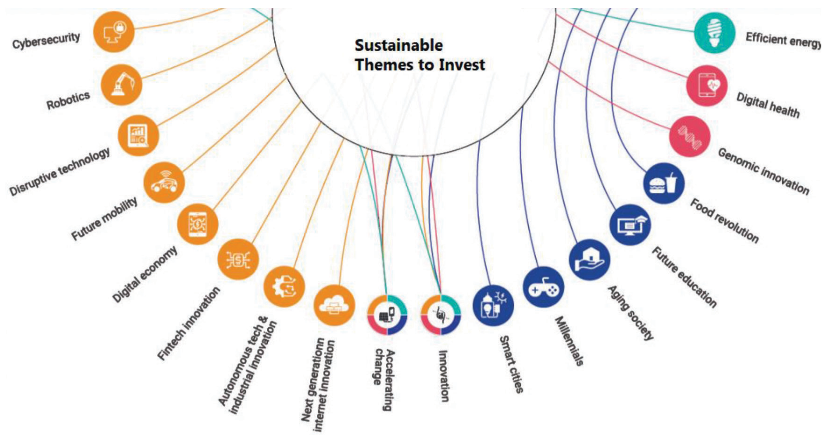
ii. **Government Policy**: Before selecting the theme, always make sure of the existing political scenario with respect to such sector and determine whether the industry is stable. It is always recommendable before selecting the theme to consistently validate that existing schemes and announcements must be beneficial over a long period of time.

iii. **Breaking Down a Theme**: It is better to look at themes thoroughly and determine contribution from sub-themes and connected industries in your principal themes. Let us discuss with an instance. Future Mobility is a broader theme and herein it includes High Speed Transportation, Vehicle Automation and Highway Automation as a sub-themes that also you can opt in the thematic fund basket for thematic investing.

> Thematic funds are those that invest in stocks based on a particular theme. These funds invest across sectors that follow a specific theme.

iv. **Investor's Preference**: Investment by FII's or FPI's show the worth and trust of large foreign players in the respective sector or industry. High investment in sectors and industries denotes that investors have prime choice and long-term growth vision with that industry. Identify the sectors which are a prime choice at larger level for investment.

v. **Differentiation:** The portfolio is additive to an investor's existing equity portfolio, i.e., the overlap with traditional equity benchmarks is minimal. The portfolio also stands out among peers by offering a unique play on a theme of choice through differentiated geographical or sectorial exposure, expertise, or compelling strategy construction.



3. Identifying Sectors

After analysing the perfect theme, one needs to look at all the sectors/ divisions which can potentially benefit with the occurrence of this long-term trend. For instance, we have identified Digital India as a future trend in technology revolution. Sectors such as, **Automation, IT Infrastructures, Electronics, Computers, Software Robotics** and **Artificial Intelligence** stand to benefit from upliftment of technology. Sectoral allocation of fund is relevant to perfectly identifying the exposure to specific companies. We must focus on all those sectors which can directly or indirectly grow with overall performance of the core companies involved in the trend.

Sectoral Investing is a time-tested way to not only diversify your portfolio but also take advantage of sector specific trends to suit your investment objectives. To identify sectors, foremost focus must be analysed in several time frames. Thus, one can pick sectors that are not just performing well at the moment but have been showing strength over a long period.

4. Identifying companies

Following up, the investor identifies those companies that have capabilities and potential to be the market leader and lead the way ahead for those particular sectors capitalizing the first-mover advantage. Perfect allocation of stocks in the portfolio is also a crucial stage that is discussed subsequently in the managing weight section. These bets would be more from an opportunistic point of view rather than a fundamental point of view.

One has to acknowledge that not every company shall benefit from the theme. Only companies that make quick decisions, efficient strategies, adequate upgradations and accept challenges shall benefit exponentially. Timing is one of the most important factors in every investment opportunity strategy. Patience is the key to enhance the value of the portfolio with long term returns and growth. Although, these themes could postpone the victory if quick and effective decisions are not taken on time. Companies that have strong historical growth, strong profit margins or earnings, strong return and strong performance, can be an integral part of Thematic Investing.

Selecting companies is always a key stage and requires additional attention to understand the historical financial position and anticipate future financial growth of such entities. There are numerous factors which entail to determine financial aspects which differ from investor to investor. Let's take an instance of an investor who is more interested in earning returns in the form of dividend and another investor who is inclined to long term value addition of their principal investment. Sometimes an investor focuses more towards *forward Price to Earning* followed to

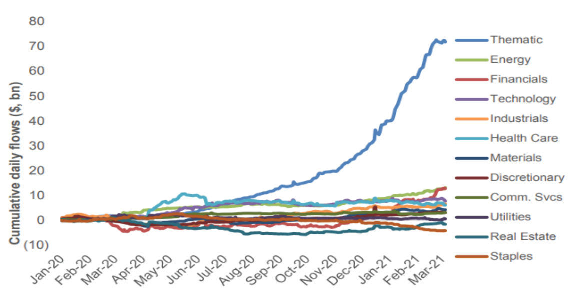
> "Sectoral Investing is a time-tested way to not only diversify your portfolio but also take advantage of sector specific trends to suit your investment objectives.

Dividend Yield. Several authors prescribed several theories to analyses of financials aspects of any company. *Value Investing, Growth Investing* or *CANSLIM* are a few renowned strategies. Author's Strategies like *Altman Z Score* or *Zeta Model, Piotroski F – Score, Modified C- Score (Montier's C – Score)*, fundamentally relevant to determine the financial strength of the company and ascertain the risk of manipulation of financial data.

5. Research and Decision

Research different themes, sectors, industries and companies, then compare and benchmark them against other investment asset classes. Other asset classes could be investments in debt funds, risk free investments, equity or mutual funds etc. Debt funds include Debentures and Bonds. While benchmarking, make sure you also compare the risk (volatility) of the theme against the industry or market. You can then proceed to configure the portfolio as per your preferences and risk profile. Peer comparison is always recommendable to analyse those companies which operate in similar industries but are distinct in growth and performance. At the initial stage of research always be more focused towards stability and sustainability of companies, industries, sectors and themes.

Sector ETF flows since Jan 2020. Data as of Mar-5, 2021.



6. Managing Weight

After Research and Decision, the key stage is to set weight for those industries and companies we are considering investing in. You may consider a market-cap-weighted or risk-weighted distribution of stocks/ ETFs in the theme. However, depending on your risk appetite, you may shuffle and customize your portfolio from time to time. **Transparency, investability and discipline** in portfolio is constructed for scalability and liquidity. A strategy of choice should also demonstrate discipline in the investment process and time consistency so that investors can efficiently manage their investment.

> "Only companies that make quick decisions, efficient strategies, adequate upgradations and accept challenges shall benefit exponentially.

7. Rebalancing

It is always commonly commendable to rebalance your portfolio periodically to generate optimum returns with balance risk. As the constituent performance diverges, you should update your portfolio to align the weights to the initial strategy. The idea is to ensure that the stock portfolio always tracks the underlying theme. Rebalancing does not mean to change or modify the complete portfolio which was created originally, it is only to modify weight in under performing stocks. You have two options either to replace existing stocks with new ones or divestment in an underperformed company.

You may also get exposure to thematic investments through ETFs that invest in a particular theme or sector. For example, the Vanguard ESG U.S. Stock ETF (ESGV) allows investors to get exposure to ESG investing. ETFs' benefit is that you don't have to worry about deciding the weights of stocks or rebalancing. There is less flexibility on the flip side, and you cannot remove a stock that you may not like.

Advantages of Thematic Investing

While thematic investments are concentrated in a sector, they offer a diverse exposure compared to investing in only single stock. Investor can also further reduce risk by creating a portfolio of multiple themes. The following are the few advantages which are acceptable globally:

1. Invest in the idea which you love, and it would always yield capital with higher returns. One of the primary intentions to choose thematic investing is to earn much higher returns than sectoral or mutual fund-based investing. It gives market beating return subject to select the right theme at the right time. It is a principally easier and transparent way to invest in companies which match with your ideas and beliefs.

2. Thematic investment involves diversified research of market, industry, sectors or companies which potentially make a robust portfolio structure. Mainly strengths of theme-based investment are that it is much more explored and collate with

other popular investment strategies. Thematic investment offers more diversification as compared with sectoral or mutual funds.

3. Thematic investing focuses on investing in few companies, but the return would be higher than the overall industry or sector. For instance, Compounded Annual Growth Return (CAGR) of few selected Renewable Energy or Automation based companies is much better than overall NIFTY index. Due to its futuristic approach, it helps investors to invest in **'Businesses of the Future'.**
4. Unlike mutual funds which provide ample diversity, thematic style of investing provides intense vulnerability to ideas, themes, policies, governance structure etc. and investment in companies providing very bounded diversification.
5. Under the research phase, investor understands the impact of all trends pertaining to various sectors or themes which provide an ample opportunity to anticipate future growth results of respective sector or companies. Thematic investing approach is best suited for those investors who have expertise and skills to understand different sectors and business.
6. Thematic investing provides exposure to various themes that can be identified, analysed, supervised and quantified. It persistently focuses on movements and changes in the world. Thematic investing strategy is proven as investment hedge to optimize market risk and maximize return.
7. Thematic investing allows investors to generate excessive synergy in their portfolio. Investors can generate excess return over its benchmark which is called *Alpha*.

Disadvantages of Thematic Investing

There are certain restrictions and limitations of Thematic Investment which may harm our investment portfolio adversely and reduce value in future. Certain factors we cannot control or anticipate at the time of selecting theme, those factors are always need to be monitored periodically. For instance, suddenly governance transformation and restrictions on a particular policy or making retrospective modifications in existing policy which may adversely affect selected sector or companies. Because of high volatility in thematic investment, it is advisable for retail investor not to invest the whole fund herein.

> Thematic investment involves diversified research of market, industry, sectors or companies which potentially make a robust portfolio structure.

There is a high risk involved in thematic funds as investors are entirely dependent on a particular idea or theme which may or may not generate returns, especially during adverse market rotation. As mentioned in former discussion, this is equivalent to putting all your eggs in one basket, if the basket falls, all eggs break at once. Under thematic investment, expense ratio like management fees, analyst charges would be higher because management or analyst devotes time on deep analysis and strong research on sectors, industries and companies to build attractive portfolio with high growth and return. One of the key challenges, as discussed earlier, is that even after successful research on identifying themes and investing therein, investors get negative return on the themes. Principally no one can assure that thematic investment always generates positive return or accelerates long term growth. There are numerous instances of growing industries or companies which underperform or outperform without any indications.

Conclusive Opinion

Investing for Future via Investing in the Future - Over the past few decades, we have seen many revolutionary reforms in the economy which have given eminent investment opportunities and given prestigious options to build wealth systematically. Thematic investing is all about emerging opportunities that can offer better returns and delight to the investor. The investment with Thematic Investing methodology is in huge demand and rising every day. A successful thematic portfolio is about picking baskets of thematic investments rather than a single stock. With futuristic vision, adequate business knowledge and systematic approach to analyse future trends, investment in theme capitulates long term growth and add-on to the value of wealth. Thematic investing can give high returns, high synergy and high performance provided the investor follows the right approach.

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Decoding of Payment Aggregator and Gateway Guidelines of Reserve Bank of India

Technology is an inevitable tool and almost every organization has adopted it to move onward with digital transformation. Digitalizing the process, undoubtedly has facilitated a smooth and effective process of business operation for the entrepreneur, especially for timely execution of tasks including finance settlement. Innovation in the finance sector has shown drastic improvements in the last two decades unlike earlier with minimum payment options whereas now-a-days, various payment instruments and modes are available for immediate payment settlement. In fact, it is the outcome of available infrastructure and resources leveraging the skill set of the nation's technocrats. Payment Aggregators and Gateways are milestones for leveraging the next level of innovation, improvisation and better advancement in the financial segment of the country. Read on...

CA. Subash Thakuri

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Background

In the early 2000's, the country witnessed drastic changes in user confidence with internet and mobile banking. With innovation, the orientation of the entire payment industry has substantially enhanced functionality. The development is followed by the setting up of the Board for Regulation and Supervision of Payment and Settlement Systems (BPSS), formulation and implementation of Payment and Settlement System Act, 2007 read with Payment and Settlement System Regulation, 2008 in addition to establishment of Department of Payment and Settlement in the Reserve Bank of India, as a guiding, licensing and regulating unit of the Payment Industry in India. Subsequently, to leverage the ongoing innovation in terms of financial sector, the Reserve Bank of India issued 'Directions for opening and operations of Accounts and settlement of payments for electronic payment transactions involving intermediaries' in late 2009 to guide the market operators involved in payment settlement and facilitation unit. Further, it took a decade's time

Banking & Finance

> Digitalization of payment realisation process is undoubtedly a welcome step in the finance sector as the process has drastically reduced the effort and time to process payments at a click.

for the Reserve Bank of India for institutionalization of earlier issued directions, to issue full-fledged directions as draft in 2019 for public comments, and finally issued Master Direction for Guidelines on Regulation of Payment Aggregators and Payment Gateways dated 17th March, 2020 as implemented source documents for licensing, guiding and managing the operation module of these entities. It is observed the regulator has taken abundant time to understand, experience the process and develop the regulatory framework for such entities in the market to establish safe, secure, reliable and authentic system participants in the Payment Industry.

Scheme

Digitalization of payment realisation process is undoubtedly a welcome step in the finance sector as the process has drastically reduced the effort and time to process payments at a click. Therefore, it is pertinent to understand the involved stakeholders to execute an online payment transaction, precisely seller (merchant), customer (buyer), customer's bank/wallet account, acquiring bank, the bank having the nodal account, IT and communication hardware/software, middleware, security system, payment gateways and payment aggregators, collectively. On the other hand we need to understand the means of payment which can be credit card, debit card, bank account, wallet, unified payments interface etc. Depending on payment mode used, additional players like card networks, NPCI, banks offering net-banking services, banks/non-banks issuing wallet, etc. may be part of the payment chain.

Understanding the PA/PG

Payment Aggregator (PA) are companies registered under Companies Act, 2013 with an object to do payment aggregation business which facilitate the e-commerce sites and merchants to accept payment from customer, pool and transfer them on to the merchants after a time period for completion of customers payment obligations. In short, it is an institution which for time being holds money from users against the closure of transaction in between user and merchant and only then settle the payment in respective merchants' account. Similarly, Payment Gateway (PG) are companies incorporated under the Companies Act, 2013 with an object to technology developments. These companies provide core technology infrastructure to route and facilitate processing of an online payment transaction in between participant stakeholders without involvement in handling of funds. In fact, Payment Gateway as the name suggests is the path of an encrypted safe and secure communication channel in between stakeholders to materialize the transaction towards closure of event. Unlike earlier, the issued guidelines mandate existing market players on this activity to obtain the Certificate of Authorization by 30th September, 2021 from the Department of Payment and Settlement, unit of Reserve Bank of India (RBI).

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Difference between Payment Aggregator and Payment Gateway

Basis	Payment Aggregator	Payment Gateway
Definition	Entities that facilitate tripartite money management for consumption of services, goods or both	Entities that provide technology infrastructure to route and facilitate processing of an online payment transaction
Industry	E-commerce and Merchant to accept various instrument from customers	Open for all
Money	It holds money	It does not hold money
Process	It receives payments from customers, pools and transfers them on to the merchants after a time period	Collects information on cipher text, transfer between sender, receiver and involves stakeholders to materialize the execution on a secure platform
Technology Baseline	Pool Fund Management Company with Baseline Technology of Payment Gateway	Core Technology Company

Authorization Requirements

Entities whosoever planning to enter this business should first incorporate the company as per the provision of Companies Act, 2013 with an object to perform such business. The board of directors shall be aware of business modality, vertical and operating guidelines with fit and proper criteria of Reserve Bank of India. Company should possess the required capital adequacy as well as proper business usage case to get the approval from Reserve Bank of India. Company, being an applicant should file an application to Department of Payment and Settlement in RBI on Form A, prescribed in Payment and Settlement System Act, 2007 (amended 2015) read with its Payment and Settlement System Regulation, 2008 in addition to issued circular and amendment made on it from time to time. Pertinent issues to be acknowledged and addressed upfront before proceeding for application are listed below:

a. Applicant must be company incorporated under Companies Act, 2013 with an object of doing proposed activity of operating as PAs/ PGs business.

b. Applicant being company if regulated by any of the financial sector regulators shall apply with a 'No Objection Certificate' from their respective regulator, within 45 days of obtaining such clearance.

c. Minimum capital requirement of applicant before application to RBI shall be at least INR 15 Cr as per its latest audited financial statement subject to made this net-worth INR 25 Cr by the end of third financial year of grant of authorization.

d. Applicant shall maintain Payment Card Industry – Data Security Standard (PCI-DSS) and Payment Application – Data Security Standard (PA-DSS) compliance of the Infrastructure.

e. Applicant needs to maintain escrow account with any scheduled commercial bank (maximum two accounts allowed with two different scheduled commercial banks), known as *Designated Payment Systems* under section 23A of the Payment and Settlement System Act, 2007 (as amended in 2015).

Though its PAs business or PGs business, emphasize precisely more on core technology innovation and involvement. Therefore, base line technology is mandated to be adopted and the business vertical is more centric to technology.

Governance Aspects

Payment Aggregator and Payment Gateway are two different entities, with its own crucial and critical business

> RBI has issued direction and guidelines for the adoption of KYC norms and requirements which is applicable to PA/PG to formulate in the course of action as a counter-move to combat with money-laundering, financing of terrorism and so on.

operation modality and both have been authorised and licensed by the Reserve Bank of India always requiring maintaining governance in the operation of business process. Non-adherence of issued guidelines and set of regulations will trigger the monetary penalty as well as cancellation of license to operate as PAs or PGs, as the case may be.

Starting with the Board of Directors (BOD) of entity, it needs to be professionally managed. Promoters of the entity should satisfy the fit and proper criteria prescribed by RBI. Criteria states that such person should have a record of fairness and integrity, including but not limited to financial integrity, good reputation and character and honesty. Applicant shall disclose comprehensive information regarding merchant policies, customer grievances, privacy policy and other terms and conditions on the website and/or their mobile applications. Board shall have approved policy for disposal of complaints/dispute resolution mechanism/time-lines for processing refund, turn-around time for resolution of failed transaction as per RBI direction.

Agreement between PAs, merchants, acquiring banks, and all other stake holders shall clearly delineate the roles and responsibilities of the involved parties in sorting/handling complaints, refund/failed transaction, return policy, customer grievance redressal (including turnaround time for resolving queries), dispute resolution mechanism, reconciliation, etc.

Applicant shall appoint Nodal Officer responsible for regulatory and customer grievance handling functions. And the details of such Nodal officer shall be disclosed on their website. It is part of governance initiatives as an outcome of Customer Grievance Redressal and Dispute Management Framework in PAs business.

Besides all these, any takeover or acquisition of control or change in management of entity shall be communicated by way of letter to the CGM, Department of Payment and Settlement Systems, RBI within 15 days with complete details. It is important to note that no threshold limit is prescribed by RBI.

The Know Your Customer (KYC) is a crucial aspect of governance for any entity. Hence the RBI has issued direction and guidelines for the adoption of KYC norms and requirements which is applicable to PA/PG to formulate in the course of action as a counter-move to combat with money-laundering, financing of terrorism and so on.

Reporting Requirements

Reserve Bank of India (RBI) has categorised the reporting requirements on periodic terms say monthly, quarterly, annually and event-based reporting.

Payment Aggregators (PAs) are required to submit the report of "Statistics of Transaction Handled" by 7th of next month as per given format.

Auditor shall certify regarding the maintenance of balance in Escrow Account and bankers provide the Certificate on Escrow Account Debits and Credits (Internally audited) by the 15th of the month following the quarter end.

In terms of annual reporting, entity should report the net worth certificate along with audited annual report by 30th September. In addition to this, applicant is required to submit Information System Audit Report and Cyber Security Audit Report with observation noted, if any including corrective/preventive action planned with closure by 31st May from the closure of Financial Year.

Declaration and undertaking by the Director under the changes in Board of Directors as and when change happens. Over and above, entity is required to report Cyber Security Incident Report with root cause analysis and preventive action undertaken by 7th of next month of incidence.

Security, Fraud Prevention and Risk Management

It is a crucial part of the entire gamut of PA/PG business stipulated by RBI. Undoubtedly the applicant should frame a strong risk management system to meet the challenges of fraud and ensure customer protection. Applicant is required to place adequate information and data security infrastructure and systems for prevention and detection of frauds. Importance of implementation and regular monitoring of security, emphasizes the requirement of Information System Audit Report including cyber security audit conducted by CERT-In empanelled auditors within two months of the close of their financial year to the respective Regional Office of Department of Payment and Settlement System, RBI.

Baseline Technology

Reserve Bank of India (RBI) places the baseline technology framework for the participating entity in this business vertical either as PAs or PGs, to adopt and implement. The prescribed set of technology framework is bare minimum which is most to adopt and implement in system. However, much more powerful and advanced technology can be inbuilt but not below the set given by RBI. Therefore, it can be understood as a benchmark technology framework of RBI for PAs and PGs business in India.

a. Applicant at a minimum shall carry out comprehensive security risk assessment of its people, IT, business process environment, etc. to identify risk exposure with remedial measures and residual risks.

b. Data security standards and best practices like PCI-DSS, PA-DSS, latest encryption standards, transport channel security etc. shall be implemented.

c. Any data breach event in terms of card holder or anything else are serious matter and its threat on security, must be reported to RBI within stipulated timeframe.

d. Applicant shall undertake comprehensive security assessment while onboarding the merchant to ensure these minimal baseline security controls.

e. Company shall carry out and submit to the IT Committee quarterly internal and annual external audit reports; bi-annual vulnerability assessment/ penetration test reports, PCI-DSS including attestation of compliance and report of compliance.

f. Board approved information security policy in alignment with business

Reserve Bank of India (RBI) places the baseline technology framework for the participating entity in this business vertical either as PAs or PGs, to adopt and implement.

objectives, scope, ownership and responsibility for the policy, information security organizational structure, maintenance of asset inventory and registers, data classification, authorization, expectations, knowledge and skill sets required, compliance review etc. shall be incorporated and must be reviewed at least annually.

g. An IT Policy shall be framed for regular management of IT functions and ensure that detailed documentation in terms of procedure and guidelines exist and are implemented. It shall have involvement of Board, IT Steering Committee, Enterprise Information Model, Cyber Crisis Management Plan as Governance Framework for IT Policy.

h. Applicant shall maintain an 'enterprise data dictionary' incorporating the organization's data syntax rules in order to enable sharing of data across the application and systems.

i. Risk assessment shall, for each asset within its scope, identify the threat/ vulnerability combinations and likelihood of impact on confidentiality, availability or integrity of that asset – from a business, compliance and/or contractual perspective.

j. Access to application has thumb rule across the Industry, to be facilitated on the principle of least privilege and 'need to know' commensurate with the job responsibilities, is requirement of applicant to adopt and implement in its platform.

k. Resources are trained with requisite skills set for IT function and periodically assessed for the training requirements for human resources.

l. Vendor risk management is required for technology support, including BCP-DR and data management.

m. Entities shall consider assessing its IT maturity level, based on well known international standards, design an action plan and implement the plan to reach the target maturity level.

n. Applicant shall adopt and implement strong encryption algorithms.

o. Security events from the entities infrastructure including but not limited to application, servers, middleware, endpoint, network, authentication events, database, web services, cryptographic events and log files shall be collected, investigated and analysed on regular intervals, then either enhanced or made proactive for identification of security alerts.

p. Entities shall take preventive measure to ensure storing data in infrastructure that do not belong to external jurisdiction.

q. Customer card credentials shall not be stored within database or the server accessed by merchant.

r. Option for ATM PIN as factor of authentication for card not present transactions shall not be given.

s. Refunds in case of failed transition or denied etc. shall be made to source mode of payment unless otherwise agreed by the user to credit amount in any other alternate mode.

These are few among others to be maintained, implemented and monitored on a regular basis as far technology infrastructure and its security and prevention from fraud is concerned related to the business of PAs/PGs as designed and recommended by the Reserve Bank of India.

Conclusion

This is an essential topic in the Fintech industry currently due to requirement of the application for certificate of authorisation and all the existing market player irrespective of performing the activities as PAs or PGs, to

> Gateway performs as communication channel whereas aggregator pool is the fund from users and as per agreed terms and condition with merchant transfer, the eligible amount to their respective account.

Department of Payment and Settlement System, Reserve Bank of India under the Governing Act, Payment and Settlement System Act, 2007 (amended 2015) read with regulation and circular time to time by RBI. The PAs and PGs to be same, and the released guidelines take these as separate entities and refer to a totally different nature of activities. Precisely, Gateway performs as communication channel whereas aggregator pool's the fund from users and as per agreed terms and condition with merchant transfer, the eligible amount to their respective account. Application for registration needs to be placed to RBI at the earliest to carry on the ongoing business of existing market player else they need to stop the business activities. However, if the existing player has applied for authorization with the Department of Payment and Settlement System as per requirements, then the entity can pursue the ongoing business till the final decision from RBI is not communicated to the applicant entity. ■■■

Integrated Reporting and Financial Performance of Indian Banks

A true integrated report is one which shows a clear link between sustainability and financial performance. Banking and financial services is the second top industry/sector using the International Integrated Reporting Framework (IIRF) within BSE 500 group (AICL, Dec 2020). Hence in the present study, our main purpose is to examine the relationship between Integrated Reporting (IR) and Financial Performance (FP) of Indian banks. The results show that Indian banks are at different stages of Integrated Reporting (IR) adoption as they published their first integrated report in different years and the sample scores are between 34% and 85%. Positive correlation was found between IRS and market based financial performance measures. Read on…


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Introduction

Integrated reporting (IR) is a concise yet holistic form of reporting the value, that businesses create through representation of both financial and non-financial performance of an organization. Lately, organizations have realized that the current form of corporate reporting take a short-term approach and is inadequate to meet the needs of investors and other stakeholders. Therefore, the need for integrated reporting is gaining momentum across the world as one of the leading frameworks that lays down clear guiding principles and content elements, prepared with the objective of ensuring comparability between reports and consistency in reporting. It enables companies to publish a single report with comprehensive disclosures, mapped to different external reportingframeworks. And the recent intent to merge the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) is a decisive step towards

> The need for integrated reporting is gaining momentum across the world as one of the leading frameworks that lays down clear guiding principles and content elements, prepared with the objective of ensuring comparability between reports and consistency in reporting

streamlining global reporting frameworks. It is expected to lend further credibility to disclosures, clarity to performance indicators and enhance intra-industry comparability in reporting (AICL, Dec 2020).

"Business is a part of society, not apart from society" (Mervyn King, Chair, IIRC) is a quote which stands truer amidst the COVID-19 pandemic, which has led organizations across the world prioritizing the health and safety of their employees, customers and clients and local communities over their financial profit, radically changing their business models and strategies to evolve with these challenging times. Traditionally, reporting in the banking industry has focused on financial capital and, to some extent, human capital. With the emergence of digitization (intangible asset – nonfinancial) in the banking industry, it is time for businesses to show their stakeholders that they create value and report on not just financial capitals but also intellectual, natural, social, manufactured, and human capitals to name a few. This is where integrated reporting can support organizations.

Integrated Reporting Worldwide, and in India

The concept of IR was introduced in South Africa in 2009 through King III, the code of corporate governance. The IIRC, a global coalition of regulators, investors, accounting professionals, companies and non-governmental organizations was set up in June 2010 and within the span of 3 years released the International IR framework (IIRF) in December 2013.

The practice of integrated reporting has been widely accepted since the release of an international framework. Globally, over 2500 corporates have adopted IR in over 70 markets including Africa, Europe, Asia, and South America, with more than 40 stock exchanges all explicitly sign-posting the IIRF in their ESG reporting guidance. Over the years, India has made significant progress in adopting integrated reporting, driven by a 2017 circular of the Securities and Exchange Board of India (SEBI) recommending that the Top 500 listed companies, which are required to prepare a Business Responsibility Report (BRR), consider using integrated reporting framework for annual reporting. In India, 50% of Nifty 50 companies have adopted IR and more are on the way (Grant Thornton Bharat, Dec 2020).

Scope

The objectives of the study are to examine the level of compliance of integrated reports published by the Indian banks with the International integrated reporting framework (IIRF) and to identify the relationship between Integrated Reporting and Financial Performance of the Indian banks.

This study samples only the banking industry of India. A total of 29 banks forms part of the Top 500 companies (based on NSE market capitalization as on 31st March 2020) who are voluntarily required to adopt IR from the financial year 2017-18. Hence this study covers the sample period from 2018 to 2020 i.e., 3 years and out of 29 banks, 10 banks have adopted IR as of 31st March 2020, but our final sample consists of only 7 banks whose integrated reports are available for a minimum of two years i.e., FY 2018-19 and FY 2019-20.

Analysis and Discussion

A. Integrated Reporting Score (IRS)

The quality of the integrated reports is measured in terms of Integrated reporting score (IRS). An IR disclosure checklist was developed to construct IRS for each individual bank based on the content elements of the IR framework (IIRC, 2013) and following the previous research such as (Akhter & Ishihara, 2018), (Sofian & Dumitru, 2017) and (Lee & Yeo, 2015). There is no theoretical guidance related to the weight of content elements for calculating aggregated IRS (Lee & Yeo, 2015). Hence equal importance is assigned to each of the eight content elements in the IR framework. The final disclosure checklist consists of 43 items under eight content elements which were then evaluated on the basis of content analysis of integrated annual report/ annual report/ sustainability report of the banks.

IRS was calculated as the ratio of number of items disclosed to maximum score of disclosure.

Descriptive Statistics of IRS

In order to understand the characteristic of the research variables, descriptive statistics like mean, standard deviation, minimum and maximum have been used. The overall statistics are calculated over 21 observations (N = 21). The between statistics is calculated over seven banks (n = 7), this is done over a three-year period (T = 3) from 2018 to 2020.

Table 1a. Descriptive statistics of the integrated reporting score of the banks

Variable		Mean	Std. Deviation	Min	Max	Observations
IRS	Overall	64.91	16.32	34.25	84.93	N=21
	Between		15.12	36.07	79.45	n=7

In Table 1a, the descriptive statistics of the integrated reporting score (IRS) is presented. The results show that the mean score for the integrated reporting was 64.91%, with a minimum score of 34.25% and a maximum score of 84.93%. The variation in quality of integrated reporting was 15.12 between the banks. The results show that Axis Bank (79%) had the best score on integrated reporting, while Karnataka Bank (36%) had the least score across the banks.

Table 1b. IRS - Content Element wise

Content Element		IRS
C1	Organizational Overview and External Environment	84.76
C2	Business Model	64.94
C3	Risks and Opportunities	66.67
C4	Strategy and Resources Allocation	61.43
C5	Governance	61.38
C6	Performance	56.67
C7	Outlook	58.93
C8	Basis of Preparation and Presentation	63.1

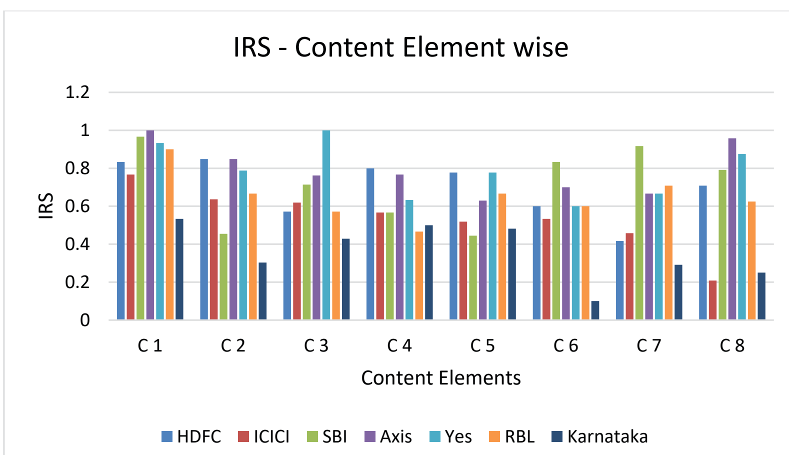
Organizational Overview and External Environment is the highest disclosed category with an 84.76% average disclosure rate. The lowest disclosed element is *Performance* with 56.67% average disclosure and *Outlook* with 58.93% average disclosure only (Table 1b).

In the *Organizational Overview and External Environment* category, Axis Bank was the only bank that obtained the maximum scores for all 3 years under study. State Bank of India (SBI) had the maximum score for last two years and RBL Bank and Yes Bank for the last year under study, overall except for Karnataka Bank almost all the banks had complied with the IIRF under this category which means that the vision, ownership, key quantitative information and external environment factors affecting the banks scored an average of 90% approximately.

In terms of *business model*, HDFC Bank and Axis Bank had the top score of 84%. Linking business model with other content elements such as strategy, risks and opportunities and performance was one area where banks need to improve under this category.

Yes Bank had the maximum score under *Risks and opportunities* category. Most of the banks had disclosed on sources of risk and opportunity, risk impact and steps to mitigate the risk but they were lagging in terms of steps taken to create value from key opportunities and its impact.

In the category *Strategy and resources allocation*, HDFC Bank (80%) and Axis Bank (76%) are the top two performers. Almost all banks have reported objectives, strategies, resource allocation plans and also considered environment and social considerations as part of organization strategy. However, the level of extent may vary between the banks but the linkage between *organizational strategy and resource allocation plans* and *organization's business model* and stakeholder



engagement in formulating strategies is very low among the banks.

From the perspective of *governance*, both HDFC Bank and Yes Bank had an equal score of 78% approximately and ranked first. The leadership structures, skills and experience of the Board and its focus areas, such as strategy and risk are discussed in almost all the reports and each bank discussed the importance of nurturing culture and values. However very limited disclosure was found on specific processes and actions to make strategic decisions and to manage risks and also how remuneration and incentives are linked to value creation.

Performance and *outlook* are the least disclosed category indicating that banks in the current study showed a low level of concern on performance link to previously identified targets and outlook disclosure. Information related to positive effects on capital were disclosed mainly to improve the company's impression. However, disclosure on any negative effects was missing. Banks could monetize certain effects on the capitals like amount of savings due to renewable energy adoption, reduction in greenhouse gas emission, water savings etc., amount of exposure to sustainable sectors with an attempt to increase the scope of its positive environmental impact through its lending activities and amount lent under various financial inclusion schemes and CSR expenditure in order to build on social and relationship capital but key performance indicators (KPIs) that combine financial measures with other components (e.g., the ratio of greenhouse gas emissions to sales or the impact of employee training on capital (IIRC, 2013)) were mostly absent in these reports. Some non-financial KPIs are disclosed in every report, but they are not linked with any related financial measures. Banks did report on its expectations from the external environment but could not quantify the potential impact it may have on its future financial and other capitals. None of the banks obtained the maximum score under these two categories but State Bank of India (SBI) was very close with a detailed disclosure on its outlook and targets to be achieved under different types of capital.

> "Performance and outlook are the least disclosed category indicating that banks in the current study showed a low level of concern on performance link to previously identified targets and outlook disclosure.

Under *Basis of preparation and presentation* category, Axis Bank had the highest score of 96% followed by Yes Bank (88%) and SBI (79%) at the second and third position respectively. Banks had disclosed the reporting boundary, framework to quantify material matters and stakeholder engagement in materiality determination but inadequate disclosure was found on impact of material matters on the organization's value creation process. To conclude, there are some similarities in the overall structure of these reports, as they are operating within common regulatory requirements.

B. Relationship between Integrating Reporting and Financial Performance

To explore the relationship between IRS and FPIs', correlation technique has been applied. The financial performance of the banks is studied through the following variables as shown in Table 2.

Table 2 Financial Performance Variables			
Acronym	**Measure**	**Definition**	**Previous Research & Findings**
ROA	Profitability	Return on Assets is a ratio of net profit after tax to average of total assets.	Lee & Yeo, 2015 - Higher IR is associated with improvement in ROA; Matemane & Wentzel, 2019; Dey, 2019 & Wachira, 2019 - No significant correlation b/w IR and ROA
ROE	Profitability	Return on equity is a ratio of net profit for the year to average shareholders' equity for current and previous year.	Matemane & Wentzel, 2019 - No significant relationship was found b/w IRQ and ROE; Marx, 2019 - Quality IR's may improve ROE
CAR	Capital adequacy	Ratio of banks capital to risk weighted assets.	Own Research
COB	Cost management	Cost of borrowing is a ratio of interest expended on borrowings (interest expended - interest on deposits) to average borrowings for current and previous year.	Own Research
PSLR	Financial Inclusion	Priority sector lending ratio is a ratio of advances to priority sectors to total advances.	Own Research
Net NPA	Asset Quality	Ratio of net NPA to net advances.	Own Research
MTB	Growth opportunity	Market price per share over book value of equity per share at year-end.	Dey, 2019 - Significant correlation b/w IRS and MTB
TOBINQ	Firm Value	Market value of equity plus book value of total liabilities divided by total assets.	Dey, 2019 - No significant correlation b/w IRS and TOBINQ; Lee & Yeo, 2015 - TOBINQ is positively associated with IR score

Table 3 Correlation matrix									
	ROA	**ROE**	**CAR**	**COB**	**PSLR**	**Net NPA**	**MTB**	**TOBINQ**	**IRS**
IRS	-0.237	-0.336	0.367	-0.511	-0.889**	-0.259	0.545	0.539	1
	(0.609)	(0.461)	(0.418)	(0.241)	(0.007)	(0.576)	(0.205)	(0.212)	
The paranthesis contains the p values. Statistical significance is denoted by ** and * at 1% and 5% level, respectively.									

Table 3 shows the univariate correlations between the explanatory variables. The Pearson correlation analysis is performed to support the results of the t-test and to determine the direction and significance of correlation among the variables of the study as follows:

The result suggests positive correlation between IRS & MTB and IRS & TOBINQ both of them being market based financial performance measures, which are a reflection of future or long-term financial performance and also considered as one of the main determinants of IR adoption and practice in the banking sector, thus indicating that integrated reporting does matter to the investors. The negative correlation between IRS & COB shows that banks with high IRS are able to borrow funds at a considerably lower rate. However, no significant pair-wise correlation was found between IRS and financial performance indicators considered for the study except for significant negative correlation between IRS and PSLR at 1% level. Priority sector lending (PSL) is an important role given by the RBI to the banks for providing a specified portion of the bank lending to few specific sectors like agriculture and allied activities, micro and small enterprises, poor people for housing, students for education, other low income groups and weaker sections and renewable energy sector. This is

> Indian banks are in different stages of Integrated Reporting (IR) adoption as they published their first integrated report in different years and the sample scores are between 34% and 85% with an average of 65%

essentially meant for an all-round development of the economy and also aims to encourage and support environment friendly lending policies to help achieve Sustainable Development Goals (SDGs) (RBI, 2021).

Conclusion

The basic purpose of this study is to examine the level of compliance of the integrated reports published by Indian banks with the International Integrated Reporting Framework (IIRF) and to determine whether a statistically significant relationship exists between the integrated reporting score (IRS) and the banks' Financial Performance Indicators (FPIs). The results show that Indian banks are in different stages of Integrated Reporting (IR) adoption as they published their first integrated report in different years and the sample scores are between 34% and 85% with an average of 65% which indicates a moderate level of compliance, in a regulatory environment where preparation of integrated reports as per the IIRF is not mandatory.

The best score was obtained for *organizational overview* and *external environment* whereas *Performance* and *Outlook* are the least disclosed category. The disclosure rate is high as long as it contains generic and straight forward information like mission and vision statement, ownership, key quantitative information, external environment factors, sources of risk and opportunity, strategies and objectives, skills and experience of the board etc. However forward-looking statements and information connecting different content elements are very low like information related to outlook, targets, potential impact on future financial and other capitals, linking performance with previously identified targets, linking remuneration and incentives to value creation, connecting strategies, resource allocation plans and opportunities with business model and linking non-financial KPIs with any related financial measures.

With regard to the second objective, positive correlation was found between IRS and market based financial performance measures which are forward looking, reflecting investors' perception towards the impact of IR on the long-term performance. However no significant relationship was found between IRS and FPIs of banks over the period under review except for significant negative correlation between IRS and PSLR which indicates that, banks with high IRS to some extent lack the concept of integrated thinking embedded within mainstream business practice, which is the long term vision of IIRC facilitated by IR. PSL can be one of the business strategies to integrate social issues with the core lending function of the banking business to build upon social and relationship capital by lending to weaker and neglected sections of society and to some extent have positive impact on natural capital by lending to renewable sources of energy and thereby promoting sustainable development. It also indicates that banks are doing PSL only to meet the targets set by RBI and not considering it as social responsibility towards the society.

> Banks are doing PSL only to meet the targets set by RBI and not considering it as social responsibility towards the society.

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Is the Size of a Bank a Credit Risk Variable? A Study on Indian Public Sector Commercial Banks

The study analyses the statistical significance of size of Indian public sector banks (PSBs) as a credit risk variable in the background of large-scale consolidation of these banks from 27 in 2017 to 12 in 2021. Analyzing the credit risk performance of six large and six small PSBs from 2006-17, and a survey on 337 of their credit managers, the study concludes that there was high stress on small PSBs in terms of their stressed assets and capital adequacy ratios. Credit managers in small PSBs also perceived larger gaps in risk infrastructure. The consolidation has improved the profitability, capitalization and asset quality in large banks. Though, it has to be monitored that these mega PSBs do not overlook the credit needs of small and medium businesses. Read on...

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Introduction

For the last five years, the Finance Minister of the Government of India is announcing mergers/ consolidation of small public sector banks (PSBs) with a few large public sector banks and even the privatization of few of these banks. This consolidation of Indian PSBs is aimed at finally four large PSBs only. Reasons are efficient banking, reaping benefits of large-scale banking, reducing overlap of banking services in local areas; and the very important reason of managing poor asset quality and low capital adequacy ratios in the small PSBs. The mounting pile of non-performing assets which has considerably reduced the credit growth in PSBs, gives perceptions of whether the size of a public sector bank is a credit risk variable in real sense. This study researches this phenomenon of impact of size of an Indian public sector bank on efficiency of its credit risk determinants- GNPA and NNPA ratios, Restructured Assets Ratios, Stressed Assets Ratios, Sensitive Assets Ratios, Capital Adequacy Ratios, Net Interest Margin and Return on Assets, from 2006 to 2017. The year 2017 has been selected being the concluding year

when merger and consolidation exercise begins with Associate Banks of State Bank of India merged into the State Bank of India on 01 April, 2017. From April 1, 2020, ten PSBs were amalgamated into four, taking the total number to 12 (The Business Standard, 2021, February, 03).

The present study into the impact of the size of the PSBs on their credit risk management (CRM) efficiency has been organized in five sections. The next section reviews the existing literature, section 3 and 4 are on the framework of study and data analysis. Last section concludes and recommends.

Review of Literature

The most immediate challenge for banks worldwide is a possible rise in corporate insolvencies and non-performing assets (NPLs) (RBI, 2021- Financial Stability Report, July). To achieve banking stability, banks are required to maintain quality assets that aid in achieving profitability (Swamy, 2015). The growing incidence of poor bank asset quality calls for a renewed look at the factors that impact the performance of banks (Swamy, 2015). One such factor of interest is size of a bank. The empirical analysis suggests that asset measure of size could yield meaningful results relating to borrowers' loan response (Ranjan and Dhal, 2003).

Large v. Small Banks

Larger banks have exhibited better credit risk management with lower NPA levels (Swamy, 2015). There are other studies as well. Chronologically, we start with Ranjan & Dhal (2003). Ranjan & Dhal (2003) had studied NPAs of Indian PSBs from 1990 to 2003. According to them, the bank size measured in terms of assets, has negative impact on NPAs, while the measure of bank size in terms of capital has positive and significant effect on gross NPAs but negligible effect on net NPAs (Ranjan & Dhal (2003). Thus, appropriate measure of size assumes importance (Ranjan & Dhal (2003). Nair, Gopikumar & Asha (2018) studied 50 Indian banks, both in public and private sector from 2006-17, the same period as discussed in this paper, to research the "effect of size, capitalization and non-performing assets on the cost efficiency of Indian banks" (Nair, Gopikumar & Asha, 2018). They concluded that "Bank capitalization contributes negatively whereas, bank size contributes positively to bank's cost efficiency" (Nair, Gopikumar & Asha, 2018). Their paper uses cost-function approach for estimating and modeling inefficiency (Nair, Gopikumar & Asha, 2018).

Sarkar & Sarkar's (2018), "empirical analysis suggests that while board size plays an insignificant role in bank outcomes, board independence plays a significant role". They favor privatization of banking services for enhanced efficiency. However, empirical studies on a sample of 47 public and private Indian commercial banks from 2000-14, Arrawatia et al. (2019) find that "the results are qualitatively similar across different ownership structures". They suggest that forecasting models for nonperforming assets should also consider macro-economic and industry-specific factors along with the bank- specific factors (Arrawatia et al., 2019). One such bank-specific factor is the size of the bank.

Gupta, Mahakud & McMillan, (2020) analyzed 64 public, private and foreign banks in India from 1998-2016 and "focuses on assessing the role of various bank-specific, industry-specific and macroeconomic determinants in Indian commercial banks performance" (Gupta, Mahakud & McMillan, 2020). The results show that bank size, nonperforming loan ratio and revenue diversification are the major determinants of the commercial banks performance in India (Gupta, Mahakud & McMillan, 2020). The larger banks are less profitable (Gupta, Mahakud & McMillan, 2020).

How the merger of smaller banks into few large banks will bring about better CRM practices is studied in the next sub-section.

The Effect of Merger & Consolidation

Gandhi (2016), the Deputy Governor, RBI stated, "It has been argued that India has too many PSBs with similar characteristics and a consolidation among PSBs can result in reaping rich benefits of economies of scale and scope". Though, he also argued in favor of consolidation beyond mergers. "The merged entities can now reap benefits of synergy, especially in the case of branch network presence across regions. For example, United Bank of India, which had a large presence in the eastern region, will now benefit from the more diversified branch network of Punjab National Bank which had a vast network in the northern and central region before the merger" (Reserve Bank of India, 2020- Trends & Progress of Banking in India). The Press Information Bureau, GOI (2020) informed, "Amalgamation to enable creation of digitally driven consolidated banks with global heft and business synergies…greater scale and synergy through consolidation would lead to cost benefits which should enable the PSBs enhance their competitiveness and positively impact the Indian banking system". Further, positive outlook was reported by the New Indian Express on 03 August, 2021, though in contrast, its headline was not very encouraging. It reported "Post-merger, public sector banks (PSBs) have seen an improvement in profitability in the year ended March 2021 despite the coronavirus pandemic induced disruptions… In FY21, PSBs reported a combined net profit for the first time in five years… Only two of the 12 public sector banks — Punjab & Sind Bank and Central Bank of India — reported a net loss for the year" (The New Indian Express, 2020).

Mergers helped strengthen the capital buffers of banks that were facing challenges in meeting regulatory requirements (Reserve Bank of India, 2020- Trends & Progress of Banking in India). United Bank of India had pre-merger Capital Adequacy Ratio of 5.6 per cent only against the minimum required of 9 per cent under RBI prudential norms. Post-merger, the combined ratio of Punjab National Bank merged with Oriental Bank of Commerce and United Bank of India stood at 12.63 per cent (Reserve Bank of India, 2020- Trends & Progress of Banking in India, Table 3, p.58).

The divergent views are also there. In the loans and advances, the PSB market share has gone down to around 60 per cent with the scaling up of private banks (Business Today. In, 2021). With new banks including small finance banks (SFBs) offering higher deposit rates, the deposit share of PSBs may also come under attack (Business Today. In, 2021). In the banks' consolidation process, the human resource factor has also been underlined to be worst affected and requires upskilling, as per experts on banking and legislators. The mega merger of public sector banks (PSBs) has led to a "turmoil" as the state-owned banks do not have the necessary talent for specialised functions like risk management and new financial technologies, the Parliamentary Standing Committee on Finance said in its report (The Business Standard, 2021, February, 03).

In the background of these studies, this paper sets the research objective to empirically evaluate the historical and primary data on PSBs to research whether the size of a public sector bank is a significant credit risk determinant. Efficient credit risk management ensures high profitability as loans and advances are banks' primary source of income.

Framework of the Study

In a study from 2006-2017, immediately before the start of large size merger and consolidation of Indian PSBs, based on historical data; and also based on the primary survey on 337 credit and risk managers of 12 of such PSBs, the author finds that the size of the bank is a credit risk variable. Large and small PSBs in the study were segregated on the basis of share of assets of a PSB in total assets of all the PSBs in the median year of study, i.e., 2012, with a cut-off percentage of 2.5. A sample of six large and six small PSBs was drawn and it included the State Bank of India, Punjab National Bank, Bank of Baroda, Oriental Bank of Commerce, IDBI Bank and the Syndicate Bank as the large PSBs; Punjab & Sind Bank, Dena Bank, the Vijaya Bank, United Bank of India, Andhra Bank and the State Bank of Bikaner & Jaipur, as small PSBs.

> NIM (Net Interest Margin) and ROA (Return on Assets) are profitability ratios, used to measure the effect of credit risk variables on operational efficiency. CRAR is Capital to Risk Adjusted Assets Ratio and famously known as Capital Adequacy Ratio.

In case we tally the consolidation exercise of this merger of large PSBs with small PSBs, most of the small PSBs in the sample have either merged or will be merged with large banks. For example, State Bank of Bikaner and Jaipur along with other SBI associate banks merged with the State Bank of India (SBI). Dena Bank and Vijaya Bank were merged with Bank of Baroda in 2019 (Sikdar, 2021). In the recent past, the government handed over the IDBI Bank to LIC (Business Today. In, 2021). After the merger exercise, Punjab National Bank, Oriental Bank of Commerce, and United Bank of India combined to form one lender; Canara Bank took over Syndicate Bank; while Union Bank of India amalgamated with Andhra Bank and Corporation Bank (The Business Standard, 2021, February, 03).

Data Analysis and Results

The historical data on this study was collected for six large and six small PSBs from 2006-2017 from the Statistical Tables relating to Banks in India (RBI). The credit risk variables under the study are listed in Table 1 and displayed in Figure 1. Gross Non-performing Assets to Gross Advance is GNPA ratio. Net Non-performing Assets to Net Advances is NNPA ratio. Sensitive Assets ratio covers advances to capital/ commodity market brokers and real estate advances. Stressed Assets ratio takes GNPAs plus restructured loans to Total Advances. NIM (Net Interest Margin) and ROA (Return on Assets) are profitability ratios, used to measure the effect of credit risk variables on operational efficiency. CRAR is Capital to Risk Adjusted Assets Ratio and famously known as Capital Adequacy Ratio. During the periods from 2006-17, the large PSBs have been better capitalized than the small PSBs. Though GNPA ratio is higher in large PSBs, the Stressed Assets Ratio is highly stressed in small PSBs, the real indicator of credit risk stress. Loans to sensitive sectors, is also a great discomfort factor setting high cautions. This is a highly remunerative loan segment but in case of defaults, can create a big pile of bad loans, which happened for IDBI Bank and Vijaya Bank.

Table 1: Mean (%) & SD Values of Credit Risk Variables in Sample PSBs (2006-17)

Sl. No.	Credit Risk Ratios	Large PSBs Mean %(S.D.)	Small PSBs Mean% (S.D.)
1.	GNPA Ratio	4.39 (3.29)	4.24 (3.31)
2.	NNPA Ratio	2.31 (2.08)	2.59 (2.45)
3.	Sensitive Assets Ratio	17.38 (1.82)	15.91 (3.09)
4.	Restructured Debt Ratio	4.01 (2.48)	4.65 (3.28)
5.	Stressed Assets Ratio	8.51 (4.71)	9.00 (5.71)
6.	NIM	2.37 (0.35)	2.45 (0.41)
7.	ROA	0.65 (0.5)	0.63 (0.42)
8.	CRAR	12.65 (0.82)	12.13 (1.03)

(Source: Author's analytical studies based on RBI's Statistical Tables related to Banks in India, 2006-17, http://rbidocs.rbi.org.in)

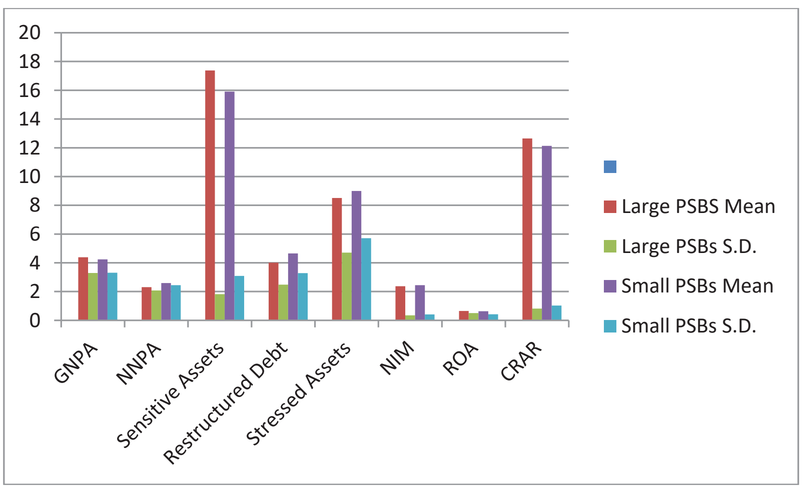

Figure 1: Credit Risk Variables across PSBs, 2006-17

When we measure year-wise movement of these ratios (Table 2), the highest stress is appearing in 2015-16 and 2016-17, putting the regulator and policy makers on toes to control state run banking, and one such measure adopted was merger and consolidation of small PSBs into large PSBs.

Table 2: Year-wise Mean and Growth Rate Values for Credit Risk Ratios (in %)

YEAR	GNPA Ratio Mean GR	NNPA Ratio Mean GR	Sensitive Assets Ratio Mean GR	Restructured Debt Ratio Mean GR	Stressed Assets Ratio Mean GR	NIM Mean GR	ROA Mean GR	CRAR Mean GR
2006-07	2.75	0.94	18.38	0.64	3.43	2.83	0.93	12.19
2007-08	2.05 -25.5	0.84 -10.5	18.29 -0.51	0.85 32.51	2.94 -14.3	2.89 -19.3	0.97 4.4	11.97 -1.76
2008-09	1.74 -15	0.74 -12.2	16.56 -9.43	2.73 223.2	4.33 47.28	2.24 -2.08	0.92 -5.25	13.35 11.46
2009-10	1.91 9.71	0.92 24.77	16.17 -2.35	3.51 28.32	5.16 19.3	2.25 0.60	0.94 2.36	13.07 -2.05
2010-11	2.05 7.41	0.98 6.23	16.49 1.95	2.75 -21.6	4.84 -6.26	2.77 -23.25	0.96 1.95	13.26 1.47
2011-12	2.79 36.05	1.43 45.54	15.10 -8.42	4.44 61.47	7.16 47.91	2.71 -2.34	0.91 -5.3	13.18 -0.65
2012-13	3.23 15.61	1.90 32.98	15.07 -0.18	7.20 62.27	10.49 46.52	2.51 -7.32	0.79 -12.5	12.30 -6.7
2013-14	4.56 41.3	2.84 49.69	16.52 9.6	7.62 5.81	12.29 17.18	2.38 -5.18	0.43 -45.8	11.97 -2.65
2014-15	5.05 10.8	3.10 9.0	15.12 -8.48	9.01 18.25	14.19 15.47	2.21 -7.18	0.41 -5.03	11.96 -0.08
2015-16	8.83 74.76	5.37 73.23	17.39 15.04	5.39 -40.2	15.59 9.88	2.21 -0.19	-0.17 -141	11.56 -3.32
2016-17	12.5 41.5	7.86 46.4	17.99 3.43	3.50 -35	15.53 -0.43	2.09 -5.06	-0.16 -7.43	11.59 0.223
Total Mean (2006-17)	4.32	2.45	16.64	4.33	8.72	2.41	0.63	12.40

(Source: Author's analytical studies based on RBI's Statistical Tables related to Banks in India, 2006-17, http://rbidocs.rbi.org.in)

Bank-wise analyses for 2006-17 (Figure 2), demarcates that the IDBI bank was under severe pressure of credit risk among large banks, and Punjab & Sind Bank, Dena Bank, United Bank of India and Andhra Bank in credit risk turmoil. IDBI Bank has since been privatized and under control of LIC of India.

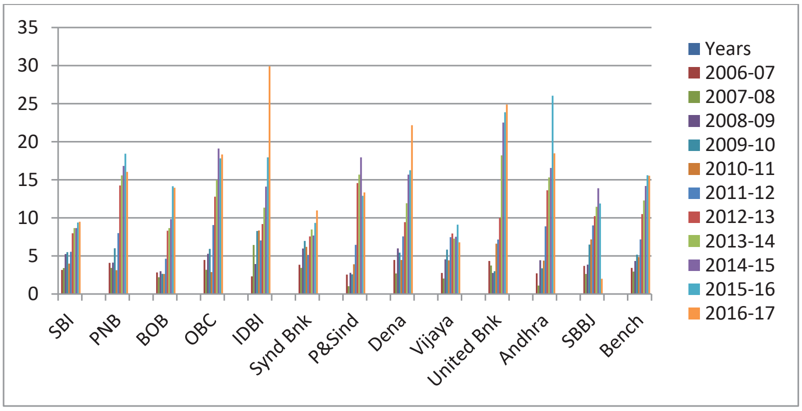

Figure 2: Bank/Year-Wise Stressed Assets Ratio- 2006-17(Bench: Benchmark/Average for all banks)

The survey results from a structured questionnaire, which was placed on 337 credit risk professionals in the sampled 12 PSBs, has found a higher level of disintegrated systems and processes, inconsistencies in risk management practices, more subjective risk assessments, lower degree of site inspections and reduced sharing of risk information across multiple lending arrangements in smaller PSBs. The respondent credit managers of small PSBs also find that their banks have larger gaps in risk infrastructure than in the large PSBs. Risk Infrastructure includes data analytical capabilities, staff trainings, IT management, industry studies etc.

> The problem of managing asset quality in PSBs is grave. RBI repealed all restructuring schemes for commercial bank loans from February, 2018 though for COVID-19 period defaults, restructuring with added strictures has been provided.

Conclusions and Recommendations

The problem of managing asset quality in PSBs is grave. RBI repealed all restructuring schemes for commercial bank loans from February, 2018 though for COVID-19 period defaults, restructuring with added strictures has been provided. Indiscriminate rescheduling and restructuring of stressed loans has been found to be the major reason for piling up of bad loans in PSBs. Moreover, after the buffer provided through suspension of Insolvency and Bankruptcy Code, 2016 for COVID-19 defaults has ended, serious asset quality deterioration will surface, even for large consolidated PSBs. RBI admits that "The modest GNPA ratio of 7.5 per cent at end- September 2020 veils the strong undercurrent of slippage" (RBI, 2020- Trends & Progress of Banking in India).

Presently, the consolidation in state run banking has improved the capital adequacy ratios and Net Interest Margin. Their financial results for the next two three years will provide more foresight. Along with consolidation, segmentation in banking both in public and private sectors, with differentiated banking services, for example

> Presently, the consolidation in state run banking has improved the capital adequacy ratios and Net Interest Margin. Their financial results for the next two three years will provide more foresight.

payment banking, wholesale banking, infrastructure banking, global banking, may enhance the core competencies in banking services.

Though, one area of caution remains. Large banks tend to lend to large firms and small banks only tend to small firms (Mkhaber & Werner, 2021). In India, where small and medium enterprises play a pivotal role in economic growth, sufficient funding for this sector has to be ensured even with consolidation of PSBs in mega global banks.

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Mkhaiber, A. & Werner, R.A. (2021), "The Relationship between Bank Size and Propensity to Lend to Small Firms: New Empirical Evidence from a Large Sample", Journal of International Money and Finance, Vol. 110, http://doi.org/10.1016/j.jimonfin.2020.102281

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ACCOUNTANT'S BROWSER

"PROFESSIONAL NEWS & VIEWS PUBLISHED ELSEWHERE"

Index of some useful articles taken from Periodicals received during October-November 2021 for the reference of Faculty/Students & Members of the Institute.

1. Accountancy

Accounting for Climate Change by Robert S. Kaplan and Karthik Ramanna. *Harvard Business Review,* Vol.99/06, November-December 2021, pp.120-131.

Management Accounting: A take on cryptoasset transactions, investment, and risk by Mark D. Mishler. *Journal of Accountancy,* Vol.232/03, September 2021, pp.33-35.

2. Audit

Joint Provision of Non-audit Services to Audit Clients: Empirical Evidences from India by Reshma Kumari Tiwari and Jasojit Debnath. *Vikalpa,* Vol.46/03, July-September 2021, pp.153-165.

5 top-of-mind issues for auditors as focus on quality continues by Ken Tysiac. *Journal of Accountancy,* Vol.232/04, October 2021, pp.18-26.

3. Economics

Banking on the future by Deniz Guven. *A Plus*, Vol.17/07, 2021, pp.25-29.

Business segment diversification of private banks in India by Anjan Roy. *Decision,* Vol.48/03, September 2021, pp.295-308.

Intellectual Property Right-based Debt Financing to Startups: Need for a Changing Role of Indian Banks by Bibekananda Panda and Sara Joy. *Vikalpa*, Vol.46/03, July-September 2021, pp.143-152.

Project Economy has Arrived by Antonio Nieto-Rodriguez. *Harvard Business Review,* Vol.99/06, November-December 2021, pp.38-45.

4. Education

NEP 2020 and the Language-in-Education Policy in India: *A Critical Assessment. Economic & Political Weekly*, Vol.LVl/43, October 23, 2021, pp.45-52.

5. Investment

Importance of Due Diligence Investigations in the Indian Context: A Global Lesson from Failed Mergers and Acquisitions by Dr. L.S. Sridhar and P. Lakshmi Narayanan. *Chartered Secretary,* Vol.51/10, October 2021, pp.83-89.

6. Management

Changing Dynamics of Corporate Governance in India: Transformed Role of Company Secretary by Dr. Anil Kumar. *Chartered Secretary,* Vol.51/10, October 2021, pp.58-63.

How to Succeed Quickly in a New Role by Rob Cross, Greg Pryor and David Sylvester. *Harvard Business Review,* Vol.99/06, November-December 2021, pp.60-69.

Smart advice for better Governance: applying expert methods to high-stakes decision by Dušana Dokupilová, Vladimíra Kurincová Čavojová, Vladimír Baláž, Eva Ballová Mikušková & Dagmar Gombitová *Decision*, Vol.48/03, September 2021, pp.285-293.

7. Taxation and Finance

GST – Recent Judgments and Advance Rulings by CA. Naresh Sheth & CA. Jinesh Shah. *The Chamber's Journal,* Vol.X/1, October 2021, pp.119-135.

Non - Availability of Input Tax Credit Refund on Input Services Under Goods & Services Tax by Shruti Khanna. *Goods & Services Tax Cases,* Vol.88/01, 2nd November – 8th November 2021, pp.5-8.

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.

National Update

The Reserve Bank announces the activation of the RBI Retail Direct Scheme

The Reserve Bank announces the activation of the RBI Retail Direct Scheme, which was inaugurated virtually by the Prime Minister, Shri Narendra Modi. A substantial development of the Government securities (G-sec) market, the Reserve Bank of India-Retail Direct (RBI-RD) Scheme will bring G-secs within easy reach of the common man by simplifying the process of investment. Under the Scheme, retail individual investors will be able to open a Retail Direct Gilt (RDG) Account with the Reserve Bank of India, using the portal https://rbiretaildirect.org.in. Investments can be made using the following routes: Primary issuance of government securities: Investors can place bid as per the non-competitive scheme for participation in primary auction of government securities and procedural guidelines for SGB issuance. Secondary market: Investors can buy and sell government securities on NDS-OM ('Odd Lot' and 'Request for Quotes' segments).

https://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=52548

SEBI comes out with investor charter

Market regulator SEBI released an investor charter for investors in securities market. The charter includes rights and responsibilities of investors and dos and don'ts of investing in securities market which aims at protecting investors' interest. This measure intends "to protect the interests of investors by enabling them to understand the risks involved and invest in a fair, transparent, secure market, and to get services in a timely and efficient manner". The rights include getting fair and equitable treatment, expecting redressal of investor grievances filed in SCORES in a time bound manner. It also includes getting quality services from SEBI recognised market infrastructure institutions and SEBI registered intermediaries, regulated entities and asset management companies.

https://economictimes.indiatimes.com/markets/stocks/news/SEBI-comes-out-with-investor-charter/articleshow/87760375.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

SEBI notifies new rules governing related-party transactions

Markets regulator SEBI has added measures to fortify the monitoring and enforcement of norms pertaining to related-party transactions. The regulator has revised the definition of 'related party' and 'related-party transactions' (RPTs) followed by a company's audit committee for approval of RPTs that are material. There will be a format for reporting of RPTs to the stock exchanges. Any transaction benefiting a related party (even indirectly) will require the approval of the audit committee and shareholders of a listed company. When the transaction is with a third party but may benefit related party, it will be difficult to identify and may lead to unnecessary allegations of violation on corporates. Under the new rules, SEBI said the related party will be any person or entity belonging to the promoter or promoter group of the listed entity. The amendments will come into force with effect from April 1, 2022.

https://www.business-standard.com/article/markets/SEBI-notifies-new-rules-governing-related-party-transactions-121111101591_1.html

IPOs: SEBI Plans to Tighten Capital and Disclosure Requirements

SEBI has mooted changes to tighten regulations on capital and disclosure requirements even as India sees a record year of fundraising via initial public offerings. A consultation paper issued by the Securities and Exchange Board of India in November 2021 has identified four key areas that would require revision. Stakeholders can share their comments with the regulator till the end of November.

https://www.bloombergquint.com/law-and-policy/SEBI-proposes-tighten-regulations-issue-of-capital-disclosure-requirements

National Update

Ministry of Corporate Affairs and IEPFA further simplify IEPFA Claim Settlement Process towards Ease of Doing Business and Ease of Living

The Ministry of Corporate Affairs (MCA) has taken a major step towards the mission and vision of Government of India of Ease of Living and Ease of Doing Business, and simplified claim settlement process through rationalization of various requirements under Investor Education and Protection Fund Authority (Accounting, Audit, Transfer and Refund) Rules, 2016.

For claimants, requirement of Advance Receipt has been waived off, requirement of Succession Certificate/ Probate of Will/ Will has been relaxed up to Rs 5,00,000 (five lakh) both for Physical and DEMAT shares, notarization of documents has been replaced with self-attestation and requirements of Affidavits and Surety relatively have been eased.

For companies, requirement of attaching documents related to Unclaimed Suspense Account has been eased and companies have been given flexibility to accept transmission document viz. Succession Certificate, Will etc. as per their internal approved procedures and Newspaper Advertisement requirement for loss of physical Share Certificate has been waived off up to an amount of Rs.5,00,000.

The measure envisages a trust-based model for faster citizen centric services and turnaround time. It is expected that with these changes many more claimants shall come forward to claim their shares and amounts from Investor Education and Protection Fund Authority (IEPFA).

https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1771138

International Update

IFAC & IAASB Release Less Complex Entities Consultation Survey

The International Auditing and Assurance Standards Board (IAASB) opened a six-month public consultation on its landmark new proposed standard for audits of financial statements of less complex entities (LCEs) in July 2021. While the IAASB encourages all interested stakeholders to respond to the consultation in writing, it recognizes that some may not have the time or resources to do so. To help, the International Federation of Accountants and the IAASB developed a survey to offer an alternative way to participate in the consultation and provide your views. The survey is open until January 14, 2022 and is available in English, French and Spanish by clicking the language selector in the survey's top right corner.

Survey responses will be analysed by the IAASB alongside all other feedback and help shape the final standard; individual survey responses are confidential.

https://www.ifac.org/news-events/2021-11/ifac-iaasb-release-less-complex-entities-consultation-survey

New Platform from IFAC Offers Digital Access to International Accounting Standards – eIS

eIS aims to enhance adoption and implementation of professional standards on ethics, audit & assurance, and public sector accounting

The International Federation of Accountants (IFAC) launched the eIS, short for e-International Standards, a new online resource providing unprecedented access to the international standards that support and distinguish the accountancy profession. It provides direct access to the standards developed by the International Audit and Assurance Standards Board (IAASB),

International Update

the International Ethics Standards Board for Accountants (IESBA), and the International Public Sector Accounting Standards Board (IPSASB), alongside key support, reference, and guidance materials, available to contextualize the language and provide enhanced transparency.

https://www.ifac.org/news-events/2021-11/new-platform-ifac-offers-digital-access-international-accounting-standards-eis

IFAC Pledges Ongoing Support for New International Sustainability Standards Board

Global Standards to Be Set for Investor-Focused Sustainability Disclosure

The International Federation of Accountants (IFAC) welcomes the establishment of the International Sustainability Standards Board (ISSB) working in close cooperation with the International Accounting Standards Board (IASB), under the governance structure and leadership of the IFRS Foundation. IFAC congratulates the IFRS Foundation Trustees for moving with unprecedented speed to meet the needs of investors, provide a holistic view of enterprise value, and address the climate crisis. Climate and other sustainability issues are global in nature and the ISSB will deliver a global solution for sustainability disclosure. The multi-jurisdictional footprint of the ISSB reflects this realty and can hopefully facilitate implementation of the ISSB's standards.

https://www.ifac.org/news-events/2021-11/ifac-pledges-ongoing-support-new-international-sustainability-standards-board

International Accounting Standards Board to publish Exposure Draft Non-Current Liabilities with Covenants

The Exposure Draft sets out proposals for a revised practice statement on management commentary which when finalised, would supersede IFRS Practice Statement 1 Management Commentary (Practice Statement). Revising the Practice Statement is one of the projects on Better Communication in Financial Reporting that the Board is undertaking. These projects seek to make financial information more useful and improve how financial information is communicated to users of financial reports. The Board has designed its proposals so that companies could apply local laws or regulations, or requirements or guidelines issued by other organisations for specific industries, or on specific topics such as sustainability reporting, to help them identify material information for inclusion in management commentary. Such requirements could include standards set by a future International Sustainability Standards Board, the creation of which is being considered by the IFRS Foundation Trustees. Companies would also be permitted to include immaterial information required by those laws, regulations, requirements or guidelines as long as it does not obscure material information.

https://www.ifrs.org/news-and-events/news/2021/11/iasb-to-publish-exposure-draft-non-current-liabilities-with-covenants/

IFRS Foundation announces International Sustainability Standards Board

IFRS Foundation announces International Sustainability Standards Board, in consolidation with CDSB and VRF, and publication of prototype disclosure requirements. The IFRS Foundation Trustees (Trustees) announced three significant developments to provide the global financial markets with high-quality disclosures on climate and other sustainability issues. The formation of a new International Sustainability Standards Board (ISSB) to develop—in the public interest—a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs. The IFRS Foundation will complete consolidation of the Climate Disclosure Standards Board (CDSB—an initiative of CDP) and the Value Reporting Foundation (VRF—which houses the Integrated Reporting Framework and the SASB Standards) by June 2022.

https://www.integratedreporting.org/news/ifrs-foundation-announces-international-sustainability-standards-board/

Legal Decisions

DIRECT TAXES

Income Tax

LD/70/68; [ITAT Mumbai: ITA No. 1789/Mum/2020] Income Tax Officer (Exemptions) Vs.Saraswati Vidya Bhavan 22/09/2021

Assessee is a trust is engaged in imparting education; Registration u/s 12A was cancelled by order of Prin. CIT(Exemptions) which was subsequently restored by the ITAT; The AO had denied exemption u/s 11 during regular assessment proceedings and had made an addition of Rs. 3.81 Crores; CIT(A) had ruled in favour of assessee and granted the exemption u/s 11 to the assessee, against which the Revenue had preferred the instant appeal before ITAT; ITAT ruled in favour of assessee noting that when the cancellation order of section 12A was set-aside separately, exemption u/s 11 could not be denied particularly when no new rebuttal evidence was brought forward by the Revenue.

LD/70/69; [ITAT Kolkata: ITA No. 127/Kol/2021] tar Paper Mills Limited Vs. Dy. Commissioner of Income Tax 26/10/2021

Assessee-Company, engaged in the business of manufacture & sale of paper for AY 2016-17, ran a captive power plant which was an 'eligible unit' for deduction u/s 80-IA; TPO while determining the ALP of the specified domestic transaction between the Assessee and its AE, proposed a downward TP adjustment of Rs.13.71 Cr. by considering the rate of electricity at Rs. 3.73 per unit; ITAT upheld the assessee's purchase price of electricity based on 'internal CUP' of similar purchase by the manufacturing unit from third party as ALP; Downward TP adjustment for unit eligible for deduction u/s 80-IA cannot be made against other business income.

LD/70/70; [ITAT Delhi: ITA No. 202/Del/2018] The Dy. Commissioner of Income Tax Vs. Maxworth Infrastructure P. Ltd 21/10/2021

Assessee-Company is engaged in the business of building and developing housing / commercial real estate projects; ITAT held AS -7 to be applicable for construction contracts and not applicable for revenue recognition for real estate developers, and accepts method of accounting as adopted by assessee; Revenue had made addition of Rs.10 Cr. by applying the percentage of completion method (POCM), which was deleted by the CIT(A) holding that Assessee had consistently recognised revenue on execution of sale deeds, which was accepted by the Revenue in earlier as well as subsequent years; ITAT also remarked that Revenue cannot deviate from the rule of consistency.

LD/70/71; [Delhi High Court: W.P. No.11808/2021] Criteo Singapore Pte Ltd. Vs. The Commissioner of Income Tax (Intl. taxation) 21/10/2021

Assessee-Company preferred a writ petition against the assessment order passed u/s 143(3) contending to be an eligible assessee u/s 144C and being denied the benefit of exemption of Rs.7.21 Cr. under India-Singapore DTAA for AY 2019-20; Assessee laid emphasis on the non-obstante clause of Section 144C under which the Revenue is bound to pass a draft assessment order in case any variation is to be made which is prejudicial to the interest of the Assessee; High Court ordered that the assessment order shall be treated as a draft assessment order and grants Assessee a liberty to file objections against the said draft assessment order with DRP within thirty days

LD/70/72; [ITAT Mumbai: ITA. No.1040/ Mum/2019] Poonam Haresh Budhrani Vs.The Commissioner of Income Tax (Appeals) 08/10/2021

Section 54EC benefit allowed to assessee by ITAT inspite of delay in making investments in the concerned NHAI bonds; Assessee sold a residential property on 25/04/2013 for Rs.58.50 lacs and with an intention to claim exemption u/s 54EC, issued a cheque dated 24/10/2013 for Rs. 50 lacs along with an application for investment in NHAI to a broker, which was duly acknowledged but the cheque was handed over to NHAI on 06/11/2013 and was encashed on 07/11/2013; ITAT noted

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 assessee cannot be penalised for the delay caused by the broker; W.r.t. the issue of difference in consideration adopted by Stamp Valuation Authority as against that by the Assessee, ITAT noted that amendment in provisions of section 50C allowing 5% margin was retrospective.

LD/70/73; [Calcutta High Court: W.P.O 969 of 2021] Neeraja Rateria Vs. National Faceless Appeal Centre 05/10/2021

Faceless assessment quashed terming it as bad and illegal by the High Court; Assessee, despite repeated requests, was not provided with the password for personal hearing through video conferencing; As per High Court, impugned assessment order was passed in gross violation of principles of natural justice and holds it to be untenable in the eyes of law; High Court gave liberty to Revenue to pass fresh assessment order after giving an effective opportunity of hearing.

LD/70/74; [ITAT Mumbai: ITA No 5804/Mum/2018] The Dy. Commissioner of Income Tax Vs. M/s Forum Homes P. Ltd. 04/10/2021

Disallowance u/s 40(a)(ia) deleted by ITAT observing that no technical knowledge or knowhow was made available by the Singaporean entity to the assessee and thus payment not covered under FTS (Fees for technical services); Assessee, a developer of residential project, availed consultancy from non-resident entities of Singapore and made payment of Rs. 3.66 Cr; ITAT noted that whatever services were provided were project specific and no technical knowledge, skill, was made available to the assessee for utilizing them in future, independently and thus the conditions of Article 12(4) of the tax treaty were not fulfilled;

LD/70/75; [ITAT Mumbai: ITA No 7918/Mum/2019] M/s Hindustan Organic Chemical Ltd. Vs. The Dy Commissioner of Income Tax 30/09/2021

Assessee availed certain credit facilities from SBI and the bank appointed a consultant for carrying out valuation of assets to secure their advances and made the payment by debiting Assessee's account; Revenue disallowed the amounts u/s 40(a)(ia) regarding such payment made by the Bank on assessee's behalf; ITAT observed that the consultant was appointed by the Bank and the services of the consultant were utilised for the purpose of the Bank in order to secure the assets mortgaged, and payment was recovered from the Assessee; ITAT held that since assessee did not appoint the consultant or paid the consultancy charges itself, it was not liable to TDS and no disallowance u/s 40(a)(ia) could be made.

LD/70/76; [ITAT Delhi: ITA No 6348/Del/2014] Ms. Anshu Gupta Vs. The Asst. Commissioner of Income Tax 30/09/2021

Assessment for a particular AY 2010-11 held to be a non-curable mistake u/s 292B when the same was not covered under six years period u/s 153A; Assessee was subjected to a search operation in Sept 2009 and assessment for block period was undertaken; CIT(A) dismissed Assessee's appeal by observing that no objection regarding assessment being framed u/s 153A was taken at the stage of assessment and that the assessment was made u/s 153A after obtaining the requisite approval u/s 153D and penalty proceedings were initiated u/s 271AAA, which was not disputed by the Revenue; ITAT however held that recording of such procedural facts cannot be construed as a mistake and the impugned assessment order does not satisfy the test of law.

LD/70/77; [ITAT Mumbai: ITA No 835/Mum/2020] The Asst. Commissioner of Income Tax Vs. IDBI Bank Limited 28/09/2021

ITAT held that adjustment of priorly granted refund against interest or tax component of refund arising from appellate order falls outside the realm of rectification u/s 154; Assessee was held entitled for refund of Rs.16.45 Cr. with interest u/s 244A pursuant to a favourable order passed by CIT(A) for AY 2003-04; Revenue, while granting refund, adjusted Rs.1.95 Cr. (refund granted earlier) against the interest component of refund arising due to CIT(A)'s order and later passed rectification order u/s 154 holding that an excess refund of Rs.80.95 Lacs was granted to the Assessee as the earlier refund of Rs.1.95 Cr. should have been adjusted against the tax component and not interest component computed u/s 244A; ITAT held the rectification order as invalid noting that the issue is purely legal and a highly debatable one which falls outside the ambit of mistake apparent from record.

LD/70/78; [ITAT Mumbai: ITA No 931/ Mum/2005] Juniper Hotels Pvt. Ltd. Vs. The Dy. Commissioner of Income Tax (Intl. Taxation) 23 /09/2021

Article 7 of India-Australia DTAA held to be applicable considering existence of PE of Australia Pacific Project Holding Pte Ltd. in India, and thus assessee held to be liable to deduct tax at source on fee paid for consultancy on project management; Assessee, in the process of setting up the Grand Hyatt hotel in Mumbai engaged the Australian company as project management consultant; Assessee considered the payments to be in the nature of FTS and deducted tax at source at 15% under Article 12 of the India-Australia DTAA whereas Revenue held that since the Australian company constituted a PE in India, rendering the services taxable under Article 7, assessee was liable to tax at 20% under Section 115A; ITAT observes that once it was not in dispute that the Australian company had a PE in India, assessee ceased to derive any benefit under Articles 12(1) & 12(2).; ITAT ruled in favour of Revenue.

GST

LD/70/79; [2021-TIOL-251-SC-GST] UNION OF INDIA Vs. BHARTI AIRTEL LTD AND OTHERS 28/10/2021

Hon'ble Court held that the primary source for furnishing the return in self-assessed manner is in the form of agreements, invoices/challans, receipts of the goods and services, and books of accounts which are maintained by the assessee manually/ electronically. Auto-populated data available on the electronic portal is more in nature of a facilitator for confirmation but, non-operation of the same does not preclude one from appropriate compliance under the law. The provision contained in Section 39(9) of the 2017 Act and Rule 61 of the Rules framed thereunder, as applicable at the relevant time, apply with full vigor to the returns filed by the registered person in Form GSTR-3B. There is no express provision permitting swapping of entries effected in the electronic cash ledger vis-a-vis the electronic credit ledger or vice versa. Any indulgence shown contrary to the statutory mandate would not only be illegality but in reality, would simply lead to a chaotic situation and collapse of the tax administration of Union, States, and Union Territories. Resultantly, the assessee cannot be permitted to unilaterally carry out rectification of his returns submitted electronically in Form GSTR-3B, which inevitably would affect the obligations and liabilities of other stakeholders, because of the cascading effect in their electronic records. Stipulations in Circular No. 26/26/2017-GST= dated 29.12.2017, including in paragraph 4 thereof, are consistent with the provisions of the 2017 Acts and the Rules framed thereunder.

LD/70/80; [2021-TIOL- 2119-HC-MAD-GST] JENEFA INDIA vs. UOI and ORs 05/10/2021

Circular No. 80/54/2018-GST dated 31.12.2018 which provided that Entry 102 of the Exemption Notification 2/2017-CTR only covers the prepared aquatic/poultry/cattle feed falling under headings 2309 and 2301 and does not apply to raw material/ inputs like fish meals or meat cum bone meal (MBM) falling under heading 2301 which are further used to manufacture/formulation of, aquatic feed, animal feed, cattle feed, poultry feed, etc. is held to be ultra-vires. Fish meal falling under heading 2301 / 2309 is held to be exempted under Sr.No.102 of the said exemption notification.

LD/70/81; [2021-TIOL-2161-HC-RAJ-ST-] M/s AKSHAY DAN CHARAN Vs. UNION OF INDIA and ORS 28/10/2021

The aspect of time limit as laid down in the scheme of Sabka Vishwas Legacy Dispute Resolution Scheme (SVLDRS), is very clearly defined. Thus, an applicant who has made the application under the scheme which has been accepted by the department needs to adhere to the time limits and cut-off dates. Irrespective of any facts and circumstances, the time limit/cut-off dates cannot be extended.

Ld/70/82; [2021-TIOL-720-Cestat-Del] Birla Corporation Ltd Vs Commissioner Of Central Goods And Service Tax, Jabalpur 09/11/2021

Excise duty payable in case of captive consumption under Rule 8 of the Central Excise Valuation Rules is only applicable in the case where the manufactured goods are captively consumed for the manufacture of any other product and not when it's used for constructing factory premises/ immovable property.

Disciplinary Case

Certification of form 32 by Chartered Accountant in relation to resignation of Director of company without verifying the genuineness of resignation letter -- Held, Respondent is guilty under Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act 1949.

Held:

In the instant case, the charge against the Respondent is that the Director of the Company filed Form 32 with ROC in respect of resignation of the Complainant from Directorship of the said Company based on his forged resignation letter. The Committee noted that the said Form 32 which was filed with ROC was certified by the Respondent. The Resignation Letter of the Complainant was forged as the signature of the Complainant was not original but was simply copied and pasted. The Forensic Lab Report produced by the Complainant clearly states that the signature of Complainant on the Resignation letter which is under question is transplanted. The Committee observed that the Respondent should have been diligent and careful while verifying the Form 32. The Committee noted that the original copy of resignation letter has not been produced by the Respondent before the Committee. The plea of the Respondent that the said resignation letter has been submitted by him with ROC at the time of filing Form 32 is not tenable in the light that no original is required to be filed with ROC at the time of filing of Form 32.The Committee also noted that the plea of Respondent that there was a practice in the Company to fix a cello tape on the original signatures of important document is also not tenable in absence of production of any other such documents by him which will prove that there was such practice in the Company. Therefore, the Committee opined that argument of the Respondent appears to be an afterthought. In view of above noted facts, the Committee held that the Respondent was grossly negligent in performing his professional duties and he is guilty of professional misconduct falling within the meaning of Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

File No. : PR-/143/2013-DD/132/2013/ DC/474/2016] Sh. Gunwant Singh Saluja Vs. CA. Bijay Kumar Sah

Circulars/Notifications

Given below are summarised important Circulars and Notifications issued by the CBDT, CBIC-GST 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. *Central Government designates special courts in in Karnataka, Goa and Manipur - Notification No. 122,123&124/2021, dated 25-10-2021*

The Central Government vide a series of notifications has specified special courts in the states of Karnataka, Goa and Manipur deriving powers from sections 280A of the Income-tax Act, 1961 and section 84 of the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015.

The detailed Notification(s) can be downloaded from the link below:

https://www.incometaxindia.gov.in/communications/notification/notification-122-2021.pdf

https://www.incometaxindia.gov.in/communications/notification/notification-123-2021.pdf

https://www.incometaxindia.gov.in/communications/notification/notification-124-2021.pdf

2. *Central Government notifies certain entities for the purposes of section 10(46) exemption - Notification No. 125, 126, 127 & 131/2021, dated 29-10-2021 & 10-11-2021*

The Central Government vide various notifications has notified 'Chandigarh Pollution Control Committee' (PAN AAATC6094L), 'Madhya Pradesh Pollution Control Board' (PAN AAALM2479H), 'Gujarat State Aids Control Society' u/s 10(46) and 'Assam Building and Other Construction Workers Welfare Board' (PAN AAAJA2255M) in respect of specified incomes subject to satisfaction of conditions laid therein for the period as specified in the respective notifications.

The detailed Notification(s) can be downloaded from the link below:

https://www.incometaxindia.gov.in/communications/notification/notification-125-2021.pdf

https://www.incometaxindia.gov.in/communications/notification/notification-126-2021.pdf

https://www.incometaxindia.gov.in/communications/notification/notification-127-2021.pdf

https://www.incometaxindia.gov.in/communications/notification/notification-131-2021.pdf

3. *Central Government notifies 'Pimpri Chinchwad College of Engineering' u/s 35(1)(ii) - Notification No. 128/2021, dated 31-10-2021*

The Central Government has vide this notification approved 'Pimpri Chinchwad College of Engineering' under the aegis of Pimpri Chinchwad Education Trust, Pune (PAN:AAATP3981F) under the category "University, College or Other Institution" for Scientific Research for the purposes of section 35(1)(ii) from AY 2022-23 to 2027-28.

The detailed Notification can be downloaded from the link below:

https://incometaxindia.gov.in/communications/notification/notification-128-2021.pdf

4. *Central Government notifies the e-Settlement Scheme, 2021 u/s 245D - Notification No. 129/2021, dated 01-11-2021*

This Scheme shall be applicable to pending applications in respect of which the applicant has not exercised the option under section 245M(1) and which has been allotted or transferred by CBDT to an Interim Board. The scheme further specifies constitution of Interim Board, procedure for settlement, allocation of pending applications and other necessary details for the implementation of the Scheme.

The detailed Notification can be downloaded from the link below:

https://incometaxindia.gov.in/communications/notification/notification-129-2021.pdf

Matter on Direct and Indirect Taxes 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.

5. *Central Government specifies the School Employees Retirement System of Ohio u/s 10(23FE) - Notification No. 130/2021, dated 02-11-2021*

The Central Government vide this notification has specified the pension fund, namely, the School Employees Retirement System of Ohio, as the specified person for the purposes of the said clause in respect of the eligible investment made by it in India on or after 02.11.2021 but on or before 31.03.2024 subject to the fulfillment of the conditions specified therein.

The detailed Notification can be downloaded from the link below:

https://incometaxindia.gov.in/communications/notification/notification-130-2021.pdf

II. CIRCULARS

1. *Clarification regarding Section 36(1)(xvii) of the Income-tax Act, 1961 inserted vide Finance Act, 2015 - Circular No. 18/2021, dated 25-10-2021*

The Finance Act, 2015 inserted the clause (xvii) in section 36(1) to provide for deduction on account of the amount of expenditure incurred by a co-operative society engaged in the business of manufacture of sugar. Vide this Circular, CBDT has clarified that the phrase 'price fixed or approved by the Government' includes price fixation by State Governments through State-level Acts/Orders or other legal instruments that regulate the purchase price for sugarcane including State Advised Price, which may be higher than the Statutory Minimum Price/Fair and Remunerative Price fixed by the Central Government.

The detailed Circular can be downloaded from the link below:

https://incometaxindia.gov.in/communications/circular/circular-no-18-2021.pdf

2. *Guidelines under clause (23FE) of section 10 of the Income-tax Act, 1961 - Circular No. 19/2021, dated 26-10-2021*

The Finance Act, 2021, *inter alia*, inserted seventh proviso to section 10(23FE) to provide that in case the specified fund has loans or borrowings, directly or indirectly, for the purposes of making investment in India, such fund shall be deemed to be not eligible for exemption under this clause. First proviso to section 10(23FE) provides that if any difficulty arises regarding interpretation or implementation of the provisions of this clause, the CBDT may, with the approval of the Central Government, issue guidelines for the purpose of removing the difficulty and accordingly vide this Circular, CBDT has issued specified guidelines in this regard.

The detailed Circular can be downloaded from the link below:

https://incometaxindia.gov.in/communications/circular/circular-19-2021.pdf

III. PRESS RELEASES/INSTRUCTIONS/OFFICE MEMORANDUM/ORDER

1. *ITD's searches in NCR, Haryana & WB reveal large scale under-invoicing of imports & ITD conducts searches on groups engaged in the business of Digital Marketing & Waste Management - Press Release, dated 16-10-2021 & 17-10-2021*

The ITD carried out search and seizure operations on an importer and trader of laptops, mobile phones and peripheral parts. The search operations commenced on 10.10.2021 and were spread across the National Capital Region, Haryana and West Bengal. Further, the ITD initiated search and seizure operations in two groups based in several States on 12.10.2021. The first group is engaged in digital marketing and campaign management wherein the search operations have been carried out at 7 premises located in Bengaluru, Surat, Chandigarh, and Mohali.

The complete text of the above Press Release(s) can be downloaded from the link below:

https://incometaxindia.gov.in/Lists/Press%20Releases/Attachments/995/Press-Release-IT-Department-searches-in-NCR-Haryana-WB-dated-16-10-2021.pdf

https://incometaxindia.gov.in/Lists/Press%20Releases/Attachments/997/Press-Release-IT-Department-conducts-searches-on-groups-engaged-in-the-business-of-Digital-Marketing-dated-17-10-2021.pdf

2. *Order under section 285BB of the Income-tax Act, 1961 read with Rule 114-I of the Income-tax Rules, 1962 - Order, dated 26-10-2021*

In exercise of powers conferred u/s 285BB read with Rule 114-I(2), the CBDT vide this Order has authorized the DGIT (Systems) to upload information relating to specified sources which is in her/his possession, in the Annual Information

Statement in Form 26AS in the electronic filing account registered by the assessee in designated portal, within three months from the end of the month in which the information is received by her/him.

The complete text of the above Order can be downloaded from the link below:

https://incometaxindia.gov.in/Lists/Latest%20News/Attachments/481/Order-us-285BB-ITAct-1961-MiscComm-26-10-21.pdf

3. Income Tax Department conducts searches in Punjab & Nashik - Press Release(s), dated 25-10-2021 & 26-10-2021

The ITD carried out search and seizure operations in the cases of two groups based in Punjab. The search action in case of the first group was initiated on 21.10.2021. This group is engaged in Cycle business. The second group, based in Jalandhar, is engaged in providing immigration & study visa related services to students. The search action in this group was initiated on 18.10.2021. Further, the ITD carried out a search and seizure operation on 21.10.2021 in the case of a person engaged in the real estate business, primarily operating as a land aggregator in Nashik.

The complete text of the above Press Release(s) can be downloaded from the link below:

https://incometaxindia.gov.in/Lists/Press%20Releases/Attachments/999/PressRelease-ITD-conducts-searches-in-Punjab-26-10-21.pdf

https://incometaxindia.gov.in/Lists/Press%20Releases/Attachments/998/PressRelease-ITD-conducts-searches-in-Nashik-25-10-21.pdf

4. Roll out of the new Annual Information Statement (AIS) - Press Release, dated 01-11-2021

ITD has rolled out the new AIS on the Compliance Portal which provides a comprehensive view of information to a taxpayer with a facility to capture online feedback. The new AIS can be accessed by clicking on the link "Annual Information Statement (AIS)" under the "Services" tab on the new Income tax e-filing portal (https://www.incometax.gov.in) The display of Form 26AS on TRACES portal will also continue in parallel till the new AIS is validated and completely operational.

The complete text of the above Press Release can be downloaded from the link below:

https://incometaxindia.gov.in/Lists/Press%20Releases/Attachments/1001/PressRelease-Roll-out-of-the-new-Annual-Information-Statement-AIS-1-11-21.pdf

5. Income Tax Department conducts searches in Bihar and Jharkhand, Tamil Nadu and Karnataka - Press Release(s), dated 01-11-2021/02-11-2021&03-11-2021

The ITD carried out search and seizure operation on a prominent road construction contractor in Bihar and Jharkhand. Further, the ITD carried out search and seizure operations in Tamil Nadu in the case of a group engaged in the manufacturing of animal feeds, poultry farming, edible oils and export of egg products. Also, the ITD carried out search and seizure operations on one of the leading groups of Karnataka, engaged in the civil construction of roads and irrigation projects, on 28.10.2021 at various premises located in North Karnataka

The complete text of the above Press Release(s) can be downloaded from the link below:

https://incometaxindia.gov.in/Lists/Press%20Releases/Attachments/1000/PressRelease-ITD-onducts-searches-in-Bihar-and-Jharkhand-1-11-21.pdf

https://incometaxindia.gov.in/Lists/Press%20Releases/Attachments/1002/Press-Release-IT-Department-conducts-searches-in-Tamil-Nadu-dated-02-11-2021.pdf

https://incometaxindia.gov.in/Lists/Press%20Releases/Attachments/1003/PressRelease-ITD-conducts-searches-in-Karnataka-3-11-21.pdf

6. Income Tax Department conducts searches in Rajasthan, Jammu & Kashmir, Punjab & Maharashtra - Press Release(s), dated 04-11-2021/05-11-2021&06-11-2021

The ITD carried out search and seizure operations in border districts of Rajasthan on 28.10.2021 covering 33 premises at different locations, where the groups are carrying on business of real estate, sand-mining and liquor trade. Further, the ITD carried out search and seizure operations on 28.10.2021 in the cases of persons engaged in the business of processing & trading of dry fruits in Jammu & Kashmir and Punjab. Also, the ITD carried out search and seizure operations on 27.10.2021 at the Headquarter and one of the branches of an Urban Credit Cooperative Bank located in Maharashtra

The complete text of the above Press Release(s) can be downloaded from the link below:

https://incometaxindia.gov.in/Lists/Press%20Releases/Attachments/1004/PressRelease-ITD-conducts-searches-in-Rajasthan-5-11-21.pdf

https://incometaxindia.gov.in/Lists/Press%20Releases/Attachments/1005/PressRelease-ITD-Conducts-searches-in-Jammu-Kashmir-Punjab-5-11-21.pdf

https://incometaxindia.gov.in/Lists/Press%20Releases/Attachments/1006/Press-Release-IT-Department-conducts-searches-in-Maharashtra-dated-06-11-2021.pdf

7. *Taxpayers' Lounge of Income Tax Department set up at IITF, 2021 - Press Release, dated 14-11-2021*

A Taxpayers' Lounge was set up by the ITD in India International Trade Fair, 2021 at Pragati Maidan, New Delhi from 14th – 27th November 2021, for fostering awareness about various services provided by the ITD to taxpayers and to facilitate compliance with the various Income-tax rules and procedures. The lounge was utilized for obtaining feedback about the problems being faced by the taxpayers.

The complete text of the above Press Release can be downloaded from the link below:

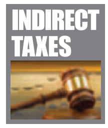
https://incometaxindia.gov.in/Lists/Press%20Releases/Attachments/1007/PressRelease-Taxpayers-Lounge-of-ITD-set-up-at-IITF-2021-15-11-21.pdf

8. *ITD conducts searches in Gurugram - Press Release, dated 15-11-2021*

The ITD carried out search and seizure operations on 10.11.2021 on two groups, one engaged in real estate and hospitality and the other, a tools and equipment manufacturing group at Gurugram. Various incriminating documents and electronic data relating to unaccounted investment in real estate, unaccounted sales and purchases, difference in stock, acquisition of shell companies, benami properties and transactions, bogus unsecured loans and share application money, evasion of capital gains, etc. were found and seized.

The complete text of the above Press Release can be downloaded from the link below:

https://incometaxindia.gov.in/Lists/Press%20Releases/Attachments/1008/PressRelease-ITD-conducts-searches-in-Gurugram-15-11-21.pdf



Significant Notifications and Circulars issued in GST and Customs from 16th October, 2021 to 15th November, 2021.

GST

I. Guidelines

The CBIC has issued Guidelines for disallowing debit of electronic credit ledger under Rule 86A of the CGST Rules, 2017. The Guidelines lay down that the power of disallowing debit of amount from electronic credit ledger must not be exercised in a mechanical manner and "careful examination of all the facts of the case" is important to determine case(s) fit for exercising power under rule 86A. It contemplates an objective determination based on intelligent care and evaluation as distinguished from a purely subjective consideration of suspicion. Monetary limits have been prescribed in the Guidelines for exercising the powers under rule 86A by the officers of the rank of Assistant Director and above of DGGI. The Guidelines have also laid down the procedure to be followed for disallowing the debit of electronic credit ledger as also for allowing the debit of disallowed/restricted credit.

The complete text of the Guidelines can be accessed at ***Guidelines for disallowing debit of electronic credit ledger under rule 86A of the CGST Rules, 2017***

CUSTOMS

1. Anti-absorption provisions introduced for countervailing duty & anti-dumping duty.

The Customs Tariff (Identification, Assessment and Collection of Countervailing Duty on Subsidized Articles and for Determination of Injury) Rules, 1995 have been amended to introduce anti-absorption provisions in these rules. Similarly, Customs Tariff (Identification, Assessment and Collection of Anti-dumping Duty on Dumped Articles and for Determination of Injury) Rules, 1995 have also been amended to introduce anti-absorption provisions in these rules. The provisions provide for an anti-absorption review and initiation of investigation to determine the absorption.

Notification No. 83/2021-Customs (NT) dt. 27th October, 2021 & Notification No. 84/2021-Customs (NT) dt. 27th October, 2021

2. Reduction of Road and Infrastructure Cess (RIC) on Petrol and Diesel.

The Road and Infrastructure Cess (RIC) on Motor spirit (petrol) and diesel has been reduced to Rs. 13 and Rs. 8, respectively.

Notification No. 52/2021-Customs dt. 3rd November, 2021

3. Amendments in Courier Imports and Exports (Clearance) Regulations, 1998 and Courier Imports and Exports (Electronic Declaration and Processing), Amendment, Regulations, 2010

CBIC has amended the Courier Imports and Exports (Clearance) Regulations, 1998 and Courier Imports and Exports (Electronic Declaration and Processing), Amendment, Regulations, 2010 to simplify the registration requirements of Authorised Couriers. The amendments provide lifetime validity to a registration, in place of existing system of validity periods and renewals. They also provide for voluntary surrender of registration. While enabling a deemed invalidity of registration in case the Authorised Courier is inactive for a continuous period of 1 year, at a time, these also empower the Principal Commissioner / Commissioner to renew such registration. Such deemed invalidation shall be applied prospectively.

The notifications have inserted regulations with respect to the surrender of registration by Authorised Courier and revoking of registration by Principal Commissioner/ Commissioner of Customs and the validity of their Registration. These aspects are expected to bring greater certainty to the Authorised Couriers and let them focus on their core business.

The detailed provisions of the above regulations can be accessed at the following links:

Notification No. 85/2021-Customs (N.T.) dt. 27th October, 2021

Notification No. 86/2021-Customs (N.T.) dt. 27th October, 2021

Circular No. 24/2021-Customs dt. 27th October, 2021

FEMA Updates

Summary Information on few Compounding Orders issued after 1st March 2020

Sr. No.	Party Name	Nature of Contravention	Date of Order	Compounding Fees (Rs.)
1.	M/s. Jewel Alliance Network Pvt. Ltd.	Contravention under Regulation 11.2 of FEMA 20R for transfer of shares by person resident in India to person resident outside India without compliance of pricing guidelines, contravention of Para 2(3) of Schedule 1 of FEMA 20 R for delay in allotment of shares beyond prescribed period of 60 days and Regulation 13.2 of FEMA 20R for delay in filing of Form FCGPTR for reporting of allotment of shares.	11-10-2021	14,35,771
2.	M/s. Dillinger Middle East FZE	Contravention of Regulation 4(d)(l) of FEMA 22R in relation to not obtaining approval for extension of validity of liaison office after expiry of 3 years period.	18-01-2021	6,46,644

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The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)

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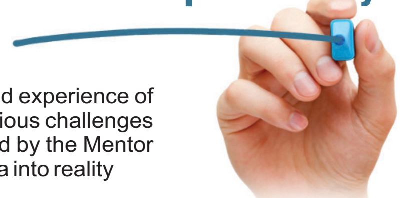

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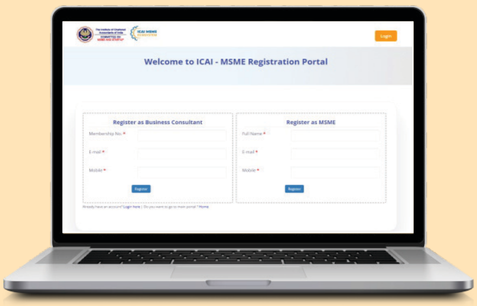
The three main pillars of the MSME ExCHANGE are as under:



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Report on Audit Quality Review (2020-21) of the Quality Review Board

1. Government of India has, in exercise of the powers conferred under Section 28A of the Chartered Accountants Act, 1949, constituted a Quality Review Board (the 'Board') to perform the following functions u/s 28B of the Chartered Accountants Act, 1949:-

   a) to make recommendations to the Council with regard to the quality of services provided by the members of the Institute;

   b) to review the quality of services provided by the members of the Institute including audit services; and

   c) to guide the members of the Institute to improve the quality of services and adherence to the various statutory and other regulatory requirements.

2. However, the Ministry of Corporate Affairs, vide letter F.No.7/1/2019-CL-1 dated 30th January, 2019, has clarified to the Quality Review Board that in view of Sec.132 (2) of the Companies Act, 2013 r/w Rule 9(4) of NFRA Rules, 2018, the issue of QRB reviewing audits of the companies/bodies corporate specified under Rule 3 of the NFRA Rules, 2018 will only arise in case a reference is so made to QRB by NFRA, and not otherwise.

3. Accordingly, QRB would now be able to initiate reviews of quality of audit services provided by members of the Institute only in respect of entities other than those specified under Rule 3(1) of NFRA Rules, 2018, namely, private limited companies, unlisted public companies below the thresholds specified under Rule 3(1) of NFRA Rules, 2018 and other entities not specified under Rule 3(1) of NFRA Rules, 2018; and those referred to QRB by NFRA under Rule 9(4) of NFRA Rules, 2018. However, in the meanwhile, QRB has also been completing its on-going reviews of top listed and other public interest entities which were already in process.

4. Government of India has also issued 'Chartered Accountants (Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and Members of the Board) Rules, 2006'. In terms of its Rule 6, in the discharge of its functions, the Board may, *inter alia*, evaluate and review the quality of work and services provided by the members of the Institute in such manner as it may decide and also lay down the procedure of evaluation criteria to evaluate various services being provided by the members of the Institute and to select, in such manner and form as it may decide, the individuals and firms rendering such services for review. Pursuant to the Rule 6, the Board has issued 'Procedure for Quality Review of Audit Services of Audit Firms' (the 'Procedure') providing for various matters, adopting best practices, in laying down the necessary system for conducting reviews of Audit firms in India. The Board also issued the Revised Procedure in October, 2019.

5. In terms of the aforesaid Procedure, since FY 2012-13, the Quality Review Board has initiated a system of independent review of statutory audit services of the audit firms in India pursuant to a process comprising selection of the Audit firms for review and engagement of Technical Reviewers.

6. The Board has issued a Report on Audit Quality Review (2020-21) providing key findings and analysis of observations made by the Technical Reviewers in review reports during the period which is available at the website of the Quality Review Board (http://www.qrbca.in/wp-content/uploads/2021/10/qrb54108.pdf). It is hoped the concerned stakeholders will find it useful.

20th November, 2021

IMPORTANT ANNOUNCEMENT

Subject: Information System Audit – Assessment Test (ISA – AT), January 2022

Members are hereby informed that the next Information Systems Audit (ISA) Course Assessment Test (Old as well as New Syllabus) which is open to the members of the Institute will be held on **8th January 2022 (Saturday) from 9 AM to 1 PM (IST)** at the following cities provided that sufficient number of candidates offer themselves to appear there from.

Name of the State	No. of Cities	Name of the Examination City
Andhra Pradesh	4	Guntur, Ongole, Vijayawada, Visakhapatnam
Assam	1	Guwahati
Bihar	1	Patna
Chattisgarh	3	Bilaspur, Durg, Raipur
Chandigarh	1	Chandigarh
Delhi / New Delhi	1	Delhi / New Delhi
Gujarat	4	Ahmedabad, Rajkot, Surat, Vadodara
Haryana	9	Faridabad, Gurgaon (Gurugram), Hisar, Karnal, Panipat, Rewari, Rohtak, Sirsa, Yamuna Nagar
Jammu & Kashmir	1	Jammu
Jharkhand	3	Dhanbad, Jamshedpur, Ranchi
Karnataka	2	Bengaluru, Hubli
Kerala	3	Ernakulam (Kochi), Thiruvananthapuram, Thrissur
Madhya Pradesh	4	Bhopal, Gwalior, Indore, Jabalpur
Maharashtra	9	Ahmednagar, Akola, Aurangabad, Kolhapur Mumbai, Nagpur, Nashik, Pune, Thane
Odisha	2	Bhubaneswar, Rourkela
Punjab	4	Amritsar, Bathinda, Jalandhar, Ludhiana
Rajasthan	8	Ajmer, Bhilwara, Bikaner, Jaipur, Jodhpur, Kota, Sikar, Udaipur
Tamil Nadu	3	Chennai, Coimbatore, Tirupur
Telangana	1	Hyderabad
Uttar Pradesh	11	Agra, Allahabad (Prayagraj), Bareilly, Ghaziabad, Gorakhpur, Kanpur, Lucknow, Mathura, Meerut, Noida, Varanasi
Uttarakhand	1	Dehradun
West Bengal	2	Kolkata, Siliguri

The Council reserves the right to withdraw any centre at any stage without assigning any reason. The above Test is open only to the Members of the Institute who are already registered with the Institute for the ISA course and fulfill the eligibility criterion laid down. The fee payable for the above Assessment Test is ₹ 2000/-. An application for admission to the Information Systems Audit (ISA) Course - Assessment Test is required to apply on-line at **isaat.icaiexam.icai.org** from **26th November, 2021** to **10th December, 2021** and remit the examination fee of ₹ 2000/- on-line by using VISA or MASTER or MAESTRO Credit / Debit Card / Rupay Card / Net Banking / Bhim UPI.

(S. K. Garg)
Additional Secretary (Examinations)

FORTHCOMING EVENTS

Sl.No	Title of the Seminar/Conference	Dates	Place	CPE Hours
Virtual Certificate Course by Committee on MSME & Start-up				
For registration and details please contact: Secretary Committee on MSME & Start-up: msme@icai.in, 0120-30459940 Details available at https://msme.icai.org/certificate-course-on-msme/				
1.	MSME (Course Fee: Rs.5310 with GST)	Weekends from 11th December 2021 onwards to 16th January 2022 (excluding 1st & 2nd January 2022)	Virtual	-
Virtual CPE Meetings by Internal Audit Standards Board				
For registration and details please contact, Secretary, IASB Secretariat: iasb.program@icai.in, 0120-3045995				
2.	Internal Audit and Risk Management	December 4, 2021, 6 PM – 9 PM	Virtual	3
3.	Technology as Enabler of Internal Audit	December 11, 2021, 6 PM – 9 PM	Virtual	3
4.	Standards on Internal Audit – Benchmark for Quality	December 16, 2021, 6 PM – 8 PM	Virtual	2
5.	Technology as Enabler of Internal Audit	December 18, 2021, 6 PM – 9 PM	Virtual	3
6.	Technology as Enabler of Internal Audit	December 25, 2021, 6 PM – 9 PM,	Virtual	3
7.	Standards on Internal Audit – Benchmark for Quality	December 30, 2021, 6 PM – 8 PM	Virtual	2
For more details about the forthcoming events please refer the detailed announcements hosted on the ICAI website www.icai.org				

Report on Global Virtual Sustainability Summit - Accelerating Sustainability Agenda - Opportunities for Professional Accountants

The Institute of Chartered Accountants of India (ICAI) is committed for being a partner in the achievement of the UN Sustainable Development Goals (SDGs) 2030 Agenda and is taking initiatives to strengthen the sustainability reporting ecosystem in the country. The Sustainability Reporting Standards Board and International Affairs Committee of ICAI in its endeavor to bring both the Indian and global perspective together to dwell deeper into the emerging sustainability reporting ecosystem across the globe jointly organized a Global Virtual Sustainability Summit on the theme - **Accelerating Sustainability Agenda: Opportunities for Professional Accountants** on 17th - 18th November, 2021. The Summit provided a platform to deliberate on the need of businesses to adopt sustainability practices; collaborative efforts towards transition to low carbon economy; strengthening efforts towards building harmonized global sustainability reporting system and crucial role of accountants in leading the sustainability agenda.

President, ICAI, CA. Nihar N Jambusaria gave the inaugural address and welcomed Guest of Honour, Ms. Asmâa Resmouki, Deputy President, IFAC. He highlighted the exigency to view sustainability issues as an important aspect as such issues have created new risks and opportunities for all stakeholders. He also shared various initiatives taken by the institute in the sustainability domain. He further added, "The Summit being at the apropos time when nations/ economies world over are at a cusp of a transformative change after the collective dedication delivered at the COP 26. Another welcome step is the announcement of formation of new International Sustainability Standards Board (ISSB) by the IFRS Foundation which would enable setting up of global sustainability standards".

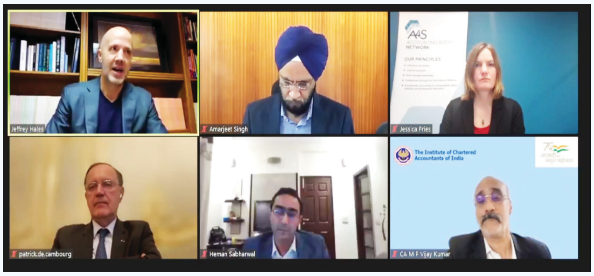
Guest of Honour, Ms. Asmâa Resmouki congratulated Indian professionals who are working with nearly all professional bodies across the globe. She emphasized that "Challenges for developing countries vis-à-vis climate crisis and sustainable finance needs urgent action. All our actions are interconnected and our future depends on newer choices to deal with unpredictable uncertainties. Professionals have huge opportunity to assist governments in making tough choices to progress the sustainability agenda". CA. (Dr.) Jai Kumar Batra, Acting Secretary, ICAI gave opening remarks.

The Summit was spread over four technical sessions with panel discussions on pertinent topics, namely - Shaping an Equitable, Inclusive and Sustainable Recovery, Building a Comprehensive Global Sustainability Reporting System, Climate Risk and Transition to Low Carbon Economy and Accountants Leading Sustainability Agenda - Role of PAOs and Regional Bodies.

Session 1: Shaping an Equitable, Inclusive and Sustainable Recovery

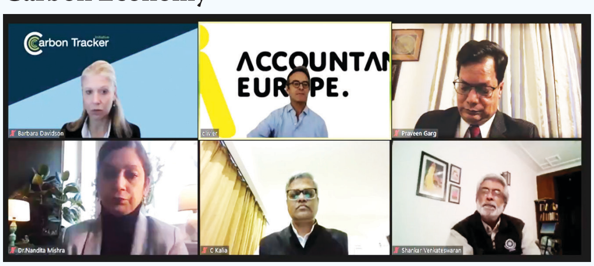
Mr. Sanjay Rughani, Chair, PAIB of IFAC in his Keynote Address for Session One - Shaping an Equitable, Inclusive and Sustainable Recovery highlighted the important role of professional accountants in sustainable recovery. CA. Rakesh Agarwal moderated the session and global visionaries - Ms. Irena Zubcevic, Chief, Intergovernmental Policy and Review Branch, Office of Intergovernmental Support and Coordination for Sustainable Development, Department of Economic and Social Affairs, Mr. Richard Bolwijn, Director, Investment Research, UNCTAD, Ms. Sanyukta Samaddar, IAS, Adviser (SDGs), NITI Aayog, GOI and Mr. Shriprakash Shukla, Chairman, Group Sustainability Council, Mahindra and Mahindra Group - came together to navigate a course for a post-pandemic recovery. The panelists spoke on how economic and social challenges and opportunities can be met to build an organizing framework to drive a coherent set of actions for change along with future agenda on roadmap of actions to mobilize investment and support for financing the 2030 Agenda.

Session 2: Building a Comprehensive Global Sustainability Reporting System



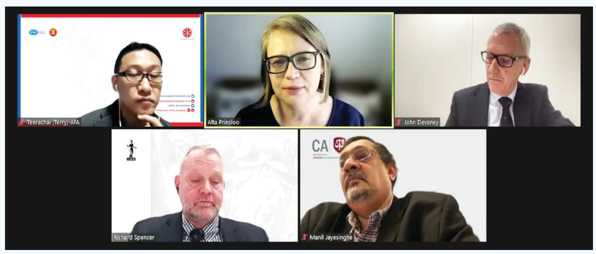
CA. M P Vijay Kumar, Central Council Member and Chairman, Accounting Standards Board, ICAI moderated Session Two - Building a Comprehensive Global Sustainability Reporting System. Keynote Address for the session was delivered by Mr. Jeffrey Hales, Chair, SASB, Value Reporting Foundation wherein he shared the global initiatives and progress in the sustainability standard setting domain. He further highlighted on the role of accountancy profession towards the same. The session brought together - Mr. Amarjeet Singh, Executive Director, Securities and Exchange Board of India (SEBI), Mr. Patrick de Cambourg, Chair, European Lab Project Task Force on EU Non-financial Reporting Standards (PTF-NFRS), Ms. Jessica Fries, Executive Chairman, Accounting for Sustainability and CA. Heman Sabharwal, Eminent Speaker to ponder deep into the present sustainability reporting landscape vis-à-vis quality of data, governance and controls as well as a roadmap for building a comprehensive global sustainability reporting system.

Session 3: Climate Risk and Transition to Low Carbon Economy



Another crucial issue in the sustainability domain was deliberated upon in Session Three - Climate Risk and Transition to Low Carbon Economy which was moderated by CA. Praveen Garg, Former Special Secretary & FA, Ministry of Environment, Forest and Climate Change. Mr. Olivier Bouteille-Taft, CEO, Accountancy Europe in his keynote address shared the fact that non-stationary climate risks have turned out into psychological risks. He also added that the recent approaches towards low carbon economies are actually not delivering and hence new approaches towards zero carbon economy should be formulated. Mr. Shankar Venkateswaran, Executive Director, India (Interim), CDP, Ms. Barbara Davidson, Senior Analyst, Regulatory Team, The Carbon Tracker Initiative, Dr. (CMA) Nandita Mishra, Ambassador, IIRC and Mr. Chaitanya Kalia, Eminent Speaker participated in the panel discussion focussing on business case for climate related disclosures, aligning global investments towards net-zero and climate resilient economy, tackling evolution of corporate green washing and important steps that would be needed on the path towards convergence with anticipated international reporting standards on climate.

Session 4: Accountants Leading Sustainability Agenda - Role of PAOs and Regional Bodies



Reflecting on Accountants Leading Sustainability Agenda - Role of PAOs and Regional Bodies in the last Session, Mr. Kevin Dancey, CEO, International Federation of Accountants (IFAC) while delivering the keynote address stressed on the importance of sustainability issues and shared the work of IFAC on behalf of the profession. Other eminent panelists from across the globe- Mr. John Devaney, Past President, CPA Ireland, Prof. Teerachai Arunruangsirilert, Deputy President, ASEAN Federation of Accountants (AFA), Mr. Manil Jayesinghe, Chairman, Committee on Accounting Standards of SAFA and Mr. Richard Spencer, Director, Sustainability, ICAEW reflected on the initiatives and actions taken by PAOs/ Regional Bodies in their respective jurisdictions. The panelists further deliberated on assurance of sustainability information being critical for credibility of reporting and other crucial aspects such as, success factors for convergence of standards and significance of materiality in performing assurance engagement. Ms. Alta Prinsloo, CEO, PAFA moderated the session and emphasized crucial role of accountants in driving sustainability agenda.

The Summit ended with a vote of thanks by the moderator, CA. Yagnesh Desai.

ICAI in Media

ICAI in Media : Glimpses of October-November, 2021

BusinessLine
New Delhi, October 25, 2021

ICAI takes action against 22 CAs

KR SRIVATS
New Delhi, October 24

The CA Institute has removed the names of 22 Chartered Accountants from its list of members as part of its disciplinary action against erring members.

The period of removal ranges from 15 days to five years, depending on the nature of professional misconduct, sources said. These CAs can still prefer an appeal before the respective appellate forums.

"There may not be any bunching. This is an outcome of the regular disciplinary cases that are heard. All these 22 actions relate to different cases for different periods and decisions taken by different Benches," said Nihar Jambusaria, President, Institute of Chartered Accountants of India (ICAI). For last three years, the CA Institute has been focussing on disposing cases, and the disciplinary mechanism has been smoothly functioning, he added.

During the current council year 2021-22, there are four Benches of the disciplinary committee – Bench I, Bench II, Bench III and one Bench of the Board of Discipline. In addition, there is also a disciplinary committee headed by ICAI the President that has been constituted to look into any residual old cases that are referred back.

As on date, all residual cases under the old disciplinary mechanism stand heard and concluded, barring one which is pending on account of stay granted by the Court.

BusinessLine
New Delhi, October 26, 2021

Not looking to impose Hindi on members, says ICAI President

Jambusaria's recent message on Hindi adoption creates a storm

KR SRIVATS
New Delhi, October 25

Faced with criticism over its President's recent exhortation to members to adopt Hindi in their work, the CA Institute has retracted.

The Institute of Chartered Accountants of India (ICAI) on Monday rushed to clarify that it is not mandatory to use Hindi for work or for stakeholders' interactions.

Nihar Jambusaria, President

On a back foot

"There is no compulsion (in using Hindi). It is a choice. There is no restriction and one can write in their own preferred language. I had only encouraged members (to adopt Hindi)," Nihar Jambusaria, President, ICAI, told *BusinessLine*.

This position will also be clarified at the upcoming monthly newsletter (for the next month).

Institute's latest stance is in the wake of outrage over ICAI President Nihar Jambusaria's message in the recent monthly newsletter where he asked members to adopt Hindi in their work and promote the national language in their work and interactions with other stakeholders. But a number of non-Hindi speaking members took issue with the President's message. There was a lot of criticism, especially from Tamil Nadu.

"Realising the power of our mother tongue Hindi, ICAI is trying to incorporate more use of Hindi into its work culture," Jambusaria had said in the newsletter.

Under the subtitle 'promoting Hindi language' in the newsletter, Jambusaria noted that September 14 being marked as Hindi Diwas and said that he believes that there should not be a specific day for Hindi, "rather, Hindi should be part of our life".

Critics were quick to point out that the ICAI President's exhortation to promote Hindi and adopt this language in the work of CA members was not in tune with the ethos of linguistic pluralism of India and hurt the sentiments of the people of non-Hindi speaking States.

It was pointed out that only 12 out of 35 States and Union Territories in the country had chosen Hindi as the first Choice of communication while among rest only few chose Hindi as their second or third language of communication. A majority of them chose English according to the results of 2011 language census released in 2018.

2 The Times Of India Mumbai FOCUS

ICAI releases guidelines for CA December examination 2021

The guidelines include instructions for the Centre Superintendents, observers and candidates

TIMES NEWS NETWORK

The Institute of Chartered Accountants of India (ICAI) has released the guidelines for CA December 2021 exam day. The ICAI CA December 2021 exam is going to be conducted from December 5 to 20. The guidelines include instructions for the centre superintendents, observers and candidates to be followed in Foundation, Intermediate and Final exams. The Institute has already increased the number of examination centres to cover additional 192 districts across the country to facilitate candidates to not to travel beyond their district. It also assured to implement adequate social distancing measures in the current scenario of Covid-19 pandemic to ensure the health and safety of the candidates. They are requested to carry face mask and shield, gloves, personal transparent water bottle, small hand sanitizer, examination related items, documents as instructed, calculators, stationery items, admit card, photo ID card, etc

Adequate gap as per norms between two seats shall be maintained. Thermo scanning for temperature check of candidates shall be done at the entry of the examination centre.

As an exception due to ongoing Covid, candidates will be allowed to enter the exam centre from 1 pm onwards while they will be allowed to leave the centre 4 pm onwards.

Classifieds

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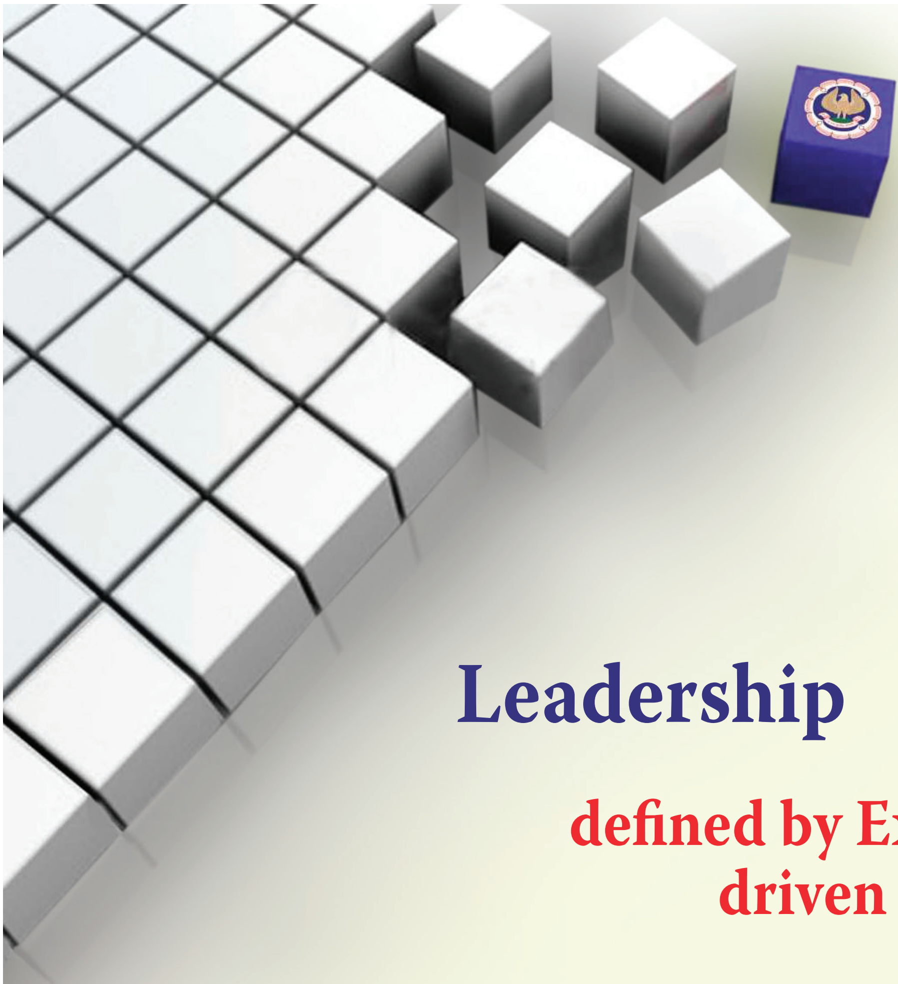

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Azadi Ka Amrit Mahotsav

The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

Discover Wealth of Financial Knowledge

Financial and Tax Literacy

An Awareness Initiative by ICAI

In line with the Government of India's national mission on **Vitiya Saksharta**, The Institute of Chartered Accountants of India (ICAI) on the occasion of 73rd CA Foundation Day had launched an innovative Financial & Tax Literacy Drive to promote financial planning and tax related guidance nationwide. This Drive includes awareness creation through the knowledge hub of seminars & lectures, articles & activities, booklets & video guides by the large community of Chartered Accountants who will act as **Vitiya Mitras.**

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