VOLUME 69 | NO. 12 | PAGES-116 | JUNE 2021 | ₹100

THE CHARTERED ACCOUNTANT

JOURNAL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

Indian Capital Market for Financial Inclusion

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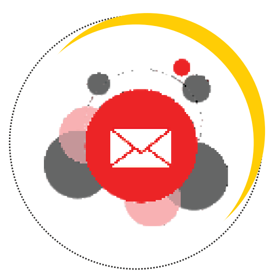

#Any other professional topic in mind?

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Indian Capital Markets

"As India surges ahead on the road to being an economic power on the world's economic map, it is essential to nourish the surge with an unshakeable confidence of the investors world over in the capital market of our country." said CA. Sunil H. Talati, Past-president, ICAI. The Indian capital market plays a highly supportive role in fostering economic growth through the channelisation of savings to productive investments. The capital market is the market for the long-term financial instruments that are in the form of equity or debt. The capital market is a complex of organisations and practices that establish links between the demand for and supply of different types of capital assets for their efficient transfer from investing retail and institutional investors to the entrepreneurs, businesses and government. The capital markets facilitate shifting the command over capital resources into the hands of those who can employ them gainfully. Capital markets are composed of primary and secondary markets with stock market and the bond market as its common constituents.

The stock markets with their equity orientation are highly volatile. Recently India has witnessed bouts of volatility in the stock markets, some of which originated on account of global medical crisis. The recent pandemic that has swamped the world has left a deep impact on the economies across the globe. The Indian markets that plummeted in the first half of 2020 have not only recovered but have remained buoyant ever since, in spite of the present second wave of crisis with unthought severity. Despite the situation, the Indian markets are on a path of growth trajectory that may be seen with subdued optimism. There is paradoxical position in the stock markets which is gaining new heights with enhanced risks only to reinforce that the markets are uncertain and unpredictable. Inferentially, the markets may only have weak form of efficiency at least in the short run.

It is this instability in the markets that cause a significant number of Indian investors particularly small investors to remain away from the capital markets. Incidentally, a large number of investors look forward to a stable return on their investments and choose safer investment opportunities leaving large amount of monies untapped. The instability in the stock markets vindicates the need for professionals such as Chartered Accountants to use their expertise to assist both corporates looking for capital and investors in making prudent decisions. Chartered Accountants with their deep analytical skills can understand the financial reports as well as conduct fundamental analysis to identify the worth of each stock and compliment this knowledge with technical analysis to make better investment decisions. This prowess is natural extension of their professional dexterity in the areas of finance, auditing, taxation, laws and so on. In fact, as the independent auditor, the accounting professionals serve as the eyes and ears of the investors.

While Chartered Accountants serve the investors and industry, ICAI also supports the initiatives of Government and Regulators, viz., Ministry of Corporate Affairs, Securities and Exchange Board of India, Reserve Bank of India, Insurance Regulatory and Development Authority, etc. From time to time, ICAI provides useful practical inputs on the regulatory framework related to capital markets and these efforts are many a times recognised by the government and the regulators. To create awareness and help investors to take quality decision ICAI also supports Ministry of Corporate Affairs and conducts *'Investor Awareness Programmes'* under the aegis of *Investor Education and Protection Fund (IEPF) of the Ministry. Taking a holistic view of the evolving need of financial knowledge, proactive steps have been taken by ICAI to form a dedicated group of experts in the form of "Group for Promoting Financial & Tax Literacy"* that would take all efforts to create awareness and conduct educational campaigns across the country to act as a centre for promoting such knowledge. Knowledge of finance is quintessential for economic survival and shall act as catalyst for reaching of our economic goal of becoming a dollar five trillion economy sooner than later.

-Editorial Board ICAI: Partner in Nation Building

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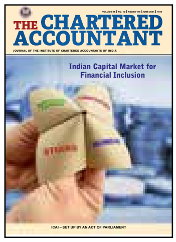

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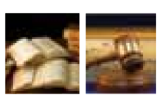

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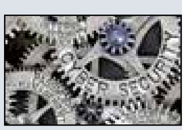

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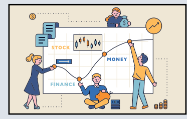

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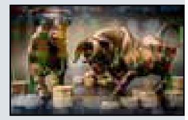

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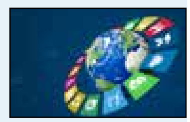

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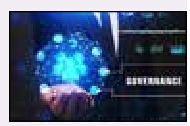

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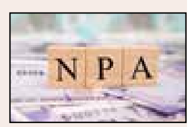

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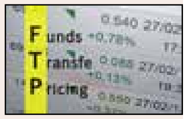

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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

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From the President

CA. Nihar N. Jambusaria
President, ICAI

My Dear Professional Colleagues,

India amidst the ongoing pandemic is audaciously moving forward by taking all possible measures to combat this lethal virus. The global pandemic has tuned into world's blistering hotspot of pandemic with virulent whirlwind crippling the life. The second wave is very different from the first wave with exponential spread of disease and painful loss of several lives. After one full year from the time when stringent lockdown was first put in place, various States are again imposing restrictions, curbs and curfews to restrict interaction as a measure to stop spread of the disease. Disruption of work, academic pursuits and loss of employment/professional opportunities are a few concerns which many people in economy are facing. Fortunately, various measures undertaken by government till now are bringing positive results and in the past few days there is a gradual reduction in number of daily Corona positive cases.

"All of us no doubt work to keep our body and soul together along with those who are dependent on us. But we cannot be oblivious of the environment in which we work or ignore the calls of the society which provides us succour" - said CA. S.K. Gupta, former President of ICAI. In these turbulent time of pandemic various organs of the ICAI structure, its members and students are extending their all possible support to the society and assisting in arranging medical and other exigencies that are otherwise difficult to avail on account of sheer numbers. Society stands on the pillars of humanity and nobility; the humankind has advanced so far because of its ability to share the unanimous gains and losses to move forward together. After all, compassion is not just looking beyond one's own pain and empathising with that of others but also acting upon the urge to help and relieve it. All Branches and Regional Councils have been advised to form Covid -19 Task Forces for supporting people in need with arranging oxygen, hospital beds, food, testing, medicines etc. Good response has been received for the same and branches have also come forward to provide the required facilities to the members, students, and their families.

We are sure that India will also be able to withstand the economic fallout of the pandemic. Indian Economy is one the most resilient, adaptable, and robust economies, across the length and breadth of the globe; with its indomitable spirit, fierce will and firm economic foundation, it has not only emerged as the fastest growing emerging nations but also paved its way to the fast recovery.

The Indian capital market is an additional structure which has over the last few decades risen to paramount importance in terms of determining the economic stability within the country by propelling the household savings towards efficient investments and supplementing the role of the banks as the growth catalyst of the country; thereby stimulating economic growth. This issue of ICAI Journal is focussed on Indian *Capital Markets*. The keen-eyed supervision of the country's capital market along with the development of a balanced framework and the proper scrutiny of actions by the Securities and Exchange Board of India and the Reserve Bank of India, helps in accelerating the development of investors' confidence in India thus promoting investments and actuating development.

Associate Membership of ASEAN Federation of Accountants

The ICAI had earlier decided to take the associate membership of ASEAN Federation of Accountants (AFA) to expand its global outreach and get foothold in ASEAN Region. Accordingly, ICAI has now admitted as the Associate Member of AFA with immediate effect. Membership of AFA would enable ICAI to connect closely with the professional organisations based in ASEAN region in order to promote those initiatives of ICAI which are of global relevance in these jurisdictions. Wish to apprise that the AFA was established in March, 1977, to serve as the umbrella organisation for the national accountancy bodies in the countries which are part of the Association of South East Asian Nation (ASEAN).

Global Bilateral Cooperation

In another significant development, Union Cabinet has recently approved the bilateral cooperation agreement with Qatar Financial Center Authority, Qatar at its meeting held on May 12, 2021. The MoU would help in development of accountancy profession in Qatar and would also provide enhanced opportunities to the members of the ICAI in providing professional services in Qatar.

Members may also note that the efforts are also being made to have MoU with Poland Chamber of Statutory Auditors (PIBR) in the areas of mutual co-operation and collaboration between both the organizations.

ICAI continues to expand its footprints globally

The 41st Chapter of the Institute was inaugurated virtually on May 22, 2021 in the presence of Shri Aseem R. Mahajan, IFS, Hon'ble Consul General of India, Houston, USA; CA. Mahaveer Singhvi, Joint Secretary, Ministry of External Affairs, Government of India; and other eminent guest speakers. Further, the launch of two new Representative Offices in Helsinki (Finland) and Munich (Germany) was also held at a virtual event on May 7, 2021 with the theme 'Role of Chartered Accountants in Enhancing India-EU Relations' during the sidelines of India-European Union Leader's Summit which was held on 8th May 2021.

It is an exciting opportunity for the members to unite and work with their *alma-mater* for enhancing the brand value of Indian Chartered Accountants across the globe. I feel extremely proud to mention that with the above launches, ICAI has increased its global presence to 45 countries of the world covering 68 global cities with 41 Chapters and 27 Representative Offices.

Virtual Meetings with ICAI Chapters and Representative Offices

Myself and Vice-President ICAI recently had series of interactive virtual meetings with ICAI Chapters and Representative Offices abroad with an objective to discuss and brainstorm on current state of critical matters and how Chapters & Representative Offices can effectively contribute in the action plan of the ICAI. It was observed that during these testing times, overseas chapters have been doing appreciable work in association with Indian Embassies and Consulates for providing relief material to India.

Audit Quality Maturity Model (AQMM) Version 1.0

The Audit Quality Maturity Model (AQMM) is a capacity building measure initiated by ICAI through its Centre for Audit Quality. The objective of this Evaluation Matrix is for Sole proprietors and Audit firms to be able to self-evaluate their current level of Audit Maturity, identify areas where competencies are good /lacking and then develop a roadmap for upgrading to a higher level of maturity. In this regard, a recommendatory Audit Quality Maturity Model (AQMM) has been issued as an exposure draft to the public for comments. This will help to improve the audit quality of firms and audit companies with substantial stakeholders.

From the President

Revised norms of SCAs released by RBI

As you may be aware, the Reserve Bank of India (RBI) has released the revised guidelines for appointment of Statutory Central Auditors (SCAs) of PSBs, Commercial Banks, NBFCs, UCBs, HFCs on 27th April, 2021. Based on internal discussions, ICAI made a detailed representation wherein RBI was requested among others to prescribe minimum number of SCAs, introduction of Transitional Provisions, introduction of 3 years of cooling period for auditors of PSBs, and appointment of statutory auditors of banks by RBI etc.

53rd edition of campus placement programme

ICAI takes all efforts to facilitate career opportunities for the aspiring newly qualified members. The 53rd edition of campus placement events covered the candidates who had passed final examination which were held in January-February, 2021. The interviews at 9 major centres were held from 3rd to 12th May, 2021. So far 893 job offers have been made by the participating companies at Bigger Centres. Highest annual salary offered for a domestic posting is Rs.15.04 lacs p.a by Indian Oil Corporation Ltd. The interviews shall continue from 1st to 8th June, 2021 at 12 smaller centres.

Appeal to contribute to CABF

Our profession is not immune to the pandemic disruptions, many members and students have lost their life or their loved ones.

The foundation of a functional community is built upon mutual benevolence and social understanding. From September 2020 onwards, a Scheme of financial assistance for treatment of Covid-19 was introduced by ICAI and since then a sum of Rs. 2.72 crores have been processed/released to a total of 218 members towards treatment of the disease. It may also be mentioned that considering the large number of requests being received related to Covid-19 cases, it has also been decided by the CABF to relax certain aspects of procedure for grant of Medical Financial Assistance so that a greater number of our members affected due to pandemic could be accommodated.

These are very small efforts when compared with the magnitude of the requirement. I request members to generously make voluntary contribution (https://cabf.icai.org/voluntaryMember) to the Chartered Accountants Benevolent Fund to enable us to extend maximum medical grant to the suffering Members and their dependents. Your valuable contribution can provide much needed help in time of financial stress.

Concluding Remarks

Honesty breeds trust and lays the foundation of transparency as the actions of an honest person are in sync with his beliefs and principles. People with integrity inspire others around them and have the confidence to lead others. Simply put, honesty and integrity are the most precious pearls in this universe and are the cornerstones of success of any profession. Conviction in ethics and principles coupled with fairness in dealings by professionals will not only garner respect but will also lead to success of individual members as well as of the whole profession. Moral values provide an individual with an ability to evaluate right versus wrong and at the same time maintain social order to regulate work. Aberration from these values fosters chaos, anarchy, and nurtures vices. Built on the strong bedrock of virtuous independence, integrity and excellence, the Institute, stands tall on its pillars of ethics and moral values. The Institute upholds righteousness and truth and propagates the unwavering ideals of morality and ethics. The ICAI through the echoes of time, perseveringly works at ensuring that its every day functioning is guided by these morals, persistently aspires to do so and exhorts its members to imbibe them in letter and spirit.

Stay safe, stay healthy. Best wishes.

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

Photographs

Webinar on CSR : Global Perspectives

ICAI President CA. Nihar N Jambusaria and ICAI Vice President CA.(Dr.) Debashis Mitra with Hon'ble Member of Parliament and PM's Sherpa to G7 and G20 Shri Suresh Prabhu addressing the members at Webinar on CSR : Global Perspectives. Also seen in picture – ICAI Past President CA. Atul Kumar Gupta, Central Council Members CA. Satish Kumar Gupta and CA. Aniket S Talati, IFAC PAIB Chairman, Mr Sanjay Rughani, XBRL International CEO, Mr John Turner, Faculty, IRMA, Prof Sudhir Kumar Sinha, CTO and Lead Technologist at Valcreat Industry, Mr Girish Kumar Uppuluri Venkata. (15.05.2021)

e- Inauguration of 41st Chapter of ICAI at Dallas, USA

ICAI President CA. Nihar N. Jambusaria and ICAI Vice-President CA. (Dr) Debashis Mitra in kind presence of IFS, Hon'ble Consul General of India, Houston, USA Shri Aseem R. Mahajan, Joint Secretary, Ministry of External Affairs, Government of India CA. Mahaveer Singhvi, and other eminent guest speakers during the virtual event (22.05.2021)

Webinar on promoting investments in J&K

ICAI President CA. Nihar N Jambusaria and ICAI Vice President CA.(Dr.) Debashis Mitra with Principal Secretary, Industries & Commerce Department, J&K Government Mr. Ranjan Prakash Thakur at Live Webinar for promoting investments in the Union Territory of Jammu & Kashmir. Also seen in picture Central Council Members CA. Hans Raj Chugh and CA. Durgesh Kabra, Director, Industries & Commerce Department, J&K Government Ms. Anoo Malhotra, Functional Manager, Industries & Commerce Department, J&K Government, Mr. Pawan Goswami. (04.05.2021)

Contribution to CABF

ICAI President CA. Nihar N. Jambusaria receiving a cheque from by Borivali (Central) CPE Study Circle of WIRC of ICAI towards Contribution to CABF in presence of Central Council colleagues CA. Durgesh Kabra, CA. Anil Bhandari and Office Bearers of the Branch (18.05.2021)

ICAI in Action

Key developments vis-à-vis accountancy profession for the information of members, students and other stakeholders

Accounting Standards: Quick Referencer for Micro Non-company entities

Micro, Small and Medium Enterprises (MSMEs) is at the forefront of Indian economy. In view of various developments that have taken place over the time, such as, threshold limits for classification of MSMEs under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, and substantial revisions in the same, and considering that the criteria for classification of Non-company entities was laid down long back, the ICAI had revised the criteria for classification of Non-company entities. In this regard, the ICAI has recently issued an Announcement revising the criteria for classification of Non-company entities into four Levels, viz., Level I, Level II, Level III and Level IV which is applicable in respect of accounting periods commencing on or after April 1, 2020. Level IV, Level III and Level II entities are referred to as Micro, Small and Medium size entities (MSMEs). For ease of Micro Non-company entities (Level IV), the Accounting Standards Board (ASB) has come out with a Publication "Accounting Standards: Quick Referencer for Micro Non-company entities" bringing, at one place, the recognition, measurement and disclosure requirements under Accounting Standards applicable for such entities.

For details, please visit - *https://resource.cdn.icai.org/64842asb52105.pdf.*

Exposure Draft of Revised Accounting Standards for Public Comments

The Indian Accounting Standards (Ind AS), as notified by the Ministry of Corporate Affairs in February, 2015, and as amended from time to time are applicable to the specified class of companies as per Ind AS Roadmap. Accounting Standards notified under Companies (Accounting Standards) Rules 2006 and those issued by the ICAI are applicable to entities to whom Ind AS are not applicable. However, on the basis of the discussions held at various standard setting forums, such as, NACAS (now replaced by NFRA), Ministry of Corporate Affairs, and Accounting Standards Board (ASB) of ICAI, it has been decided to revise Accounting Standards (AS). Accordingly, ASB is working on the project of revision of these standards which will be applicable to entities to whom Ind AS are not applicable. While formulating these Accounting Standards, the ASB decided to maintain the consistency with the numbering of Standards of Ind AS numbering. In this direction, the Exposure Draft of revised AS 12, Income Taxes, has been issued by the ASB for comments with the last date being June 10, 2021.

For details, please visit - *https://www.icai.org/post/exposure-draft-of-revised-as-12-income-taxes.*

Exposure Drafts by IASB

Indian Accounting Standards (Ind AS) are based on the IFRS Standards issued by the International Accounting Standards Board (IASB) of IFRS Foundation.

1. ***Disclosure Requirements in IFRS Standards - A Pilot Approach***

   An Exposure Draft titled "Disclosure Requirements in IFRS Standards-A Pilot Approach" has been issued by the IASB which is open for comments for proposed guidance for itself when developing and drafting disclosure requirements in IFRS Standards in future. The objective of the proposed Guidance is to help IASB in developing disclosure requirements that result in more decision-useful information in financial statements in future. If the IASB were to apply the approach in the proposed Guidance, all entities, auditors, regulators and users of financial statements prepared applying IFRS Standards could be affected. The Accounting Standards Board (ASB) of ICAI with the aim to provide an opportunity to the various stakeholders in India to raise their concerns at the initial International Standard-setting stage itself, invites comments from public.

   For details, please visit – *https://www.icai.org/post/disclosure-requirements-in-ifrs-standards-a-pilot-approach.*

2. ***Lack of Exchangeability***

   Another Exposure Draft on **Lack of Exchangeability** is issued by the IASB which is open for comments for proposed guidance for itself when developing and drafting disclosure requirements in IFRS Standards in future. Lack of Exchangeability - IAS 21 sets out the exchange rate a company uses when it reports foreign currency transactions or a foreign operation's results in a different currency. However, the Standard does not set out the exchange rate to use when there is no observable exchange rate the company can use- such as when a currency cannot be converted into a foreign currency. The proposed amendments would help companies in determining whether a currency can be exchanged into another currency, and what accounting to apply if the currency cannot be exchanged. The Accounting Standards Board (ASB) of ICAI invites comments from public.

For details, please visit – *https://www.icai.org/post/ed-lack-of-exchangeability.*

Exposure Draft of the Audit Quality Maturity Model – Version 1.0 (AQMM v1.0)

The Audit Quality Maturity Model -Version 1.0 (AQMM v1.0) is a capacity building measure initiated by ICAI and the objective of this Evaluation Matrix is for sole proprietors and Audit firms to be able to self-evaluate their current level of Audit Maturity, identify areas where competencies are good or lacking and then develop a road map for upgrading to a higher level of maturity. Exposure Draft is hosted on the website of the Institute of Chartered Accountants of India (www.icai.org) for public comments with last date as June 10, 2021.

For details, please visit – *https://resource.cdn.icai.org/64847caq52120new.pdf.*

Accounting for amounts to be incurred towards Corporate Social Responsibility (CSR)

On January 22, 2021, the Ministry of Corporate Affairs notified the Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021. For the guidance of the members Accounting Standards Board of ICAI has released frequently asked question on Accounting for amounts to be incurred towards Corporate Social Responsibility (CSR).

For details, please visit – *https://resource.cdn.icai.org/64758asb51955.pdf.*

Extension of validity of Peer Review Certificate in the wake of COVID -19 spurt across the country

It has been noted that Practice Units are facing operational break-down due to lockdown imposed by several State Governments across various parts of the country owing to pandemic. Therefore, in order to mitigate the hardship, the Peer Review Board has decided to grant extension to the Peer Review Certificates expiring during the period from 1st April, 2021 to 30th June 2021 up to 31st July 2021. Accordingly, the validity of such certificates shall now be treated as 31st July 2021. However in order to maintain the continuity of validity of certificate, the Practice Units are requested to ensure the submission of completed Final Clean Report to the Board well in advance before 31st July 2021.

For details, please visit – *https://www.icai.org/post/extension-of-validity-of-peer-review-certificate-in-the-wake-of-covid-19*

Mandatory updation of UDINs in all Income Tax Forms at e-filing Portal

The CBDT vide its press release dated 26th November 2020 has mandated the validation of the Unique Document Identification Number (UDIN) generated from ICAI portal in all the Income Tax Form and Audit Reports uploaded at the e-filing portal. We have been given to understand that CBDT is in process of mandating the updation of UDINs for all IT Forms prior to its upload on the e-filing portal by the members. In other words, members would be required to first generate UDIN and provide the same while uploading the IT forms. Members may note that, CBDT has given the extension for updating UDINs for all the IT forms at the e-filing portal till 30th June, 2021. In view of the above, the members are requested to avail this opportunity and update the UDINs on the e-filing Portal at the earliest but not later than 30th June, 2021 to avoid likely invalidation.

For details, please visit - *https://www.icai.org/post/mandatory-updation-of-udins-in-all-income-tax-forms-at-e-filing-portal.*

Waiving-off Condonation Fees due to late filing of application Form 18 related to Members and Firms amidst COVID-19 Pandemic till 30th July, 2021

Amidst the current situation arising out of Covid-19, it is observed that Members and Firms are facing difficulties in filing Form 18, i.e., for reconstitution of Firm, intimating Joining/leaving of Partner(s)/Paid Assistant(s) and opening/closing of Branch Office within the prescribed period. Such delay in submission of online application Form is attracting levy of Condonation fee under the relevant Regulatory Provisions and creating hardship to them. Considering the difficulties which may be faced by Members and Firms, it has been decided to Waive-off Condonation Fees for the transactions falling between 1st April, 2021 to 30th June, 2021 till 30th July, 2021.

For details, please visit – *https://www.icai.org/post/waiving-off-condonation-fees-due-to-late-filing-of-applicationform18.*

Know Your Ethics

Q. Whether a member not in practice can use any other description?

A member not in practice may use, as per the provisions of Section 7 of the Chartered Accountants Act, 1949, the designation of "chartered accountant". However, if he chooses to use the designation of "chartered accountant", he shall not use any other description, whether in addition, or in substitution thereof.

However, such a member is not prohibited from adding any other description or letters to his name, if entitled thereto, to indicate membership of such other Institute of accountancy, whether in India or elsewhere, as may be recognised in this behalf by the Council, or any other qualification that he may possess.

Q. Whether a messaging application can be used by a member in practice to send messages to make people aware about their new practice and mention the services provided therein?

No, it is not permissible to use a messaging application to send messages to make people aware about their new practice, and mention the services provided therein.

Q. Whether a member in practice can advertise their services on social networking websites?

Yes, a member in practice may advertise through a write up on social networking websites setting out his particulars or services, subject to the Council Guidelines for Advertisement, 2008. These Council Guidelines are appearing in Volume-II of Code of Ethics, 2020.

Q. Whether a write-up in an Advertisement may contain any information about an achievement or award given to a member?

Yes, a write-up may contain information about an achievement or award given to a member, provided it has been awarded by the Central or State Governments or Regulatory bodies.

Q. Whether a member in practice or a Firm may give link of its website on a social networking site?

Yes, a member in practice or a Firm may provide link of its webpage on Social Networking site. However, the members should not solicit people to visit or request to like their respective page(s) on such social Networking site.

Q. Whether members in practice can list themselves with online Application based service provider Aggregators?

No, Council Guidelines for Advertisement, 2008 appearing in Volume-II of Code of

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Ethics, 2020 prohibits members in practice to list themselves with online Application based service provider Aggregators, wherein other categories like businessmen, technicians, maintenance workers, event organizers etc. are also listed.

Q. Can a Chartered Accountant in practice allow any person to practice in his name as a Chartered Accountant?

No, Clause (1) of Part-I of the First Schedule to the Chartered Accountants Act, 1949 prohibits a Chartered Accountant in practice to allow any person to practice in his name as a Chartered Accountant unless such person is also a Chartered Accountant in practice and is in partnership with or employed by him.

Q. Can a Chartered Accountant in practice pay to any person any share, commission or brokerage in the fees or profits of his professional business?

No, Clause (2) of Part-I of the First Schedule to the Chartered Accountants Act, 1949 prohibits a Chartered Accountant in practice from paying or allowing any share, commission or brokerage in the fees or profits of his professional business, to any person other than a member of the Institute or a partner or a retired partner or the legal representative of the deceased partner or a member of any other professional body or with such other persons having such qualifications as may be prescribed, for the purpose of rendering such professional services from time to time in or outside India.

Q. Can a Chartered Accountant in practice share his fees with the Government in respect of Government Audit?

The Institute came across certain Circulars/ Orders issued by the Registrar of various State Co-operative Societies wherein it has been mentioned that certain amount of audit fee is payable to the concerned State Govt. and the auditor has to deposit a percentage of his audit fee in the State Treasury by a prescribed challan within a prescribed time of the receipt of Audit fee.

In view of the above, the Council considered the issue and while noting that the Government is asking auditors to deposit such percentage of their audit fee for recovering the administrative and other expenses incurred in the process, the Council decided that as such there is no bar in the Code of Ethics to accept such assignment wherein a percentage of professional fees is deducted by the Government to meet the administrative and other expenditure.

Q. Can a Chartered Accountant in practice enter into partnership with a practicing Chartered Accountant of a recognized foreign professional body for sharing fee of their partnership within India?

Yes, Clause (4) of Part-I of First Schedule to the Chartered Accountants Act, 1949 permits partnership between members of the Institute and the members of the recognized foreign professional bodies either by the Central Government or the Council of the Institute by virtue of either under Section 29(2) of the Chartered Accountants Act, 1949 or under Regulation 53B(2) of the Chartered Accountants Regulations, 1988 provided they share fees of the partnership business both within India and outside India.

Q. Whether a practicing Chartered Accountant can be a partner or designated partner in a Limited Liability Partnership, which is not doing professional work, but is in the commercial activities?

No, as per paragraph 2.14.1.4(ii) under Clause (4) of Part-I of First Schedule to the Chartered Accountants Act, 1949, appearing in Volume-II of Code of Ethics, 2020, a practicing Chartered Accountant cannot be a partner or designated partner in a Limited Liability Partnership, which is not doing professional work, but is in the commercial activities.

Method of Accounting to be Followed

A. Facts of the Case

1. An Institute (hereinafter referred to as 'the Institute') is an autonomous body set up in 1984 by the Reserve Bank of India (RBI), central financial institutions and public sector banks, with the objective of evolving and implementing scientific and fair processes of selecting bank personnel. Its principal activity is executing assessment, recruitment and placement projects for public sector banks, RBI, Securities and Exchange Board of India (SEBI), National Bank for Agriculture and Rural Development (NABARD), Regional Rural Banks (RRBs), Life Insurance Company (LIC) and General Insurance Companies, besides many Government organizations (e.g., Food Corporation of India (FCI), Employees' Provident Fund Organisation (EPFO), Public sector Undertakings (PSUs) and Cooperative Sector) and Admission Tests (CET).

2. The Institute is a society under the Societies Registration Act, 1860 and a Public Trust under the Bombay Public Trusts Act, 1950. The Governing Board of the Institute is currently headed by the Managing Director (MD) and Chief Executive Officer (CEO) of a leading public sector bank and comprises Chairman of the State Bank of India (SBI) and NABARD, MDs of public sector banks, Joint Secretary (OSD) from the Ministry of Finance, Executive Director of RBI and other eminent professionals. As the premier testing agency of banks conducting voluminous online mass-level tests, the Institute had about one and half crore candidates registered during the financial year 2019-20 for its recruitment tests across India.

3. The querist has stated that the Institute has been following the accounting practice of booking revenue and expenditure on 'contract completion basis'. Each examination assignment from clients is treated as a project and is backed by an MOU or Standard guidelines on project terms. The lead time is 2-3 months for execution of a project. During this period, the advances received from clients (80/90%) are kept in 'Advances Received' head and the expenditure on the project, such as, vendor payment are made under 'Advance Payments' head of account till completion of the project (conveying results to the clients). Thereafter, the revenue/expenditure is booked in the Profit and Loss Account.

4. The querist has further stated that sometimes, some of the projects undertaken in the fourth Quarter (Q4) of the financial year get spilled over to first quarter (Q1) of the following financial year as a result of the practice of following 'project completion method' of accounting.

   In the above scenario, where projects undertaken in Q4 get spilled over to Q1 of the next financial year, the Institute needs to look at the projects with respect to the stages of its completion. The stages and the method of accounting for spill-over projects are detailed below:

   i. Preliminary and Main Examinations

   a. The Preliminary examination is completed in one financial year, results are declared, the invoice is raised and the applicable GST is paid. However, the Main examination is spilled over to Q1 of the next financial year.

   b. The Preliminary examination is completed in one financial year, results are declared in Q1 of the following financial year and the main examination is also held in the next financial year.

   ii. Single Examination

   The examination is held in one financial year and the result is declared in the Q1 of the following financial year.

5. In all of the above cases, the income and the expenditure is recognised in the year in which

the project is completed in all respects upto the result declaration stage (in case of two stages, the result declaration of the main examination is considered). The income of the preliminary examination whose invoices are raised as mentioned at Serial No. 1 is transferred to 'Advance to Projects' account and the expenses in respect of the same are transferred to prepaid expenses.

6. The querist has mentioned that the income-tax (IT) authorities have assessed the Institute's tax liabilities; after reconciliation of mismatches in entries and taxes all these years. There were no issues with goods and services tax (GST) as well. However, the current statutory auditors during the course of audit in March 2020, have suggested switching over to 'Receipts Basis' method of accounting aligning with tax (IT/GST) laws. The querist has also sought another opinion from one of the audit firm and they have opined that the Institute should continue with the existing practice of accounting on accrual basis as it is in conformity with Accounting Standards and Income Computation and Disclosure Standards (ICDS).

B. Query

7. In view of above, the querist has sought the opinion of the Expert Advisory Committee as to whether the existing practice of the Institute of accounting on contract completion basis is appropriate or the Institute should switch over to receipt basis.

C. Points considered by the Committee

8. The Committee, while expressing its opinion has examined only the issues raised in paragraph 7 above as to whether the existing practice of revenue recognition on Contract Completion Basis is appropriate or the Institute should switch to receipt basis; and has not examined any other issue that may arise from the Facts of the Case, such as, disclosures under AS 1, AS 9 and other standards, etc. Further, the opinion issued is purely from accounting perspective and not from the perspective of legal interpretation of the Societies Registration Act, 1860, Bombay Public Trusts Act, 1950, Income-tax Act, 1961 or GST enactments, etc.

9. The Committee notes that from accounting perspective, the issue raised by the querist involves two questions: firstly whether the Institute should follow cash/receipt basis of accounting or the accrual basis of accounting and secondly, whether if accrual basis of accounting is followed, whether it should recognise revenue on the basis of completed service contract method or proportionate completion method.

10. With regard to the first question relating to the cash/receipt basis of accounting vis-a-vis accrual basis of accounting, the Committee notes that the Institute in the extant case is a Society under the Societies Registration Act, 1860 and a Public Trust under the Bombay Public Trusts Act, 1950. The Committee notes that the Societies Registration Act does not provide anything in respect of basis of accounting or accounting standards to be followed. Further, although the Bombay Public Trusts Act is also silent on these aspects, it provides as follows:

"**32. Maintenance of accounts.**

(1) Every trustee of a public trust shall keep regular accounts.

(2) Such accounts shall be kept in such form as may be approved by the Charity Commissioner and shall contain such particulars as may be prescribed.

33. Balancing and auditing of accounts.

(1) The accounts kept under section 32 shall be balanced each year on the thirty first day of March or such other day, as may be fixed by the Charity Commissioner.

(2) *The accounts shall be audited annually by a person who is a chartered accountant within the meaning of the Chartered Accountants Act, 1949* or by such persons as the State Government may, subject to any conditions, authorize in this behalf:

…"

"34. Auditor's duty to prepare balance sheet and to report irregularities, etc.

(1) *It shall be the duty of every auditor auditing the accounts of a public trust under section 33 to prepare a balance sheet and income and expenditure account* and to forward a copy of the same along with a copy of his report to the trustee, and to the Deputy or Assistant Charity Commissioner of the region or sub-region or to the Charity Commissioner, if the Charity Commissioner required him to do so.

(Emphasis supplied by the Committee.)

The Committee notes from the above that the Bombay Public Trusts Act, 1950 requires inter alia that the accounts shall be audited annually by a member of the Institute of the Chartered Accountants of India and the accounts of a public trust shall comprise of a Balance Sheet and Income and Expenditure Account.

Further, the Committee notes that the 'Preface to the Statements of Accounting Standards' (revised 2004), issued by the Institute of Chartered Accountants of India (ICAI) provides as follows:

"3.3 Accounting Standards are designed to apply to the general purpose financial statements and other financial reporting, which are subject to the attest function of the members of the ICAI. Accounting Standards apply in respect of any enterprise (whether organised in corporate, co-operative or other forms) engaged in commercial, industrial or business activities, irrespective of whether it is profit oriented or it is established for charitable or religious purposes. Accounting Standards will not, however, apply to enterprises only carrying on the activities which are not of commercial, industrial or business nature, (e.g., an activity of collecting donations and giving them to flood affected people). Exclusion of an enterprise from the applicability of the Accounting Standards would be permissible only if no part of the activity of such enterprise is commercial, industrial or business in nature. Even if a very small proportion of the activities of an enterprise is considered to be commercial, industrial or business in nature, the Accounting Standards would apply to all its activities including those which are not commercial, industrial or business in nature.

3.4 The term 'General Purpose Financial Statements' includes balance sheet, statement of profit and loss, a cash flow statement (wherever applicable) and statements and explanatory notes which form part thereof, issued for the use of various stakeholders, Governments and their agencies and the public. References to financial statements in this Preface and in the standards issued from time to time will be construed to refer to General Purpose Financial Statements."

Further, with regard to the applicability of Accounting Standards issued by the ICAI to the Society and Trust, the Committee also notes that paragraph 40 of Technical Guide on Accounting for Not-for-Profit Organisations (NPOs), issued by the Research Committee of the ICAI, states as follows:

"40. As far as non-company NPOs (including trusts, societies registered under the Societies Registration Act, 1860) carrying on even a very small proportion of commercial, industrial or business activities are concerned, Accounting Standards, formulated by the Institute of Chartered Accountants of India, are mandatory for the members of the Institute in the performance of their attest functions as per the relevant announcements made by the Institute of Chartered Accountants of India from time to time."

From the above, the Committee notes that even NPOs which are formed as trusts/societies, if carrying on commercial, industrial or business activities are required to follow Accounting Standards issued by the ICAI.

From the activities undertaken by the Institute in the extant case, it is amply clear that it is carrying out commercial and business activities. Thus, on a harmonious reading of the above requirements, the Committee is of the view that the Institute should follow the Accounting Standards issued by the ICAI, which are based on accrual basis of accounting, for its general purpose financial statements. In this context, the Committee also notes the following paragraphs of the Framework for the Preparation and Presentation of Financial Statements, issued by the ICAI:

> "12. The objective of financial statements is to provide information about the financial position, performance and cash flows of an enterprise that is useful to a wide range of users in making economic decisions."

> "22. In order to meet their objectives, financial statements are prepared on the accrual basis of accounting. Under this basis, the effects of transactions and other events are recognised when they occur (and not as cash or a cash equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate. Financial statements prepared on the accrual basis inform users not only of past events involving the payment and receipt of cash but also of obligations to pay cash in the future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions."

From the above, the Committee notes that the objective of financial statements will be met only when these are prepared using accrual basis of accounting. Accordingly, the Committee is of the view that the Institute in the extant case should follow accrual basis of accounting rather than receipt/cash basis.

11. With regard to the method of recognition of revenue to be followed, the Committee notes the following paragraphs of Accounting Standard (AS) 9, 'Revenue Recognition,' issued by the ICAI:

> "7.1 Revenue from service transactions is usually recognised as the service is performed, either by the proportionate completion method or by the completed service contract method.
>
> (i). ***Proportionate completion method***—Performance consists of the execution of more than one act. Revenue is recognised proportionately by reference to the performance of each act. The revenue recognised under this method would be determined on the basis of contract value, associated costs, number of acts or other suitable basis. For practical purposes, when services are provided by an indeterminate number of acts over a specific period of time, revenue is recognised on a straight line basis over the specific period unless there is evidence that some other method better represents the pattern of performance.
>
> (ii) ***Completed service contract method***—Performance consists of the execution of a single act. Alternatively, services are performed in more than a single act, and the services yet to be performed are so significant in relation to the transaction taken as a whole that performance cannot be deemed to have been completed until the execution of those acts. The completed service contract method is relevant to these patterns of performance and accordingly revenue is recognised when the sole or final act takes place and the service becomes chargeable."

"9.1 Recognition of revenue requires that revenue is measurable and that at the time of sale or the rendering of the service it would not be unreasonable to expect ultimate collection."

"12. In a transaction involving the rendering of services, performance should be measured either under the completed service contract method or under the proportionate completion method, whichever relates the revenue to the work accomplished. Such performance should be

regarded as being achieved when no significant uncertainty exists regarding the amount of the consideration that will be derived from rendering the service."

"4.2 Completed service contract method is a method of accounting which recognises revenue in the statement of profit and loss only when the rendering of services under a contract is completed or substantially completed.

4.3 Proportionate completion method is a method of accounting which recognises revenue in the statement of profit and loss proportionately with the degree of completion of services under a contract."

On the basis of above, the Committee notes that as per the requirements of AS 9, where the performance consists of execution of single act or when the services are performed in more than a single act but the services yet to be performed are so significant that without their execution the performance cannot be deemed to have been completed, then revenue is recognised when the final act is complete and service becomes chargeable. However, where the contract involves execution of more than one act, revenue should be recognised proportionately by reference to the performance of each act or degree of completion of service under the contract. Under this method, revenue is recognised in the Statement of Profit and Loss on the basis of stage of completion/work performed irrespective of the fact whether or not payment has been received or settled (provided other conditions of revenue recognition are also being fulfilled). Similarly, costs are also recognised in the Statement of Profit and Loss for the period in which the work to which they relate are performed. Thus, both costs and revenue are recognised with reference to the work performed, i.e., stage of completion, which may be determined in a variety of ways, such as, surveys of work performed, completion of a physical proportion of the contract work, etc., depending on the nature of the contract and whichever method reliably measures the work performed.

12. In the above context, the Committee notes that in the extant case, each assignment is treated as a single project and is backed by MoU/ Standard guidelines on project terms with a lead time of 2-3 months and project is treated as complete on completion of conveying results to the clients. Further, both revenue and related expenses are being deferred till the declaration of results. Till that time, receipts from the customers are recognised as 'advances'. Similarly, the payments made to contractors on account of expenses incurred are also considered as advance/pre-paid expenses.

The Committee notes from the copy of the MoU with the clients provided by the querist for the perusal of the Committee that, both projects/ assignments involving preliminary and main examinations as well as single examination involve execution of many activities, such as, preparing application link on the basis of advertisement provided by client, designing drafts of call letter, designing suitable tests, conduct of online examinations for both preliminary and main examinations, preparation of merit list and score list, etc. which will be undertaken by the Institute through its service provider(s) and for which various costs would be incurred from time to time. Further, in case of projects/ assignments involving preliminary and main examinations, billing will be done separately for these two examinations. Accordingly, the Committee is of the view that the Institute in the extant case should analyse the nature of each assignment/ project considering the terms and conditions of the contract/ MoU, especially with reference to the number of acts required to complete the assignment/contract, various stages of performance involved in its execution/completion, the incidence of costs relating to various acts, etc. to determine the appropriate method of recognition of revenue. Particularly, in case of projects/assignments involving preliminary and main examinations, the Committee wishes to point out that there are at least two distinct acts involved for execution of the project/ assignment, which may be considered as stages of performance under proportionate completion method unless completed contract method is more appropriate considering the significance/ materiality of the acts yet to be performed in relation to the transaction as a whole (for example, conveying results to the clients) that performance cannot be deemed to have been completed until the execution of those acts, as discussed above. In this context, the Committee wishes to point out that the stages of payment, is not the sole determining factor for the method to be adopted for recognition of revenue. The stages of payment may serve as a guidance to determine the relative significance of the acts involved in execution of the assignment/project.

Further, in cases where the completed contract method is applicable on the basis of considerations stated above, revenue is recognised on the substantial performance of the contract and further the costs incurred in respect of such contracts should be recognised as work in progress and carried forward to be expensed in the year in which the corresponding revenue is recognised.

However, if the process involves various acts/ stages/ milestones and each of such acts/ stages/ milestones is significant/ material in relation to the execution of the assignment/ project, the Institute should recognise the revenue by following proportionate completion method.

13. The Committee also wishes to mention that nature of individual contracts may vary; hence variations from contracts to contracts should also be factored into while determining the method of revenue recognition from the contract. Thus, it is possible that even for same type of activities, there are two different methods of revenue recognition for two different types of contract considering the requirements of AS 9.

D. Opinion

14. On the basis of the above, the Committee is of the view that accrual basis of accounting should be continued to be followed by the Institute as discussed in paragraph 10 above. Further with regard to method of accounting, the Committee is of the view that the Institute in the extant case should analyse the nature of each assignment/ project considering the terms and conditions of the contract/MoU, especially with reference to the number of acts required to complete the assignment/contract, various stages of performance involved in its execution/completion, the incidence of costs relating to various acts, etc. to determine the appropriate method of recognition of revenue, as discussed in paragraphs 11 and 12 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 January 18-20, 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 thirty nine 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.

Information System (IS) Audit of KRAs – Capital Market

KYC Registration Agency (KRA) is an agency Registered with Securities Exchange Board of India under the SEBI-KYC (Know Your Client) Registration Agency Regulations, 2011. KRAs have to maintain KYC documents of all investors in a Centralized IT System, on behalf of Capital Market in India through different Intermediaries that are Registered with SEBI. KYC Registration Agencies (KRAs) play a vital role in maintaining KYC documents of various clients of Securities Market, verify and store documents submitted by the clients through various Intermediaries of Securities Market in India. Read on…

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It is required that KRAs should have the High-Quality Cyber Security System and Cyber Resilience Structure in order to provide indispensable IT facilities and execute the process of systemically risky functions relating to Capital or Securities Market.

Cyber-attacks and threats attempt to conciliation of confidentiality, integrity and availability i.e., CIA of the information technology systems, network systems and data stored in databases in servers. Confidentiality means to prevent the access of computer systems by unauthorised persons and the information to be available only to the authorized users of the organization. Integrity is the guarantee that the information is dependable and correct in all respects that is stored in the computer system. And availability refers to the assurance of reliable access of computer systems and information by authorized users of the IT systems of the organization timely, i.e., as and when they require.

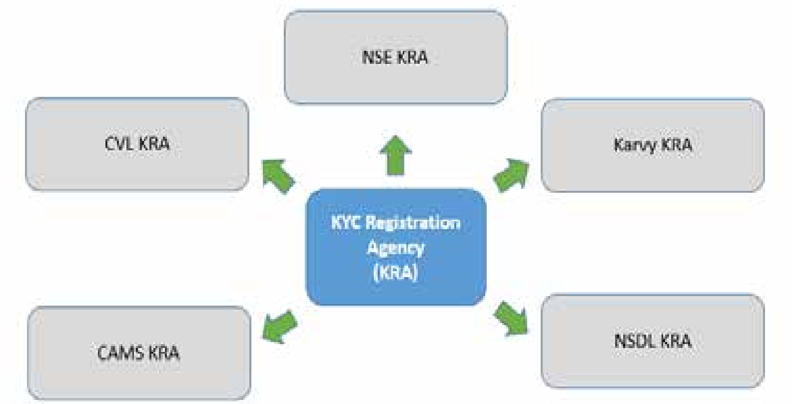
Cyber security framework includes procedures, tools and processes that are identified to prevent the access of cyber-attacks by unscrupulous persons and to improve the cyber pliability of the organization's IT systems. Cyber resilience is an organisation's ability to prepare or develop the various IT tools and to respond to a cyber-attack on IT systems instantly with less human intervention, automatic and to continue action during, and improve and recover of IT systems from the cyber-attacks.

Section 11 (1) of the Securities and Exchange Board of India Act, 1992 defines to protect the interests of all types of investors of securities market and to promote the healthy development of, and to regulate the securities market and to maintain good governance.

Earlier investors have to complete the KYC procedures as and when they approach each type of SEBI intermediary and submit the relevant KYC documents and procedures of each intermediary may vary from one to another due to lack of non-adherence of the standard and common guidelines that are issued by SEBI to all the intermediaries.

This creates a lot of inconvenience to investors and they face many problems like missing of unique system not adopted by the intermediaries uniformly, sometimes it leads to duplication, additional cost and time to the prospective investors. In view of these challenges and also to eliminate such problems of KYC process to be executed by the investors and to have a uniform KYC process across SEBI registered intermediaries, SEBI has introduced the concept of KYC Registration Agency (KRA). As on date the following are registered with SEBI as KRAs.

- DotEx International Ltd, a unit of the National Stock Exchange of India Ltd (NSE).
- Karvy Data Management Services Ltd. (KDMS).
- NSDL Database Management Limited is a fully owned by National Securities Depository Ltd. (NSDL).
- CAMS KRA, set up by Computer Age Management Services (CAMS).
- CDSL Ventures Limited (CVL), a division of Central Depository Services (India) Limited.



This will enable an investors to invest / trade through various intermediaries, after undergoing onetime KYC process through any intermediary at initial stage. Additionally, if there are any subsequent changes in investors KYC information, i.e., static or dynamic or demographic, the investor can approach any one of SEBI Registered intermediary and request change which can be made by intermediary after verification with changes made in the IT system. The originals are to submitted (subsequent change documents) to the KRAs by any one of the registered intermediaries of SEBI.

Role of KRAs

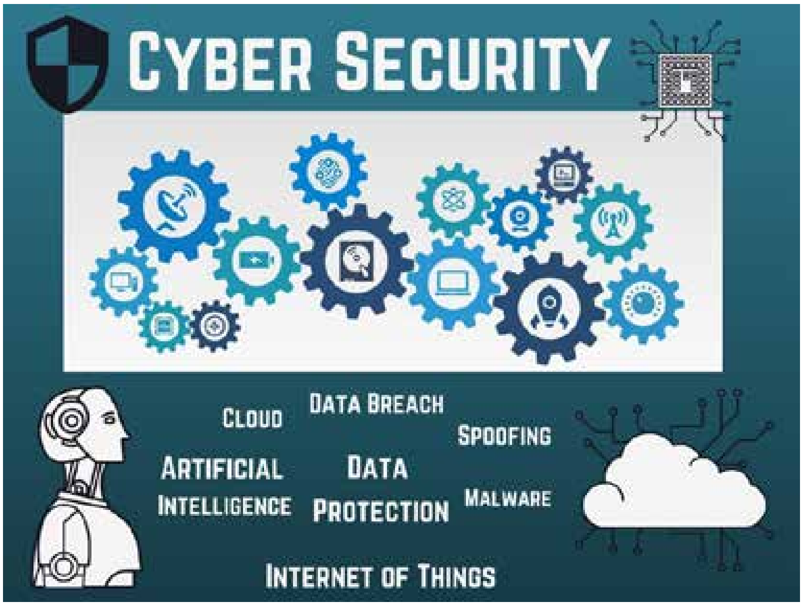
- KRAs are responsible for storing, safeguarding and retrieving the KYC documents submitted by the clients through various intermediaries.
- KRAs have to retain the original KYC documents submitted by the clients both in physical and electronic form like cheque truncation system of the banks. These KYC documents are preserved for a period as per the guidelines issued by SEBI.
- Clients common KYC information to be shared or disseminated to all the intermediaries by the KRA through the IT system.
- Establish inter-operability among KRAs through electronic connectivity.
- Have a system to send acknowledgement to the clients of various Intermediaries after receipt and verification of the KYC documents.

Roles and Obligations of Intermediaries

- Intermediaries shall perform the initial KYC / due diligence of the client and upload the KYC information / documents in IT System of KRA and arrange to send the original KYC documents to KRA within the prescribed time.
- When client approaches different intermediary later on, intermediaries need to verify the client's details from the system of KRAs or if warrants obtain fresh KYC from the clients.
- On receipt of information on change in KYC details from the clients by intermediary, he is responsible for uploading the revised KYC

information on the system of KRA and send the physical KYC documents to KRA.

- Intermediary have the ultimate responsibility for the KYC documents of its clients with the risk profile of its clients.



IS Audit of KRAs

On annual basis the IS auditors are to audit the KRAs as Registered with SEBI. As per the Guidelines issued by SEBI, qualifications that are required for empanelled IS Auditors are CERT-In. He should be an independent auditor and any of the following qualification mentioned below:

- DISA, i.e., Diploma of Information Systems Auditor from The Institute of Chartered Accountants of India (ICAI) or
- CISA Qualification i.e., Certified Information System Auditor from Information Systems Audit and Control Association (ISACA) or
- CISM Qualification i.e., Certified Information Securities Manager from ISACA or
- CISSP Qualification i.e., Certified Information Systems Security Professional from International Information Systems Security Certification Consortium and commonly known as ISC-2.

To verify, check the compliance the areas as mentioned below and they have to submit the IS Audit Report to the Securities Exchange Board of India along with audit remarks of the Board of KYC Registration Agencies to the Securities Exchange Board of India within three months from the end of each financial year.

Check List for IS Auditors to Audit KRAs

The objective of IS Audit is to check the Cyber Security and Cyber Resilience Policy of the KRAs including the undermentioned processes and IT Systems.

Identify: 'Identify' is a critical IT assets and risks associated with such assets and assess, manage cyber security risk associated with IT processes, information, networks and systems etc.

Protect: 'Protect' assets by deploying suitable controls, tools and measures, that are to be taken by KRAs to protect the IT Assets / Systems.

Detect: 'Detect' the incidents, anomalies and attacks through appropriate monitoring tools / processes by the IT Systems.

Respond: 'Respond' by taking immediate steps after identification of incident, anomaly or attack by unscrupulous persons.

Recover: 'Recover' from incident through incident management, disaster recovery and business continuity framework of IT Policy of KRAs.

a) Identify: Areas to be verified by the IS Auditors are:

- Identify the critical assets based on sensitivity and criticality of business operations, services and data management of KRAs.
- Identify the threats and vulnerabilities of cyber risks and control measures taken by KRAs.
- If third-party service providers are providing various services to KRAs. Whether they are following similar Standards of Information Security or not.

b) Protect: Areas to be verified by the IS Auditors are:

i. Access Controls

- Check any person other than the authorised officials are access the confidential data, applications, system resource or facilities, etc.
- Check, whether KRAs are granted to access the

IT Systems on need-based approach and defined period with strong authentication mechanisms to accesses the IT systems.

- Check, whether KRA implement the strong password controls to access the IT systems by the authorised Users.
- Check, whether KRAs are maintaining the logs who are accessing the IT systems and these are to be preserved not less than two years.
- Check, whether access lock policy after failure attempts made by the IT system users.
- Check, whether outsourced staff, vendors are accessing the system. If *yes*, it should be subject to stringent supervision, monitoring and access restrictions.
- Check, whether two-factor authentication at log-in is implemented by KRAs.
- Check, whether IDs of employees who worked earlier or retired are withdrawn from the IT System i.e., "End of Life" Mechanism.

ii. *Physical Security*

- Check, whether KRAs are allowing to access the critical systems by outsourced staff / visitors, etc.
- Check, accesses to Physical Systems is revoked, if there is no need.
- Check, whether KRAs implemented CCTVs, CARD access systems, security guards, mantraps, bollard etc. wherever it required to enter into system room, etc.

iii. *Network System Management*

- Check, whether KRAs conduct regular enforcement checks to ensure the baseline standards uniformly.
- Check, whether KRAs introduced firewalls as well as intrusion detection to prevention of systems from virus and other threats.
- Check, whether anti-virus scanning is happening on regular basis and updated version is available.

iv. *Data Security*

- Check, whether KRAs are using the strong encryption methods like Advanced Encryption Standard (AES), RSA, SHA-2 etc.
- Check, whether the IT systems are preventing the unauthorised persons to copy and transmit the data / information stored in IT systems.
- Check, whether information security policy of the KRAs cover the devices like mobile phones, photocopies, scanners etc. to capture and transmit the data stored in IT systems.
- Check, whether KRAs allow authorized data storage devices to capture the data with appropriate validation process.

v. *Hardware and software:*

- Check, whether hardened and vetted hardware / software used by KRAs.
- Check, whether default passwords are replaced with strong passwords during hardening process.
- Check, whether all open ports are blocked to avoid exploitation of data from the IT systems.

vi. *Application Programmes Security and Testing*

- Check, whether KRAs are using regression testing before new or modified systems are implemented.

vii. *Patches Management of Software*

- Check, whether KRAs are implement the security patches in time and whether they have verified the patches i.e., identification, categorisation and prioritisation before implementation.
- Check, whether KRAs are verifying the patches, i.e., there is rigorous testing before deployment in the production environment of the system.

viii. *Disposal of storage devices and IT systems*

- Check, whether KRAs are using methods like wiping / cleaning /

overwrite, degauss and physical destruction in case of disposal of IT systems and other storage devices, etc.

ix. *Vulnerability Assessment and Penetration Testing (VAPT)*

- Check, whether KRAs are conducting vulnerability assessment tests in the IT environment at periodical intervals, i.e., at least once in a year.
- Check, whether KRAs are taking remedial measures in case of identified vulnerability assessment and penetration testing.
- Check, whether KRAs are performing vulnerability scanning and penetration tests prior to the installation of new IT systems and provide internet access, etc.

c) Detection and Monitoring

- Check, whether appropriate security monitoring systems are available in the IT System to detect the unauthorised or malicious activities, unauthorised changes, unauthorised access and unauthorized copying and transmission of data / information by the internal or external parties.
- Check, whether KRAs implement suitable mechanism to monitor the capacity utilization of networks and critical systems.
- Check, whether suitable alters are generated in the event of detection of unauthorised or abnormal system activities, etc.

d) Recovery and Response

- Check, whether alerts are generated by the system in case of cyber-attack or breach, and to eradicate the incident. Whether suitable detection systems are placed in IT Systems.
- Check, whether timely restoration of systems available due to affected by cyber-attacks or breaches. Whether KRAs are having the Recovery Time Objective and Recovery Point Objective as defined by SEBI from time to time.
- Check, whether response plan is developed by defining the responsibilities and actions performed by employees or outsourced staff in the event of cyber-attacks.
- Check, whether any loss or destruction of data happened due to cyber-attacks. Whether any action plan is prepared to block their repetition in future.
- Check, whether KRAs are conduct suitable periodic drills to test the adequacy and effectiveness of recovery plan, etc.

e) Information Sharing

- Check, whether KRAs are submitting the quarterly reports on cyber-attacks and measures are taken by KRAs to mitigate the vulnerabilities to SEBI regularly (Sharing of the information to SEBI is useful to share the incidents to other KRAs by SEBI).

f) Staff Training

- Check, whether periodic training programmes are conducted for the staff members (including outsourced staff and vendors) about the IT security / cyber security policy of the SEBI and standards to be maintained etc. by KRAs.
- Check, whether KRAs are giving more focus to non-technical staff members on IT security / cyber security policies to get them familiarize with the IT systems.
- Check, whether KRAs are reviewed and update the training system and the contents of the training programmes are given to the staff members on IT security / cyber security systems, etc.

Conclusion

"*Technology is a key game changer in financial services as it cannot only provide fast and better services to the consumer, it can also be a catalyst in improving the ease of doing business*", said Shri Ajay Tyagi, Chairman, SEBI while participating at a Panel Discussion on "Technology in Financial Services" some time back. KYC registration agencies (KRAs) play a vital role in maintaining KYC documents of various clients of securities market. Through annual Information Systems Audit (IS Audit), it is not only possible to strengthen the good governance of access controls, network controls and data security of IT systems of KRAs, but also it is also possible to prevent cyber-attacks on IT systems. ■■■

Busting The Modern-Day Investing Myths

As stated by Warren Buffett, investing is "the process of laying out money now to receive more money in the future". There are many successful stories of people who made billions by investing in the capital market, viz, Warren Buffett, Carl Icahn, John Templeton and our very own Rakesh Jhunjhunwala, a highly respected and successful investor in the Indian capital market. There are people in India who simply emulate the strategy of Rakesh Jhunjhunwala. People with right strategy and acumen can make millions in capital market and thus capital market entice many. However, at the same time who are risk averse and altogether shun the capital market. There are many stories and myths associated with capital market and success lies with those who take right decisions. Read on…

The world of stock market trading is attracting everyone. The freedom provided by the stock market and opportunities offered to its investors cannot be matched by any other asset class. Investing has become a hot topic in the recent years, with the younger generations particularly looking at stock markets and other risky assets as lucrative ways to establish a secondary income stream or even as their main occupation.

Availability of information on social media has further generated interest in the stock markets. What has catalyzed interest in the stock markets is the availability of information at their disposal & the recent surge in the number of self-proclaimed "traders/ investors/ market gurus" on various Social Media platforms like Youtube, Twitter, Facebook and Instagram. However, it may be noted that – read as many books as you can, listen as many podcasts as you wish or visit as many websites as you can to understand and learn the intricacies of the stock market, but investing will always remain prone to risks. It is not easy to earn a consistent level of return at a reasonable risk. It becomes quite easy for a youngster aspiring to do something big in life, to fall into a trap of half baked knowledge as often rosy picture of very high potential returns is painted alluring them to take wrong decisions.

It does not mean that trading/ investing or stock market in itself is a bad thing or unrealistic. Well planned investments made in the stock market can contribute immensely to the efforts in creation of wealth. However, traditionally, in India, people tend to look at the share market with great caution and much hesitation. For people with less knowledge there is need to have

Contributed by Secretariat, Committee on Capital Market and Investors Protection. They can be reached at ccmip@icai.in.

suitable mentor or consultant and stay away from myths that have been fed into our minds since long. Many Chartered Accountants with their financial prowess are acting as advisors, consultants and managers and helping the investors to take quality decisions.

Before deciding to make investment in the stock market, it is crucial to have a clear and accurate understanding of stocks and trading rather than just blindly accepting the common myths floating in the market.

Let us take a look at some of some of the common myths and explore the reality:

1. **Investment is a long-term activity while trading is on a shorter time frame**

    - The definition of long term and short term cannot be fixed. For someone, a year might be a very long period while for another person, one year might be an easy holding period of an investment. Also depends on different asset classes and instruments within those asset classes.

2. **One should always invest for Long Term/ Look at the markets from Long Term Perspective/ Look at Decades instead of Days**

    - There is substance in the statement. Stock investing creates wealth over time. But that doesn't necessarily mean one has to stay invested in the same asset class/ same instrument within an asset class all their life. Based on the evolving dynamics the portfolio can always be adjusted. The successful investors have always highlighted the importance of long term investments.
    - However, a close look at successful stories would reveal that the time when they made a bulk of their fortunes, was quite different from today's environment and that the Market structure has changed a lot since then. Even the recent years' additions to their portfolios have been in the red. So there are no magic potions for success.
    - In the context of Indian Markets, historical returns appear to be high due to multi-year rallies in the markets, once around 1993 and then from 2003-2007.
    - While every single asset class and almost all investments within the same asset class has generated decent returns during the period before 2008, but post the Great Financial crisis of 2008, not one asset class has continuously performed for 12 years.
    - Similarly, not all instruments have performed equally well within an asset class for those 12 years, be it equities, mutual funds or bonds.

(A few examples in well known Equities can be Maruti Suzuki – stopped moving post Lifetime high in 2015-16, Reliance – remained dormant till 2016, rose quickly after that, Adani Group and TATA group- gained momentum in the last one year and many more can be seen if we have technical knowledge ourselves to see).

3. **Higher Risk means Higher Return/ More the risk higher the return: -**

    - Let me rephrase the statement: higher the risk, higher is the expected return. There is no guarantee of a high return, rather trading/ investing in risky assets without complete knowledge can seriously harm your risk appetite and desire to stay in the markets, which is especially true for risky trading strategies advertised and promoted by many social media faces in the form of leveraged intraday trading and derivatives trading.

4. **Making money from Stock Markets is fairly easy/ You just need some basic knowledge and a DEMAT/ Trading Account: -**

- Those who have tried this know it really well. Making money from anything is never this easy. One needs to gain proper knowledge and the right skill set to be able to find their way.
- If books or videos could teach someone how to do their job, there would be no need for specialists. People just show you what they want you to see and learn. Even most of the fundamental/ technical knowledge shared by self proclaimed experts and media channels is either incomplete or incorrect and hence, does more harm than good.
- Always focus on finding the right advisor without any personal motives, learn, practice and then jump all into it. Yes, then, making consistent money from this source is fairly possible.

5. Stocks that go up in the market must come down and vice versa

- There is nothing to argue with the Newton's Laws, but he was concerned about the gravity, not stocks. We cannot apply the laws of gravity to the stock market. No gravitational force can pull the stocks back to the bottom.
- There is a common misconception in the stock market that individual stocks have short periods of growth which will eventually end, or there may be a major drop in value over time.
- There is also a similar misconception among gamblers about the dice: if the dice are hot, the thinking goes, they must eventually cool down, or if they've been cold, they're "destined" to heat up.
- But the truth, with dice and with stocks, is a little more complicated. When a dice is rolled, each roll is an event independent from others. Similarly, every company is different.
- However, it will not be true to mention that stocks never undergo a correction. The price of stock price is just a reflection of the company. In an organization which is run by excellent and knowledgeable managers, the stock will continue to increase in value without any doubt.

6. You can only make money by investing a lot of money

- A most common myth that discourages the prospective investors to enter in the share market is that only wealthy people can make money in the stock market. According to them, money is required to make more money.
- This myth roots up from the belief that in order to generate profit, a person must have a lot of financing to cope up with the various losses that are along the way. However, this is completely misguided.
- Small and consistent investments over a long period is capable of making a huge corpus.
- Like all the other investment options, the share market provides a lot of opportunities for traders having a variety of risk appetites and capital available.
- If you study the life of some of the most successful investors, almost all of them stated with very little money. For example- Warren Buffett started doing investment in stock market with just a few dollars which he saved from delivering newspapers. Similarly, Rakesh Jhunjhunwala started with Rs. 5,000 in his hands. Both the investors made their fortune from stock market and both of them had a very humble inception of their career in stock market. Such

living examples are a proof that millions are not required to start investing. All you have to do is start with whatever you have and give it time to grow.

7. **Follow your instincts when investing**

- An article was published in Forbes magazine which explained that your gut instincts are a driving force behind all of your career decisions. Your basic natural instincts are what drive you to be successful in all areas.

- However, investing follows a different approach. Investing and making money in the stock market is not a game of gut, instead, it ais an analytical game. Making an investment decision on gut instinct is not a good choice to make. If a person makes investment in stock market on the basis of instinct instead of making educated and research-oriented decisions, then he will be termed as doing gambling instead of investing.

- In some cases, beginner investors use their gut instead of sound logic for making sound and timely decisions about when to enter or exit an investment. These are the emotional decisions, which are taken by the investor after driven by the two main emotions which are linked with investing i.e., fear and greed.

Everyone has a different opinion regarding investing decisions. But remember, not everything that we hear is true, especially when it comes to headlines or predictions made on social media. While venturing into stocks, do not believe on anybody's advice blindly. Carry out a thorough analysis and research before buying any stock.

You should remember that there is no other expert better than the individual himself/ herself in stock market because the only person who knows much about his personality is individual himself/ herself. There is no fixed technique to make money in stock market. Once we became aware of our personality, we can easily find out which strategy could work well for us and after adopting this strategy for a certain period of time, we can find the strategy is generating fruitful returns. After figuring out the strategy to make money in stock market, one virtue that must be acquired to become successful in stock market is "patience". It means "doing nothing" and waiting until we get a better deal to invest.

"Stock Market is a device for transferring money from the impatient to the patient".

Like all the other investment instruments, stock market investments require their own share of homework and preparation. Once an investor overcome these and other various myths about the share market, they too can utilize the wealth creation potential of the market.

Do not let these stock market myths to overpower you and stop you from investing. It is indeed heartening to see an increasing number of young professionals and stock investment comes naturally to accounting professionals for obvious reasons. Understanding the increasing interest of the young generation, The Institute of Chartered Accountants of India through its Committee on Capital Market & Investors' Protection is disseminating the knowledge amongst general public/ investors' at large to educate and empower them. The committee conducts training programmes and seminars for members and other on matters relating to Capital and Commodity market. It also conducts certificate courses for professional development of members in the field of "Forex and Treasury" and "Derivatives".

Last but not the least, only thing to remember before investing is "*Always learn the science, practice the art, Perfect it and you will be able to take care of yourself.*" ■■■

Behavioural Factors Limiting Rationality in the world of Finance

The efficient market hypothesis that Chartered Accountants learn in their curriculum proposes that there is nothing like overvalued or undervalued stocks. The security markets fully reflect available information without any discrimination and thus provide unbiased estimate of underlying values. The theory states that it is impossible to "beat the market", i.e., outperform the market. It is impossible for investors to either purchase stocks that are undervalued and sell the ones that are overvalued. Read on...

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The Chartered Accountants with their acumen in the area of commercial matters display keen interest in the world of capital market, particularly stock markets. The education and training of Chartered Accountancy course has taught them complex tools and strategies to fundamentally analyze the inherent worth of assets and take crucial as well as beneficial financial decisions. Equipped with the knowledge of complex financial strategies they have abilities to proficiently render expert services to create rewarding portfolios. Even before making small value investments, the professionals will study past profits, volumes, growth, price-earnings ratio, promoters and like to judge the worth of assets.

It is important to note that the stock market efficiency causes existing share prices to always incorporate and reflect all relevant information thus stocks trade at their fair value. The participants in the markets are assumed to be fully rational in their approach.

However, in spite of all this many investors face heavy losses. There are occasions when stocks lose significant portion of their value in no time.

On eighth of January, 2008, the Nifty reached intra-day all time high of 6357.1 points rising more than 500 per cent in the new millennium. Same year on 27th October, it fell to 2252.75 points, its nadir in the post crisis period. About 64 per cent of the value of Nifty

was eroded in less than a year. Again the markets plummeted after the threat on economy was evident after the lockdown in the early part of the year, 2020. The stock markets can be notoriously volatile. They can make paupers, king and kings, pauper. The question which then arises is why markets are so volatile. Where is the *efficient market theory?* We have also seen people who have made huge empire by investing in stocks. Many of us awe the strategies of Warren Buffet or Rakesh Jhunjhunwala, an ICAI alumni. There are people who will blindly buy stocks recommended by them.

Lately, there are numerous studies highlighting the importance of understanding the world of behavioural finance for the traders, investors, fund managers, analysts, and other financial professionals. In the world of behavioral finance, presence of circumstances is acknowledged which naturally makes the financial markets informationally inefficient. In this world, emotions rule and information from psychological factors have similar importance as information from final accounts.

Psychological biases present in investors

Cognitive psychologists have documented different patterns regarding how people behave. Some of these patterns are heuristics, overconfidence, mental accounting, framing, conservatism, representativeness, disposition effect [Ritter, Jay R., 2003]. Let us see some of the psychological biases present among the traders and investors:

1. **Overoptimism and Overconfidence**

   Investors are often found to be optimistic in nature as they feel that they are in control of things while in reality it is other way round. They exaggerate their own abilities to understand things and often harbour the dillusion that things are within their control. Such investors possess self-attribution bias as they attribute success to their own abilities and external factors or bad luck for unsuccessful outcomes.

   Investors are not only optimistic, but also overconfident. They believe that the actions taken by them are right and they will provide them intended returns. An overconfident person overestimates his ability to successfully perform a particular task. All of us can recall how a classmate who lost in a debate competition blamed judges to be biased or blamed teachers for less marks. A good number of psychological researches indicate that people in general are overconfident. Overconfidence is also labeled as miscalibration as it a belief that one knows more than one actually does.

   Combined together optimism and over-confidence can impel traders and investors to overrate their abilities to buy stocks and underrate the risks involved.

2. **Heuristics**

   Heuristics, or rules of thumb, make decision-making easier. It is a strategy that can be applied to a variety of problems and can lead to correct solutions. Heuristics are the shortcuts to reduce complex problem solving to simpler judgmental operations. Despite what financial experts may assume, many investors do not calculate odds properly when taking investment decisions. They may assign mental subjective probabilities to various alternatives and take decisions. They make the task of decision making easier and simpler. Sometimes heuristics may lead to suboptimal investment decisions. Use of heuristics results in cognitive weaknesses in individuals' decision-making, leading them to make inferior decisions with regard to their individual welfare. [Akinbami, Folarin. 2011]

   Three popular heuristics that are applied are Representativeness, Availability, Anchoring and Adjustment [Tversky and Kahneman, 1974].

   Representativeness heuristic: A person may estimate likelihood of an event by comparing it to a previous experience or an example that already exists in mind. Our thoughts are conditioned as per the most relevant or typical example of a particular event or object. Suppose if one associates men with long hair to be from entertainment and media industry, will relate any man with long hair with entertainment and media. Representativeness heuristic may lead investors to use their knowledge of one successful company as a stereotype for another similar company and accordingly judge both the companies at par and likely to be equally successful.

Availability bias: Human thinking is highly influenced by things that are recently experienced, relevant or are dramatic in nature. It is information-processing bias where likelihood of an outcome is estimated on the basis of how easily the outcome comes to mind. An investor who has lost heavily by investing in shares is more likely to be vary of stock markets in future. However, over time, the person may return to his normal investing pattern.

Anchoring and adjustments: Anchoring is an information-processing bias in some of the investors. A ship is anchored so that it does not move. Anchoring happens in investors because relative analysis and comparison seems easier as opposed to understand absolute figures. Investors influenced by this bias, often are fixed on a particular buy-price or sell-price target, even when the investing landscape poses new information. Such investors do not adequately adjust the anchor and therefore their forecast tends to be biased. Sometimes investors anchor themselves with previous high prices and buy stocks that have fallen considerably. While anchoring, far too much emphasis is made on a single piece of information, while ignoring other available information.

3. Loss Aversion

There are a number of academic researches suggesting that loss aversion plays an important role in the decisions taken by some of the investors. Loss aversion is the tendency of investors to be more sensitive to losses in comparison to gains. The context is often displayed in pricing decisions by many marketers. It is common for restaurants to offer off-peak hour discounts rather than having surcharges during rush hours. People are happy taking discounts rather than paying extra. As per the concept of loss aversion people experience greater pain in losing than the pleasure they have in getting similar gains.

4. The Disposition Effect

Consider example of an investor who buys a share and is happy to sell to make a gain of about 3 per cent in 7-8 days. It is a different story that the momentum took the stock to rise by another 20 per cent in about 3 months. However, another share bought by him fell, he patiently waited for it to revive. However to his dismay the value of this share halved in just two months. Somebody guided him to average out by putting in more money; convinced, he doubled the money put in the scrip. In next couple of months, it again lost another 30 per cent. It is a common mistake many investors make. They book profits too soon and stick to loss making scrips too long. They forget the concept of stop-loss. Here rationality is overshadowed by other psychological factors.

Disposition effect is the tendency to sell winners and hold losers. Individual investors have a strong preference for selling stocks that have increased in value relative to stocks that have decreased in value.

5. Narrow Framing

Narrow framing is the tendency of investors to focus on narrowly defined losses or gains. People while narrow-framing will take investment decisions without considering the impact on their total portfolio. The notion explains how people mentally evaluate risk while making investments and thus leads to conclude that the manner in which a concept is presented to individual has a bearing on the decisions. A narrow-framing investor may ignore the benefits that can be achieved through diversification. These people may be heavily invested in some of the individual stocks or industry, for example in pharmaceutical stocks that are in interest these days.

6. **Herd Behaviour**

Herd behavior is a phenomenon often seen in stock markets. You may recall the era prior to the financial crisis of 2008. During those times there was unprecedented interest in the stock market. Persons who were otherwise vary of stock markets were not only talking about the market but also making investments, however small they may be. At that time, people who were hardly investing were considering bidding in a particular IPO which was being fancied by many – even by taking a loan. These were clear signs that something was wrong. Money does not come easily, it has to be earned, hard way. During those days some of the IPOs were selling like hot cakes; getting responses as if they can make you millionaire overnight. Companies were also flocking to raise funds.

However, the euphoria did not last as the markets fell and investors took a turn to opposite direction. In 2007-8 there were 85 IPOs for 42,595 crores and in 2008-9 there were 21 IPOs amounting to 2,082 crores. The investors and fund managers, without appreciating the trade-off between risk and rewards, acted in herds. Herd behavior may lead to gradual formation of bubbles that may burst to crash.

Recently, the Reserve Bank of India (RBI) has warned building of a bubble in the stock market as prices of risky assets surging to record high levels. The Reserve Bank of India has hinted that Indian equity markets are in a bubble, and that high valuations in the market are far from the ground realities. The Central Bank in its annual report 2020-21 stated that the magnitude of asset price inflation in the country poses the risk of a bubble as there is estimated 8% contraction in GDP in 2020-21. In fact, the benchmark Sensex has risen a whopping 100 per cent from the lows reached in March 2020 after pandemic induced lockdown.

Herd behaviour is not restricted to stock markets or humans. It is naturally witnessed in animal kingdom. It is found in humans and extends to different aspect of business. We can often observe sudden interests in information technology which shifts to real estate and then to some other sector.

The herd behavior may be rational or irrational. In fact herding is a natural instinct that is always present while taking decisions. It is a subconscious bias that is linked to human need to conform to things.

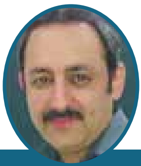
Herding may be intentional or spurious. Intentional herding results from obvious intent of investors to copy the behaviour of other investors. Spurious herding is an efficient outcome of groups taking similar decisions when provided with similar information. For example, a general rise in the interest rates may reduce the proportion of stocks in the portfolio of investors. (Bikhchandani and Sharma (2001)) Spurious herding is not a consequence of copying decisions of other investors, but merely a reaction to available information.

Endnote

The world of finance is highly complex and dynamic. In this article, a number of behavioural factors that limit the rationality aspects of investors and lead to sub-optimal decisions have been explained. The professionals may appreciate that the models of fundamental analysis based on the rationality may not produce the results that are exhibited in the real world. Knowledge of presence of behavioural factors will help investors avoid common pitfalls and take better decisions. There is need to understand the presence of herd-behaviour and cognitive positions that investors may take. Equipped with this knowledge, they can take better decisions for themselves, clients or for their organisations. ■■■

Wealth Creation in Stock Markets

An intelligent investor is able to make money work to earn more money. Investments help them to improve their status, have future security or prepare for big expenditures in life. The investments vary in terms of returns and risk and the investments with better potential of returns are invariably riskier. Many investors also get misguided and take faulty decisions to make deep burns in their pockets. Investors may not possess adequate knowledge and skills and may not be able to understand risk-return dimensions of investment options available. Read on…




CA. Amit Bagga* Jitender Kumar#

*Is a member of the Institute. # Is a financial expert

Wealth can't be created just because you want to do so. "Show me the calculations my friend", you would often ask your advisors. Sounds good! Last month, while I was sitting with one of my friends, the same question cropped up. When asked "do you want my advice or just calculations", the reply was as expected "I am a long-term investor; advise me on some investment opportunities" and with those lines, the additional conditions were as follows: "Look, I will not invest now, markets are in a bad shape, and we may be in a recession". Secondly, "the stock must not be of more than 100-200 rupees; I generally do not buy expensive stocks".

Out of curiosity, I asked, what is the time horizon and purpose of the investment? The answer was "long term, but usually, I believe in booking profits as soon as they appear in my account". All this reminded me of the typical behavioral issues of investors: With the mental sufferings of loss aversion, speculative instincts, and illusions about markets. This is a story of almost all the investors around. They enter the investment world as long-term investors but in reality want quick bucks. They do not invest but try buying some "lottery tickets". People find lottery tickets fascinating even though almost all lose money on the lottery tickets.

"Lottery tickets are the silliest investments, making investors lose money, and yet, for an average investor, the lottery ticket is often the preferred investment, for it can quickly create wealth".

As a standard reply, I must say: "My friend, you want to create wealth, but wealth can't be created, just because you want to do so". You will have to learn the art of discipline, behavioral finance, and of course, a little understanding of financial markets.

Through this article, I am trying to cover some of these issues and will discuss how some unbiased understanding of the

financial market with the help of mathematical tools can help an investor generate better results than an average investor.

Where do behavioral issues originate?

One of the exciting functions available in almost all spreadsheet calculators is Future Value, "FV". Based on certain assumptions and guesstimates about the future, it can easily give you the future value or the corpus required to achieve certain goals. Furthermore, with its variant, Payment, "PMT", you can estimate the number of periodic investments you need to meet these goals. With these handy calculations and a positive mind, you just start investing, probably through some systematic route or lump sum.

This fundamental and common strategy is good enough and works at its best if the assumptions that informed the calculations turn out to be true. But here is a common catch: the degree of reliability (i.e. mismatch) of these uncertain assumptions for the goals which are probably more certain.

"The goals that are certain and defined are informed by assumptions that are uncertain".

Though we are clear about the fact that all these assumptions are just estimates, we have mostly never questioned the source of these assumptions and questioned what happens if they do not hold true. Have we questioned? If you are an advisor or an investor, the chances are you would care a lot more about the number of investments you are currently making and even more care about odds that you or your client should not lose money. Hence, you go with the mindset (or I call it illusion) that most of these assumptions are common and are the same with all kinds of situations, with all investors, and with some heuristic rules of thumb, and therefore you feel no need to alter or customize them.

So what should we care about when we are investing? What should be our investment strategy? Well, all we need to understand is that these assumptions are not only numbers or guesses (about time horizon and expectations of the rate of returns), but are a semblance of one's behavior and understanding of the real world. We have to understand that money has no colour and that it is fungible. Any money can be used to meet any goal. The emotional baskets of goals that we create and sometimes lose track of may not always be fruitful.

Understanding markets for wealth creation

There is a famous quote *"Markets are always right; it's our decision which is right or wrong".* This phrase highlights important issues that we need to understand. The issues that we need to understand are the very root cause of market existence and why there should be any extra returns in one asset class (say equities) as opposed to others.

"In the last 10 years, the median return of open-ended equity-oriented fund is around 10%, with one-year returns ranging from -60% to +110% in any particular year and that of bond funds is 8.5%, with annual returns in the range of approximately -30% to +18% in any particular year".

> "All we need to understand is that these assumptions are not only numbers or guesses (about time horizon and expectations of the rate of returns), but are a semblance of one's behavior and understanding of the real world.

In some good years, the returns are as high as 100% (in equity funds) and in some, for instance, the present year, they are as low as -60%. This data suggests that in shorter periods, the returns tend to fluctuate and may deviate to a large extent but over a long period they normalize and revert to average, known as the law of mean reversion and thus it is highly probable that you will get average returns over the long time periods. If we take the average risk, the more likely outcome will be that we will have a sort of average returns over the longer term.

Wealth creation will have to deal with the problem of market volatility.

However, there might be some periods during which any decisions we take can significantly change our return profile without hindering our risk appetite (though it may appear for some time, and we will discuss this in the later section of this article). The answer to this periodic analysis is in the concept of market efficiency or efficient market hypothesis formulated

> We have seen the periods of global financial disaster of 2008 and experienced how markets became so inefficient to predict what happened later. If someone was bold enough to invest in 2008, we all know the kind of returns that could have been generated.

by Eugene Fama in 1970. Though controversial, the thesis suggests that at any given time, prices fully reflect all available information about a particular market. In efficient markets, market prices adjust everything (including foreseeable future), so no investment pattern is fruitful.

However, EMH does not reject the anomalies in the markets. We have seen the periods of global financial disaster of 2008 and experienced how markets became so inefficient to predict what happened later. If someone was bold enough to invest in 2008, we all know the kind of returns that could have been generated. At the same time, we also often observe the anomalies when the market seems to overreact to positive expectations (small-cap run of 2017).

"What should I do with this efficient market theory", you might ask. Well, as I use to quote "Markets are always right, it's our decisions which are right or wrong". This analysis of market efficiency helps you to make the right decisions and to understand why it is so difficult to beat the market for an average behaviorally charged investor and what is actually required to create wealth out of these efficient markets.

The first step towards wealth creation

The scholars of traditional finance assume that investors are risk-averse and they dislike risk. If I ask someone a question "what is risk?", the most common answer would be that the "probability of losing my principal is the risk". This answer is behaviorally correct but not mathematically correct. The technical definition of risk is volatility against the expected returns and not the loss (read more on standard deviation and variance).

The behavioral finance has proved that people are actually not at all risk-averse, they are rather "loss averse" and hence, they do not dislike risk but they dislike loss. In his book, Your Money & Your Brain, Jason Zweig goes through multiple studies and stories to show how our brains react to different forms of the stimulus (mostly gains and losses). The fact is that the financial losses are processed in the same area of the brain that responds to mortal danger (the danger of death). This helps explain why losses hurt so much more than gains feel good. This loss aversion can be a huge issue that needs to be addressed for our long term financial health as it tends to give birth to "disposition effect", under which we normally book profits earlier than we book losses.

"People like taking risks but hate incurring losses".

Because of another mental block "representativeness", people tend to weigh short term returns than weigh long term returns. If in a particular year (remember 2018!), the markets are down by 15%-20%, we start believing that this will continue and forget about the long run; similarly, I have heard people talking about doubling their money in just one year and believing that they can do it forever, again not realizing the long term mean reversion effects.

The first and foremost rule for long term wealth creation is not only understanding the markets but also understanding them without emotions and inculcating a discipline about investing.
If I were to ask you: what is a common trait among market tycoons and legends in the field of investing, almost everyone tries to convince me that they have some super network, some super luck, and knowledge. The answer is actually nothing but "discipline". They believe in long term investing, in not following the herd, and indisciplined investing.

The right strategy

The answer about is what is wrong and what is right is although difficult but somewhat given in traditional finance. While behavioral investing focused on "what it is", the focus under traditional finance is "what it should be".

> The behavioral finance has proved that people are actually not at all risk-averse, they are rather "loss averse" and hence, they do not dislike risk but they dislike loss.

The traditional or the rational approach is not rocket science but objectively estimate the market's risk and returns to build your expectations. The returns can simply be expected by the long term average returns given by the investment avenue or through various other quantitative models. The risk is measured through standard deviations of those returns (and not the loss). These values can be put into an optimizer tool which will give you the scientifically calculated proportions of these products in your portfolio based on your return expectations and /or the maximum risk you are able to take for your portfolio.

This ability to take risk will be a pure function of the time horizon of your investment (longer the time horizon, higher will be the ability), liquidity requirements and criticality of your goals, your existing net worth, and certainty about your future incomes. A predetermined score should be given to these parameters to come up with a number that will tell you how much risk (or SD times) you can afford with your investment portfolio.

you go to actively managed PMS or mutual funds, supposedly run by competent fund managers and supported by analysts and market makers, they will charge you some fees to cover their costs. In return, they are supposed (but not obligated) to generate for you more returns than the market does. Or in simpler words, "beat the market".

As an active investor, their performance should be linked with excess returns generated over their benchmark and not with any absolute number, and thus rather than generating the maximum return, the focus of a rational investor is on majorly on those excess returns.

The rule can be "Enter or invest in the fund which is beating the benchmark consistently at least in the last 2-3 years and exit, if it is not doing so, inconsistently in the last 1-2 years". For consistency, the returns can be divided into different quarters so that you can get a better sense of the returns.

What if I can't actively do all this stuff?

"I should not invest and stay away". This could be thought

> While behavioral investing focused on "what it is", the focus under traditional finance is "what it should be".

from many of us. The answer is *no*. You need to adopt a "passive route to investing". If the intent is to generate market returns, the best instrument is a managed ETF or a low-cost index fund. These funds mimic the return of indices such as Nifty, Sensex, or Nasdaq. They invest in the same constituents of the index with the exact proportion as of their index. The modern finance theory suggests that market portfolios such as Nifty and Sensex are most efficient in the sense that they are relatively lesser volatile than any other portfolio and thus provide the best risk-adjusted returns in all forms of EMH.

In one of his interviews given to Fox Business channel, the great economist and author of the bestseller book "A Random Walk Down the Street" Burton Malkiel argued and endorsed this style of investing. The expenses charged by an index fund or an ETF are way lower (almost nil) than the expenses charged by an actively managed fund (around 2% per annum) and this is a major source of underperformance of the active funds according to Malkiel. Think over it, before investing.

Product	Expected Returns	Risk	Risk Adjusted Returns#
ETF and Index funds	12%	12%	0.4
Equity Mutual Funds *(excl. Index Funds)- large*	12%-14%	14%	0.4
Equity Mutual Funds *(excl. Index Funds)- Mid*	15%-16%	16%	0.5
Debt Mutual funds	8.5%	5%	0.3
Gold ETFs	7%	12%	0

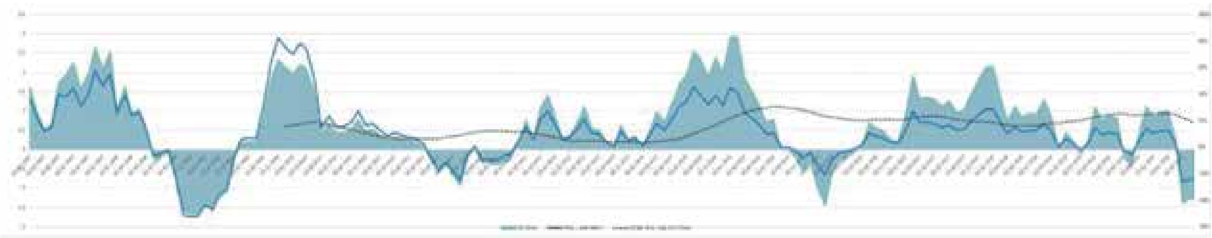
The risk and return profile of various investment avenues (risk measured by the standard deviation of returns).

 # Risk-free rate (Rf) taken as 7% for calculating risk-adjusted returns.

Once you finalize the proportions, you can invest directly, on your own (if you are smart enough in stocks or bond selection), or using the simpler way, you can go the mutual fund way; you can go ahead and give your money to a professional fund manager. But again, you need to understand the nitty-gritty to some extent. If

Does timing matter?

It depends on what kind of timing you are looking at. A legend once said, "*Be fearful when others are greedy and be greedy when others are fearful*". If I try to guesstimate this fear factor with volatility and chart the volatility adjusted returns of Nifty, I will get the following:



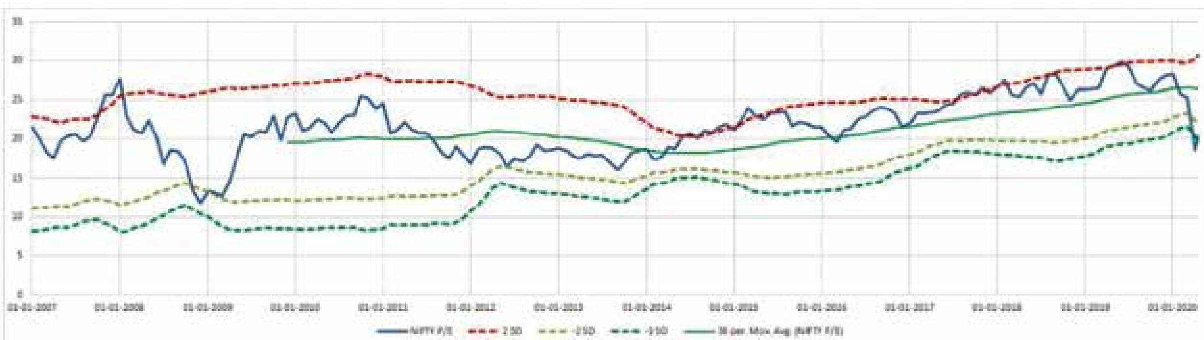
Volatility adjusted returns of Nifty.

These blue clouds are the volatility adjusted returns of the Nifty along with the one year return of the same (the blue line). We can see that we have touched the extreme kinds of zones just two-three times from 2007 to the current period and that we are around there today as well, (off-course on the downside). We touched these down levels once in 2008-09, then in 2016-17, and in 2020. Now let's see what happened after that. Nifty rebounded sharply and we saw the returns in the range of 30-40% in the next 2-3 years. "Reversion to the mean is the iron law of the financial markets". History teaches us that when valuations in the markets are at extremes, a move towards historical norms is likely and recoveries are fast. The extremely high levels we saw in 2010, 2015, 2018 and 2020 were also not sustainable levels, and the rest is history.

Last but not the least

Remember that long term gain can only be created through instruments that get an increase in value with the increase in the overall economic value of the country. Equities can be one of them. The gold, the FDs, and the bond cannot create wealth but can only preserve it from erosion that is caused by inflation. Keep yourself away from wealth destroyers such as high-interest loans, over-limit on credit card purchased, and unnecessary indulgence in luxury goods. Stay healthy and always subscribe to adequate health, auto, and life insurance; they will help you preserve your wealth that can be destroyed by untoward incidents.

But the real thing still remains the same "the discipline" in your investing. You have to invest irrespective of market conditions, irrespective of what is reported in the media, TV channels, and the newspapers. Be disciplined about entry, exits, and rebalancing of your portfolio based upon your changing risk tolerance levels (probably, as you age your goals start coming nearer). Some practitioners follow the market valuation based approaches to rebalance. They increase their equity exposure when the P/E ratios of general markets decline to some long term average and similarly decrease their equity exposure when the P/E ratios of general markets deviate significantly over long term averages. Here is a P/E chart (the blue line) with a standard deviation based upper and lower bounds:



P/E chart with a standard deviation based upper and lower bounds.

The key takeaway is: before investing, understand yourself, analyze your risk, make realistic expectations about the returns on your investment, do some fundamental research and calculations, and be honest to yourself. This is all you need to do to create and preserve wealth. Unless your life circumstances have changed, it doesn't make sense to change your investment strategy because of any recent ups and downs in the markets. ■■■

Mutual Funds - Way to Create Wealth

The mutual fund industry in India finds its roots in the year 1963 when Unit Trust of India was formed at the initiative of the Government of India and Reserve Bank of India. Since then, the industry has come a long way as a large number of investors put in their money in the mutual funds as a way to enter capital markets. In mutual funds money is collected from many investors and investments are made in securities, viz., stocks, bonds and debt. Read on…

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Mutual funds as investment vehicle are gaining popularity as an alternative mechanism to invest in capital market. The mutual fund industry is growing at a stupendous pace with assets under management reaching ₹ 32.38 trillion crore as on April 30, 2021. In last ten years there has been more than four fold increase in the assets under management that stood at ₹ 7.85 trillion as on April 30, 2011. It is becoming an acceptable way to enter the equity markets that are considered to be risky by many. Major advantage of mutual funds include advanced portfolio management and risk mitigation. Technology has also made the investment procedure convenient. fair pricing.

Mutual fund is a mechanism for collecting money from the investors and issue units in accordance with amount of money invested. Mutual fund managers invest on behalf of original investors in securities in accordance with the purpose of the fund that are disclosed in offer document. Investments are spread over a wide variety of industries and sectors such that risk is diversified and return optimized.

After the pandemic last year, the stocks markets plummeted for some time but to recover soon thereafter. With the recovery, the interest in the markets also revived. A record number of people taking to direct investing in the last one year, let us try to discuss and comprehend the one instrument that has been heavily advertised in the Indian markets for years now and that many people believe is the sure shot way to create wealth, investing passively. The catchy tagline - *Mutual Funds Sahi Hai*, fancied many investors to consider mutual

funds. The initiative helped the general public to learn about mutual funds investment and understand the factors to look for when investing in mutual funds. Like any investment, mutual funds are also not free from any risks. Let us try to understand how far the tagline is correct and whether there are any challenges associated with the mutual funds. Whenever we are advised or persuaded by a broker or an advisor to invest money or start a SIP in a Mutual Fund for a long time (in order to create a huge wealth using the compounding of returns), the formula presented includes amount invested every month, period in number of months/ years and rate of return to reach a big corpus. It explains how small investment help an investor to reach a big corpus. The real problem in this methodology is the rate of return. Investors are shown a very rosy picture of high historical returns and told that these returns would also continue in future. But taking a closer look, often we can find the high returns reflect the period when markets grew rapidly. For example, we can see that many time these returns take into account the period starting from before 2003-04 till date (This is because we saw a Multi Year Rally during 2003-04 till 2007-08 in almost several assets classes, increasing valuations multiple times).

But honestly speaking one should measure the performance of any Asset class from 2008 till date since after the Great Financial Crisis of 2008, Financial Markets' dynamics have changed drastically in two ways:-

1. Not all Asset classes have performed continuously at all times after 2008
2. Within each specific asset class, not all types of instruments have performed well at the same time after 2008.

Particularly, let us understand with the example of "Equity based Mutual Funds." There are ample examples to demonstrate that many well known stocks did not move for years, or moved in well defined phases. When underlying equities are not continuously performing well, how can the Mutual Fund that has invested in them, perform well? Same goes for Debt and Hybrid Mutual Funds. Therefore, if we look at the performances of Mutual Funds in the last 3, 5 or 7 years, the results are not very encouraging (Except that again in 2020 due to Covid crises, the massive liquidity pumping by all economies has led to massive rally but such boost is also capable of bringing the jolts in the times to come. One should always remember, "past performance is not indicative of future returns."

In fact, as per independent research, it has been observed that even in the last one year (wherein Markets have given a spectacular rally due to massive liquidity pumping), many leading "Large Cap Mutual Funds" have either failed to outperform the broad Market Indices or barely outperformed them; while some of the theme based or sector specific funds have only performed well for a specific time period (such as Pharma sector funds in the first half of 2020 and now commodity based ones). Now that we understand this aspect, let us take a look at some other factors that reduce our returns directly/ indirectly if we choose to invest in Mutual Funds: -

1. Investing in Mutual Funds takes away our liberty to further add or exit from the underlying stocks as per changing circumstances.
2. Our Gross Returns get reduced due to Entry Load, Expense Ratio and if applicable, an exit Load.
3. We are also deprived of bonus issues, rights issues and buyback offers announced by the companies.
4. If we invest through a Broker, we also incur brokerage, further reducing our return, even if we don't earn a decent profit on our investment.

Up until here, it is safe to say that various on-screen and social media experts as well as our brokers have been recommending Mutual Funds as an ideal investment vehicle to create wealth in the long term, on some occasions for their own interests.

The best way to build a portfolio and create wealth in today's world is to invest in knowledge first. People with interest and knowledge can directly invest in some the stocks and debt instruments. Some of the investors can proceed passively and invest in the common shares held by some top Mutual Funds as that would provide returns while also giving greater freedom of entry and exit. Thus in the overall portfolio a proportion of investment must include shares of some leading companies. Remember that long term investments are considered better as they smoothen the fluctuations in the market.

Still, there might be some people who are of the opinion that they cannot devote much time to learn the market dynamics and hence, cannot actively manage their money. In such cases, mutual funds are good solutions. For those people, even if investing through mutual funds, one needs to periodically review the performance and churn the Mutual Fund investments rather than sticking with the same fund for an indefinite period. It is also important to know that some agents persuade investors to unnecessarily churn the portfolios, may be to earn the commission that they receive. It is worth noting that mutual funds can be subscribed directly without any intermediary. An investor can visit website of the mutual fund to directly subscribe to the mutual fund.

Hence we need to ponder upon the following important points:

- To reiterate, it is crucial to understand that Financial markets today do not have the same dynamics and do not behave the same way they used to do 10, 15 or 20 years ago. Now, asset classes and various instruments go in and out of trend every now and then.
- In order to create wealth, it is necessary to understand and follow the changing dynamics and adjust our investment strategies and decisions accordingly. Periodic reviews of our portfolio have become a necessity. Be in the market for "long term" but not in the same asset class or the same instruments within an asset class.
- Since, underlying Equity Shares or Money Market Instruments or Longer Term Debt Instruments such as Bonds cannot be continuously performing in terms of uniform risk and return all the time, Mutual Funds that put our money into those instruments also cannot be guaranteed to perform continuously.
- Therefore, even if one has to invest in the market through mutual funds, investments should be churned from time to time, booking profits when the opportunity comes and shifting to better alternatives. However, a delicate balance should be maintained as some of the industries are cyclical in nature and accordingly the returns may fluctuate, for example in sector specific mutual funds. Investments should be for sufficiently long duration.

Chartered accountants clearly understand the nuances of the mutual funds. While investing we must have a mix of different asset classes to balance risk and rewards. A lopsided strategy will only increase the risk that should be avoided. Investment in other avenues must not be ignored. Members of accounting profession, with their deep-rooted knowledge of finance may like to invest directly in stocks and debt instruments rather than investing indirectly through mutual funds. At the same time while acting as investment consultants mutual funds can be suggested to clients based on the profile of the investors. It would be easier to convince a risk averse investor to consider mutual fund when compared to shares.

Environmental, Social and Governance Disclosures - Accomplishing Value with Values in Business

There have been several instances across different jurisdictions where investors have burned their fingers and lost their investments in the companies that were seemingly performing very well. From the earlier times of evolution of trade and commerce to the modern era there have been a number of instances of governance failures leading to substantial losses to the investors. Apart from providing returns, businesses are part of the society and it is their virtuous obligation to recompense the society to create ecosystems for better tomorrow. Need for environmental and social considerations have percolated to various stakeholders and in the recent past many investors in a company look into aspects ranging from value to values (moral values) to judge the long-term potential of their investment. While considering such issues, how as responsible society we see the "sustainable investment" is the focal point which we need to deliberate and discuss. Read on…

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Work with integrity, ethically strong, ecologically responsible, social welfare, sensitive to human needs, businesses today are expanding their horizons to imbibe strong values as a step towards sustainability. In the evolving world monetary value is seen much narrow and short-sighted when compared to values in business. Where value is perceived from the perspective of financial returns and **governance,** values are recognized in terms of **environmental and social returns**. If we broadly classify the issues wherein environment related issues deal with scarcity of natural resources, impact on climate change, changing demographics; Social issues range from reputation of organization, labour conflict, social impact of certain products/activities. On the other hand, governance issues are more attributed towards poor management practices, board compositions, anti-bribery and corruption policy, participation of shareholders.

Different Stakeholders define these issues based on their outlook. Whereas ecologist look them as a matter of social responsibility, activist as moral responsibility, investment managers take them as fiduciary duty to see the risk and returns are better controlled.

Environmental, Social and Governance popularly known as ESG is not a new phenomenon and was in practice since long with different names like *responsible investing, socially responsible investing* and was even mandatory to report in many countries. The primary aim for responsible investment was to see more towards investments with moral and societal values rather than looking only for value in form of return on investments. Socially responsible investing look at long term prospective in comparison to value returns that are short term. Even the issues like climate change were seen as burden and left to government and regulators to deal by many businesses. in many countries, green bonds and social impact bonds are being issued in line with progress achieved. In spite of various regulations made and disclosure mandated, the global community always feel challenged to consider ESG issues on account of different reasons such as:

- Non availability of any methodology for assigning monetary values to ESG issues like Air Pollution and fitting them into quantitative models (more subjectivity).
- No Standards for ESG disclosure and disclosures remain unverified.
- Organizations always feel that ESG issues are the responsibility of regulators and Governments.
- ESG issues influence the financial position in long run whereas investors are often concerned for short term gains.
- Data related to ESG is not available in quantitative terms. Integration of ESG info with financial statement is a challenge in absence of standards.
- There was no established causal relationships to link ESG and Financial performance.
- No Regulatory requirement across the board for disclosure of ESG.
- Capability of finance team to account the ESG related issues.
- There is no uniformity of ESG practices across the organizations and regions.

However, with the passage of time and as outcome of UN supported **"principles for Responsible Investments (PRI)"** framework, keen interest is being taken taken by regulators, standard developers along with investors for more sustainable investment, ESG has started gaining acceptance. ESG issues are not only looked for mitigating risk, proxy of management quality, reputational benefit but also as moral duty of society towards sustainability. ESG issues inculcate the introspections that organization whose activities/ product are not climate or society health friendly, will not get the desired investment. If there will not be good labour relations, product of a company will impact health of society, then the sustainability of the organization in long run will be questionable and will not get the desired resources in term of investment. So, it is beyond values (moral duty) and sustainability will be in question if one will not follow and disclose ESG issues.

Understanding this change, a number of principles, standards, regulatory requirements, conventions are getting developed and number of international forums/ organizations are playing important role in this process including UN, IIRC, OECD, WEF and GRI. Based on these principles, even the investment managers develop various methodologies to identify the organization wherein investment will be more sustainable.

Methods like exclusionary screening, best in class selections, thematic Investing, active ownership, impact investing and **ESG integration** are being used by Investment managers to identify the organizations for more sustainable finance. Out of these, ESG Integration based on certain ESG criterion has become very popular over a period of time.

> Methods like exclusionary screening, best in class selections, thematic Investing, active ownership, impact investing and ESG integration are being used by Investment managers to identify the organizations for more sustainable finance.

ESG – Methodology to achieve SDG 2030

ESG disclosure got more relevance in recent past with the evolution of Sustainable Development Goals (SDG 2030) wherein number of goals like good health and well being (SDG 3), gender equality (SDG 5), decent work and economic growth (SDG 8), responsible consumption and production (SDG 12) and climate action (SDG 13) are very closely related to ESG. Being more or less every jurisdiction is the signatory of UN SDG Goals. It is not only the Government and regulators but the organizations also carry the responsibility for promoting sustainability.

Recent Global Developments

Looking into the importance of ESG reporting, in recent past there are global initiatives to address all the concerns including identification of ESG issues, their quantification, objectivity, and universal applicability. Various International Forums/ Organizations laid down the preamble on which not only organizations have started disclosures, various funds are launched for *responsible investing* but also efforts are on to develop eco-system to standardize the reporting, disclosure and integration of ESG issue with financial reporting.

Initiatives for Harmonise Disclosure Standards

The International Financial Reporting Standards Foundation (IFRS Foundation) formed a working group to focus on harmonizing global sustainability reporting standards in preparation for a potential international sustainability standard board which will offer technical recommendations as a potential basis for the new international sustainability standards board to build on existing initiatives and develop standards for climate-related reporting and other sustainability topics. International financial regulators have been calling for greater consistency among the various environmental, social and governance standards and frameworks as ESG funds grow in popularity with investors, five organizations, i.e., Sustainability Accounting Standards Board (SASB), the International Integrated Reporting Council (IIRC), the Global Reporting Initiative (GRI), the Climate Disclosure Standards Board (CDSB) and the Carbon Disclosure Project (CDP) planned to harmonize their various standards and frameworks to provide more consistency. The World Economic Forum will contribute its work on cross-industry metrics and disclosures that CEOs of a wide variety of large multinational companies have found to be important for disclosure. The IFRS Foundation trustees anticipate that sustainability reporting standards issued by the new board will provide a global sustainability reporting baseline that will allow for better comparability and consistency of application of the standards, while also offering flexibility for coordination on more jurisdictional and multi-stakeholder reporting requirements by taking a "building blocks" approach. A recent statement by **Ms. Janet Yellen US Secretary (Treasury)** also affirm commitment towards need for initiatives to set climate and sustainability reporting standards. She expressed her support for the International Financial Reporting Standards Foundation's (IFRS) work to establish a Sustainability Standards Board that will focus first on developing a climate disclosure standard.

EU Extends Mandatory Sustainability Reporting to 50,000+ Large and Listed Companies

In a recent announcement, the European Commission (EC) adopted a comprehensive package of sustainable finance measures, with rules and proposals encompassing ESG reporting requirements for companies, fiduciary duties relating to sustainability risks, and the EU Taxonomy classification system for sustainable investments. According to the Commission, the new package aims to enable investors to re-orient investments towards more sustainable technologies and businesses, helping make Europe climate neutral by 2050. The new package proposes strengthening the rules under the **Non-Financial Reporting Directive (NFRD),** the EU directive requiring companies to disclose information on the way they operate and manage social and environmental challenges. The proposals extending the NFRD sustainability reporting requirements to **all large and listed companies**, meaning that nearly 50,000 companies will now need to follow detailed EU sustainability reporting standards. The Commission has also proposed the development of a separate set of proportionate standards for SMEs. The package also contains the EU Taxonomy Climate Delegated Act, which aims to identify which economic activities contribute to meeting the environmental objectives. This package establishes the first set of technical screening criteria for the first two categories, climate change adaptation and climate change mitigation. Additionally, the package contains amendments to the rules relating to investment and insurance advice, fiduciary duties, and product oversight and governance, including requirements for advisors to assess and discuss clients' sustainability preferences, and financial firms to consider sustainability risks on investments, and to incorporate sustainability factors when designing financial products.

Jurisdictions making ESG Disclosure Mandatory

In recent developments, UK made it to have mandatory disclosure in line with the Task Force on Climate-related Financial Disclosures (TCFD) following the issue of its first ever sovereign green bond. While many companies across the globe have ramped efforts to operate more sustainably in recent years, and investors have increasingly pursued ESG integration in their investment decision-making, many often report that one of the greatest obstacles to these initiatives remains the lack of consistent, reliable data to know where to target efforts and to measure, analyse and track progress. The TCFD was established to help address these issues.

In another development, New Zealand Minister for Climate Change, Mr. James Shaw announced that the country is aiming to become the first in the world to require the financial sector to report on climate risks. Businesses covered by the requirements will have to make annual disclosures, covering governance arrangements, risk management and strategies for mitigating any climate change impacts. The new rules will come into effect by 2023.

ESG Factors/Issues

In spite of all round development and acceptability of ESG issue and adoption for disclosure, still there is always a challenge to capture all ESG issue which need to be reported. Different jurisdictions, regions and even nature of organisation require different parameters to disclose compliance on ESG issues. To illustrate a sample of issues are highlighted in below table:

Industry Level Map

☐ Not likely a material issue for companies in the industry

Likely a material issue for companies in the industry

Dimension	Issue Category	Infrastructure
Environment	GHG Emissions	
	Air Quality	
	Energy Management	
	Waste & Wastewater Management	
	Waste & Hazardous Materials Management	
	Ecological Impacts	
Social Capital	Human Rights & Community Relations	
	Customer Privacy	
	Data Security	
	Access & Affordability	
	Product Quality & Safety	
	Customer Welfare	
	Selling Practices & Product Labelling	
Human Capital	Labour Practices	
	Employee Health & Safety	
	Employee Engagement, Diversity & Inclusion	
Business Model & Innovation	Product Design & Lifecycle Management	
	Business Model Resilience	
	Supply Chain Management	
	Materials Sourcing & Efficiency	
	Physical Impacts of Climate Change	
Leadership & Governance	Business Ethics	
	Competitive Behaviour	
	Management of Legal & Regulatory Environment	
	Critical Incident Risk Management	
	Systemic Risk Management	

> "While many companies across the globe have ramped efforts to operate more sustainably in recent years, and investors have increasingly pursued ESG integration in their investment decision-making, many often report that one of the greatest obstacles to these initiatives remains the lack of consistent, reliable data to know where to target efforts and to measure, analyse and track progress.

Initiative of Stock Exchanges across the globe to publish ESG reporting by Listed Companies

58 of the 107 stock exchanges have published ESG reporting guidance for their listed companies. These Stock exchanges made it compulsory for Listed companies to report either on GRI or norms developed by other forums/ task force based on importance of different stakeholders, which ESG factors were selected and how; developing such a statement is also an opportunity for the board to reflect on the company's role in society and contribution to sustainable development.

It can provide transparency regarding the board's position on and oversight of the company's ESG risks and opportunities, and strengthen the company's credibility when communicating on ESG factors. Few of them also issues advisory/guidance for reporting on ESG issues like,

- Singapore Exchange (2011) Guide to Sustainability Reporting for Listed Companies,
- Malaysia (2010) Powering Business Sustainability - A Guide for Directors
- Budapest Stock Exchange published its first ESG Reporting Guide (2021)for Issuers.
- Panama Stock Exchange (BVP) presented the "Guide (2021) for Reporting and Voluntary Disclosure of Environmental, Social and Corporate Governance Factors (ASG)"
- UN Global Compact (2015) Board Programme: Unlocking the Value of Corporate Sustainability.

On the similar lines in 2012, ecurities and Exchange Board of India (SEBI) issued a circular that made it mandatory for the largest 100 listed companies to publish an annual business responsibility report. **In a recent move on 9th May 2021, SEBI issued a fresh circular to make it mandatory for 1000 top listed companies in India.**

World Federation of Exchanges launched Metrics for ESG disclosure

Based on the SSE (Sustainability Stock Exchanges) Model Guidance, the World Federation of Exchanges has created a set of recommendations to its member exchanges on how to implement their own sustainability policies. The WFE Guidance & Recommendations identifies material ESG metrics which exchanges can incorporate into disclosure guidance to companies listed on their market. The metrics lay out 34 key performance indicators that are built off of the SSE guidance.

ID	Category	Metric	Calculation	Guidance
E1	Environmental	GHG Emissions	E1.1) Total amount, in CO2 equivalents, for *Scope 1* (if applicable)	Please use the WRI/ WBCSD GHG protocol.
			E1.2) Total amount, in CO2 equivalents, for *Scope 2* (if applicable)	Please use the WRI/ WBCSD GHG protocol.
			E1.3) Total amount, in CO2 equivalents, for *Scope 3* (if applicable)	Please use the WRI/ WBCSD GHG protocol.
E2	Environmental	Emissions Intensity	E2.1) Total GHG emissions per output scaling factor E2.2) Total non-GHG emissions per output scaling factor	Scaling factors set by reporting company. Examples include: Revenues, sales, production units.
E3	Environmental	Energy Usage	E3.1) Total amount of energy *directly* consumed E3.2) Total amount of energy *indirectly* consumed	Reported in MWh or GJ. Reported in MWh or GJ.
E4	Environmental	Energy Intensity	Total direct energy usage per output scaling factor	Scaling factors set by reporting company. Examples include: Physical space, FTEs, revenues.
E5	Environmental	Energy Mix	Percentage: Energy usage by generation type	Examples include: Renewables, hydro, coal, oil, natural gas.
E6	Environmental	Water Usage	E6.1) Total amount of water consumed E6.2) Total amount of water reclaimed	Reported in gallons or square meters (m3). Reported in gallons or square meters (m3).

E7	Environmental	Environmental Operations	E7.1) Does your company follow a formal Environmental Policy? Yes, No E7.2) Does your company follow specific waste, water, energy, and/or recycling polices? Yes/No E7.3) Does your company use a recognized energy management system? Yes/No	Cite public content, if available. Cite public content, if available. ISO 50001, for example.
E8	Environmental	Environmental Oversight	Does your Board/Management Team oversee and/or manage climate-related risks? Yes/No	Cite public content, if available.
E9	Environmental	Environmental Oversight	Does your Board/Management Team oversee and/or manage other sustainability issues? Yes/No	Cite public content, if available.
E10	Environmental	Climate Risk Mitigation	Total amount invested, annually, in climate-related infrastructure, resilience, and product development?	Reported in USD, if possible.
S1	Social	CEO Pay Ratio	S1.1) Ratio: CEO total compensation to median FTE total compensation S1.2) Does your company report this metric in regulatory filings? Yes/No	Use total compensation, including all bonus and incentives. For example: Dodd-Frank regulations (US)
S2	Social	Gender Pay Ratio	Ratio: Median male compensation to median female compensation	Reported for FTEs only. Use total compensation, including all bonus and incentives.
S3	Social	Employee Turnover	S3.1) Percentage: Year-over-year change for full-time employees S3.2) Percentage: Year-over-year change for part-time employees S3.3) Percentage: Year-over-year change for contractors and/or consultants	
S4	Social	Gender Diversity	S4.1) Percentage: Total enterprise headcount held by men and women S4.2) Percentage: Entry- and mid-level positions held by men and women S4.3) Percentage: Senior- and executive-level positions held by men and women	
S5	Social	Temporary Worker Ratio	S5.1) Percentage: Total enterprise headcount held by part-time employees S5.2) Percentage: Total enterprise headcount held by contractors and/or consultants	
S6	Social	Non-Discrimination	Does your company follow a sexual harassment and/or non-discrimination policy? Yes/No	Cite public content, if available.
S7	Social	Injury Rate	Percentage: Frequency of injury events relative to total workforce time	Reference ILO & UNDHR standards, if possible.

S8	Social	Global Health & Safety	Does your company follow an occupational health and/or global health & safety policy? Yes/No	Cite public content, if available.
S9	Social	Child & Forced Labor	S9.1) Does your company follow a child and/or forced labor policy? Yes/No S9.2) If yes, does your child and/or forced labor policy also cover suppliers and vendors? Yes/No	Cite public content, if available. Reference ILO & UNDHR standards, if possible.
S10	Social	Human Rights	S10.1) Does your company follow a human rights policy? Yes/No S10.2) If yes, does your human rights policy also cover suppliers and vendors? Yes/No	Cite public content, if available. Reference ILO & UNDHR standards, if possible.
G1	Governance	Board Diversity	G1.1) Percentage: Total board seats occupied by men and women G1.2) Percentage: Committee chairs occupied by men and women	
G2	Governance	Board Independence	G2.1) Does company prohibit CEO from serving as board chair? Yes/No G2.2) Percentage: Total board seats occupied by independents	Cite public content, if available.
G3	Governance	Incentivized Pay	Are executives formally incentivized to perform on sustainability? Yes/No	Cite public content, if available.
G4	Governance	Collective Bargaining	Percentage: Total enterprise headcount covered by collective bargaining agreement(s)	
G5	Governance	Supplier Code of Conduct	G5.1) Are your vendors or suppliers required to follow a Code of Conduct? Yes/ No G5.2) If yes, what percentage of your suppliers have formally certified their compliance with the code?	Cite public content, if available. “Percentage” can be defined by number or expenditure.
G6	Governance	Ethics & Anti-Corruption	G6.1) Does your company follow an Ethics and/or Anti-Corruption policy? Yes/No G6.2) If yes, what percentage of your workforce has formally certified its compliance with the policy?	Cite public content, if available. “Percentage” is defined by total FTE headcount.
G7	Governance	Data Privacy	G7.1) Does your company follow a Data Privacy policy? Yes/No G7.2) Has your company taken steps to comply with GDPR rules? Yes/No	Cite public content, if available. General Data Protection Regulation (GDPR).
G8	Governance	Sustainability Reporting	G8.1) Does your company publish a sustainability report? Yes/No G8.2) Is sustainability data included in your regulatory filings? Yes/No	Cite public content, if available. Cite public content, if available.

G9	Governance	Disclosure Practices	G9.1) Does your company provide sustainability data to sustainability reporting frameworks? Yes/No G9.2) Does your company focus on specific UN Sustainable Development Goals (SDGs)? Yes/No G9.3) Does your company set targets and report progress on the UN SDGs? Yes/No	If yes, cite frameworks used. Cite public content, if available. Cite public content, if available.
G10	Governance	External Assurance	Are your sustainability disclosures assured or validated by a third party? Yes/No	Cite third party assurance partner.

*Source: WFE Revised WFE Recommendations (2018) Version 2**

Global economy moved establishing Sustainable funds/Bonds

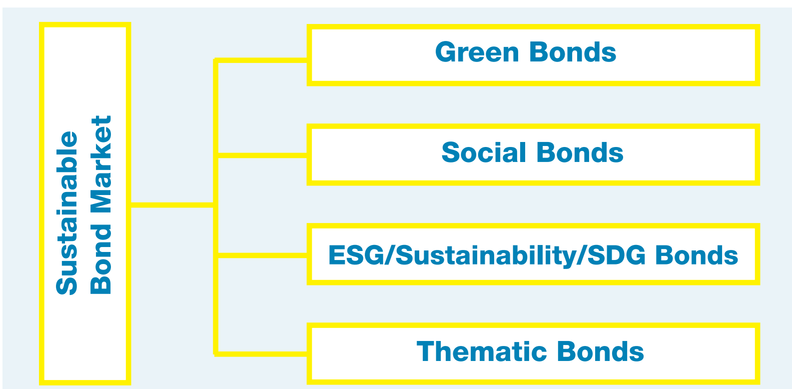
Sustainable funds are those that use environmental, social, and corporate governance (ESG) criteria to evaluate investments or assess their societal impact. They may pursue a sustainability-related theme or explicitly aim to create measurable social impact. Sustainable funds invest with two lenses, they analyze company performance with regard to ESG criteria (environmental, social, and governance) alongside traditional factors such as valuations and earnings growth. Similarly, **ESG bonds** are debt instruments that encourage investments based on the issuer addressing certain ESG criteria. Climate change concerns in recent years have pushed both investors and companies to incorporate ESG into their corporate operations or investment portfolios. On the same line the first **ESG mutual fund** was launched by the State Bank of India i.e., SBI Magnum **Equity ESG Fund.**

Globally, in 2020 ESG funds getting unparalleled popularity for such strategies. Investors have poured money into these funds as concern for sustainability, social good, and responsible governance spreads. Even the World Bank launched equity-linked index bonds that link returns to the performance of companies advancing global development priorities set out in the Sustainable Development Goals. According to a report by Morningstar, ESG funds took in $51bn of net inflows last year, double the total for 2019 and almost 10 times more than in 2018. Even the Investors are getting good return on their investment in various Funds:

Fund name	2020 one-year total return
$255.9m Shelton Green Alpha fund	113.9%
$4.5bn Eventide Gilead fund	55.1%
$566m Putnam Sustainable Future fund	52.7%
$45.1m Reynders McVeigh Core Equity fund	46.4%
$263.8m Nuveen ESG Mid Cap Growth ETF	45.6%
$16m River bridge Eco Leaders fund	44.4%
$13.2m Impact Shares YWCA Women' empowerment ETF	39.8%
$4.8bn Brown Advisory Sustainable Growth fund	39.1%

Source: Morningstar Direct / Data to December 31, 2020

Increasing trend of Sustainable Investment for AUM



There is growing evidence that suggests that ESG factors, when integrated into investment analysis and portfolio construction, may offer investors potential long-term performance advantages. In the continuing research conducted by Bloomberg report that ESG assets may hit $53 trillion by 2025, a third of global Asset under Management (AUM). As per reported Global ESG assets are on track to exceed $53 trillion by 2025, representing more than a third of the $140.5 trillion in projected total assets under management. A perfect storm created by the pandemic and the green recovery in the many countries will likely reveal how ESG can help assess a new set of financial risks and harness capital markets.

Way Forward

Various factors, like recent pandemic, constant climate change and collapse of various big-name organizations in recent past, re-emphasised the need to accelerate the adoption of ESG disclosures. In a proactive manner, ICAI in recent past established Sustainability Reporting Standards Board to benchmark Indian sustainability reporting to global best practices There are challenges with uniformity, subjectivity and quantification, still the progress made in various jurisdictions and forums give us a way forward to implement ESG mechanism at an early stage. Adoption can be achieved by initiating small steps, like, imparting training to staff on ESG, study of ESG issues prevalent in the relevant industry, regular monitoring & reporting, etc. Few steps that can benefit are :

- Identify the ESG factors related to nature of organisation. Determine the positive value of factors. Consider stakeholders for various factors.
- Set overall goals for each of ESG Factor and divide them into short term and long term.
- Create a budget and decide timelines to implement strategies.
- Build a sustainability team fully equipped to understand the ESG framework.
- Define success - evaluate the progress on parameters.
- Promote your performance.

Brian Rogers Loop rightly observed, *"do what today others won't, so tomorrow, you can do what others can't"*. There is an emerging need for the companies to be proactive in adopting and implementing ESG disclosures in the current scenario which will entail many benefits to an organization like, giving an edge over competitors in market, gaining confidence of stakeholders, improved compliances, better availability of funds, rating, reputation and many others. ■■■

> "The World Bank launched equity-linked index bonds that link returns to the performance of companies advancing global development priorities set out in the Sustainable Development Goals.

Role of CSR in Addressing Inequalities of Human Development Indices

Aggressive, result oriented, comprehensive, cooperative and coordinated approach on part of companies in their CSR activities can help to have an impact on the stakeholders living in the region where a cluster of business units are operating. Companies are spending huge amounts of money in areas of their own interest, but coordination and cooperation between them can remove duplication and redundancy. The need of the hour is to create a synergistic effect by having a non-competitive, no one-upmanship approach among CSR spenders so that the total budget that they are collectively spending is put to proper use and gives maximum benefits to the society. This conceptual paper is based on discussions with CSR Managers of cement companies, banks and educational institutions in Kalyana Karnataka (KK) Region, and on data available online from government websites is used. Read on...

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Richard J. Estes observes 'World social development has arrived at a critical turning point. Economically advanced nations have made significant progress toward meeting the basic needs of their populations; however, the majority of developing countries have not. Problems of rapid population growth, failing economies, famine, environmental devastation, majority-minority group conflicts, increasing militarization, among others, are pushing many developing nations toward the brink of social chaos'. Desire to addressing these problems could help in identifying focus areas and provide CSR ideas.

India in a pioneering manner introduced CSR as a mandatory activity for companies through The Companies Act, 2013. The Rules under the Act also specify the areas of priority for companies to spend their CSR amount. Being a developing country, having a growing population of over 1.35 billion, India is striving to ensure economic growth and development while at the same time trying to ensure that the inequality among its population does not go out of control.

There are regional imbalances as well as rural-urban inequalities. The government does take steps to address these inequalities, however, it is not possible to tackle all these problems simultaneously and quickly. These problems in our society provide service for corporate sector to address the issues and contribute to social development while also contributing to economic growth and development.

Regional backwardness is a fact in various parts of India. One such area, which is recognized as one of the highly backward in the nation is the Kalyana Karnataka Region. Though bestowed with natural resources and rivers the utilization of these arenot effective. Some major cement and steel manufacturing companies operate in the region. However, the benefits of these industries are enjoyed by non-local population. Be it direct employment or indirect employment, it is mostly the non-locals who have gained out of opportunities. But CSR provides an opportunity for these companies to contribute back to the society from which they derive their resources to function.

A cursory glance at the Human Development Index parameters will reveal opportunities for the CSR activities needed in the region.

HDI composes of three broad parameters viz., Health measured by Average Life Expectancy, Education measured by Adult Literacy Rate, and Income is measured by Per Capita Income. The Human Development Index of the national level is taken as the benchmark and though the HDI of Karnataka is above the national average, the KK Region is considered to have HDI at less than national average. This was the primary reason why the Central Government introduced Article 371(J) to provide special provisions for development of the region. The extra effort of the government to address the regional imbalance through creation of HKRDB (Hyderabad Karnataka Regional Development Board) is visible.

Table 1 :**Literacy Levels in KK Region 2011 Census:**

National Average:	74.04 %
State Literacy Level:	75.36%
Bellary	67.43%
Bidar	70.51%
Kalaburagi	64.85%
Koppal	68.09%
Raichur	59.56%
Yadagir	51.83%
KK Average	64.45%

Table 2 :**Income Level in KK Region (2016-17) – Economic Survey 2018-19**

National Income Level:	103870
State Income Level:	161922
Bellary	134150
Bidar	85713
Kalaburagi	83619
Koppal	82787
Raichur	90530
Yadagir	81845
KK Average	95887

Table 3 :**Life Expectancy at Birth**

	1991	2001	2011
National Avg Life Expectancy:	60.3	64.3	67.9
State Average Life Expectancy:	62.1	65.8	68.8
Bellary	62.8	66.1	NA
Bidar	61.0	63.3	NA
Kalaburagi	59.5	62.9	NA
Koppal	60.0	63.2	NA
Raichur	60.0	63.9	NA
Yadagir	59.5	62.9	NA

Though the government has created social and economic infrastructure it is not sufficient and is plagued by bottlenecks and administrative delays in decision making.

CSR expenditure over the years given in Table 4 indicates the potential for CSR Activities to play a role in the HDI improvement.

Table 4 : **CSR Expenditures in INDIA**

Focus Area	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Education	2,589.42	4,052.15	4,491.74	4,478.88
Health Care	1,847.74	2,563.73	2,481.94	2,127.07
Livelihood Enhancement Projects	280.17	393.38	515.47	654.04

Opportunities for CSR: CSR can play a significant role in improving education, health and income level in some parts of the region. Social and economic infrastructure development can play a catalytic role in improvement of HDI.

Dr Subash Pawar in his article highlights that there is ample potential for the corporate sector to address the missing gaps in the education system. There are opportunities for Indianc ompanies to restructure the education system at alllevels, i.e., elementary secondary and higher education. He points out that the considerable resources and pool of experience that the corporations possess can go a long way in the effective implementation of the statutory right to education.

In his article CSR- Key Issues and Challenges in India, Parveen Maan, proposes that Corporate Social Responsibility is the duty of everyone. i.e., business corporations, governments, individuals because the income is earned only from the society and therefore it should be given back; the wealth is meant for use by self and the public; the basic motive behind all types of business is to quench the hunger of the mankind as a whole; the fundamental objective of all business is only to help people. However he has also observed that NGO's and Government agencies usually possess a limited outlook towards the CSR initiatives of companies, often defining CSR initiatives more as donor-driven. As a result, corporate find it hard to decide whether they should participate in such activities at all in medium and long run.

In their paper titled 'Aligning CSR activities of Health Care Sector to Developmental Needs of India', Desai, Preeti S; Chandawarkar, Meena R. propose that corporations must use their expertise of their business to meet the developmental needs of the country. The noted 'Since no one can understand the health care needs of the country better than Health Care organizations it becomes necessary for them to undertake such CSR activities which address the development needs of the country', this can be generalized for many other industries.

To have practical insight a study is conducted on CSR activities of some cement companies, banks and educational institutions in geographical area of Kalyana Karnataka Region (formerly known as Hyderabad Karnataka Region) covering 3 of the 6 districts viz., Bidar, Kalaburagi and Yadagir. The objective is to study if these CSR activities are addressing problems which can reduce the HDI gap of the region in comparison to developed parts of the state.The study brought out various aspects related to CSR where organisations are contributing.

I. Role of CSR in Education

The Economic Survey of Karnataka 2015-16 proposed Sahabhagitva Scheme. This scheme has been designed to improve the infrastructure in colleges through Corporate Social Responsibility (CSR) and other funds by establishing linkages between Educational Institutions, Industries and IT/ BT Companies.

Schooling: The government schools are providing basic education. There is need for upgradation of schools, providing toilets especially for girls and teaching aids in many schools. CSR funds can help in making these schools as model schools.

Communication Skill: The need for good communication skills is essential for employment in the formal service sector. Several talented youth who do not get proper language skills are not able to get opportunities which they could easily discharge if they had command over language. The corporate have engaged services of rural graduates in providing quality communication skills in villages, but the number of such graduates employed for these programs is miniscule. The results are visible wherever these have been practiced. However, the uncovered areas are much more. Tie up with IIT's and TISS who are conducting these programs using ICT will also ensure quality of classes.

Computer Literacy: Another gap often found even among the educated persons is the lack of ability to use computers at workplace. The cost of original software is a major hurdle in providing learning opportunities. CSR and NGO's can help the rural youth learn the computer skills.

Scholarships: The government scholarships address the financial needs of certain section of the society. There are several families with low income who are not eligible for scholarships, and the first victims of the financial problems of such families are the girl children of such families.

Sponsoring smart class and modernization: Several private schools which operate in the region operate with shoestring budget find it almost impossible to invest in modern teaching aids. The students, understanding of concepts with the aid of IT enabled visual tools would be greatly enhanced. Companies can identify schools which would utilize such resources properly and sponsor standardized kits.

Graduates Finishing Schools: The industry is better equipped to assess the knowledge and skill requirement of fresh graduates for employment than schools. They can plan the programs to bridge the gap between what industry needs and what the students' possess.

Skill Development Initiatives and Job Oriented Training Institutes: A step ahead than graduates' finishing schools, the industry can interact with educational institutions to develop industry relevant skills among students during their college days. A well planned approach by coordinating efforts of various companies will help arrange needed man power, financial and physical resources.

II. Role of CSR in Health

CSR amount is being spent on health care and improvement of health care facilities. Some areas are covered by present activities and in some areas more can be done.

Creation and maintenance of health care and related infrastructure: Hospitals or clinics and Pathological Labs run by the corporate are benefiting many rural persons in the area. Similarly the assistance given to Primary Health Centers, ambulances provided, donation of equipments has improved the quality of medical services offered.

Role during COVID Pandemic: Awareness programs, distribution of masks, sanitizers, providing food, water and medicines for migrant labourers, truck drivers, organizing Covid Tests, contributing to state Government Covid fund, PM Cares Fund, are some activities undertaken in the CSR account.

Opportunity to support online education, sanitization of public places using heavy machineries, allowing use of guest houses for isolation or as Covid Care Centres, supplying subsidized canteen food to hospitals and Covid Care Centres, encourage volunteerism of employees to volunteer in relief work, organizing blood donation camp, procuring medicines, digital thermometers, pulse oxymeters for clinics, schools etc. are open for all corporates.

"The students, understanding of concepts with the aid of IT enabled visual tools would be greatly enhanced. Companies can identify schools which would utilize such resources properly and sponsor standardized kits.

Oxygen Supply and Ventilators: One cement company, Shree Cements in Kalaburagi and one steel company JSW Steel in Ballari have diverted their Oxygen production for medical use, saving hundreds of lives during the second wave. Many corporates have donated ventilators, funded Red Cross activities, provided oxygen cylinders from mid 2020 onwards.

Medical Logistics: Opportunity to utilize the trucks at their disposal for providing logistic support to Government to move oxygen and medicines, oxygen plants, ventilators, etc. is also open for cement and steel companies.

Women's health: The stress on rural sanitation, construction of toilets has not only made rural places more clean and hygienic, the health of the women folk can be benefitted a lot. Education on basic hygiene healthy food habits, screening camps for various preventive diseases have also contributed to improved health and life expectancy among women.

Children and youth health, recreation and sports: CSR to support recreation, sport and physical activity at village level is visible. Low cost kits and sports equipments are being provided to villages and rural schools, which have helped them to spend their spare time usefully and constructively. Banks in the region and a couple of cement companies have helped in providing volley ball , throw ball kits, carrom board, chess sets, cricket set, football and exercise equipments. Sponsoring talented sportspersons has also started in the region.

While this is welcome, it would be more useful if the companies could pool their resources and provide basic infrastructure. A level play ground with marked boundaries for various games and standard sized courts would certainly lift the standards of the rural sports oriented children. There are instances where same materials are given by different organizations to same village.

Screening for preventive diseases and early detection camps: Basic health check-up camps, heart, BP, Sugar Test among other tests are being organized occasionally. The frequency and reach must increase. If the companies can pool their resources, they can provide mobile clinics along with basic pathological services round the year covering large population instead of just working in the vicinity where such camps are frequent.

Ambulance Services: Some companies have their ambulance services which they allow general public to utilize. But the vast size of the HK region and sparse density of hospitals in semi urban and rural areas necessitates greater numbers of ambulances. If joint contributions can be made a good fleet of ambulances can be strategically located to get treatment to the patients in the golden hour/s period in greater geographical area.

"While this is welcome, it would be more useful if the companies could pool their resources and provide basic infrastructure.

Food and accommodation for attendants of admitted patients: Kalaburagi, for instance, has several Dharamshalas (free or highly subsidized food and accommodation centre) which are no longer properly maintained and scarcely used. Constructed by various communities, most of these are very old and were meant to cater to travelers belonging to their own communities. If corporate can rope in along with local businessmen, financial burden of accompanying relatives/family members of hospitalized patients can be reduced.

Counseling and De-addiction Centers: Many social evils can be reduced and both the addicts as well as the family members may need counseling and many drug addicts may need de-addiction or rehabilitation programs. This is once again which only one organization can take up, hence a collective effort where the companies join hand with leading psychiatric institutions such as NIMHANS etc. can run such centers round the year.

III. Role of CSR in Increasing Income

CSR spending is visible in road construction, technological support to farm & industries, environmental protection, sustainable development and water conservation. These activities have both direct and indirect impact on economic indicators.

Marketing support for agriculture: Corporate aided cooperative stores could act as direct purchaser from agriculture producers and act as liaison agents to sell farm produce across their plants.

Joint CSR activities can setup storage facilities, both dry and cold storage, cold transport, which can potentially increase farmers' income and also stabilize prices during non-season periods.

Assisting Technology induction in farming: Horticulture, floriculture experts employed by corporates can advise farmers; engineers can suggest utility of company's technology in agriculture. Digging wells & ponds scientifically, controlling soil erosion etc. are areas where corporate can benefit agriculturists.

Support Sustainable Development by assisting farmers: While companies get credit for environmental protection and helping reduce carbon emission, farmers can get better income through CSR sponsored horticulture and commercial plantation.

Training for Ancillary Units: Technology used in ancillary units cannot be regularly updated. Managers of large companies are usually better exposed and informed about technological developments & improvements which must be shared by arranging training for ancillary units.

R & D for Ancillary Units: Ancillary units can be helped in R&D activities by major companies, especially those ancillary units which are their suppliers. This would create a win-win situation.

Assistance in IPR matters to ancillary units and innovators: Obtaining Patent & protection of IPR, avoiding violation of IPR's are not easy for small firms and innovators. Corporates can guide them in these matters.

Financial Assistance: Financial guidance for self employment, artisans, self help groups (SHG) by carefully crafted CSR activities, involving proper training and mentoring can improve rural economy. With participation of professionals from industry, banking and academia in such activities, viable models can be created and benchmarked elsewhere.

Conclusion

CSR Budget when compared to Government Budget is miniscule. But it is the desire to put its Human Resources and Physical Resources to socially gainful activities, apart from financial resources, that can make CSR really meaningful. Contributing to improving HDI is just one dimension of their responsibility.

On the basis of the study it is suggested that:

a) Companies can come together and plan efforts which would avoid duplication of efforts as well as create possibilities of creating synergistic effect in CSR Activities.

b) CSR activities must be targeted to most needy and not just to areas which are logistically convenient.

c) Big or Major CSR projects requiring round the year and major investment can be taken up jointly in association with government.

The very philosophy of CSR should be CSR for social transformation and not merely CSR for legal compliance. The companies are increasingly recognizing that they owe their existence to the society and hence it is imperative for the companies to sustain the society through their activities, directly or indirectly, and with greater purpose while implementing their CSR Activities. ■■■

Governance – Raising the Bar

In today's world, Corporate Governance is highly promoted in business circles and open forums. Corporate Governance principles are often applied according to the business entity's focus and real-world challenges. In many cases the pillars and core principles of Corporate Governance like; participatory, consensus-oriented, accountable, transparent, responsive, effective, efficient, equitable and inclusive are circumnavigated or gets ignored. There are occasions when business leaders think of and find ways of evading it without being noticed. There are also occasions when corporate sets its own boundaries and limits on corporate governance. It is important that governance issues do not get sidelined in the best interest of business and its stakeholders. Read on…

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Corporate governance is a organisational structure of policies, processes and rules that direct and control behaviour of business. Organisations have to exercise strategic oversight over business operations while directly measuring and rewarding performance. In companies Board of Directors is central to its decision making and governance process. The Board of Directors in a company has to ensure compliances with the legal framework, integrity of financial accounting and reporting systems and credibility in the eyes of the stakeholders through proper and timely disclosures. It is the responsibility of the Board of Directors to ensure compliances with the law.

Organisations have different corporate governance challenges. The practice and adoption of Corporate Governance is different in multinational companies, different in mid-size corporates and different in family-owned businesses. Also, it varies from industry to industry and evolves depending on their own circumstances. Each organization sets its own rules of corporate governance based on peculiarities of its external and internal environment which

sometimes, unfortunately, are based on conveniences and fraught with dilutions.

Consider such as corporate tax avoidance, or employees taking an office pen home a Corporate Governance issue? Is delaying a supplier's payment a Corporate Governance misdemeanor? Is filing for bankruptcy and still living a lavish life breaking a Corporate Governance standard? Is aiming towards monopoly in business breach of Corporate Governance Principles? Is advertising hoarding saying, in small print, "Terms & conditions apply" be supported as good Corporate Governance? Can posting exaggerated or incorrect reviews on social media and manipulating social media be raised as definable and positively supported within the Corporate Governance framework?

Spirit is more important than letter

Multinational Companies and big organisations talk about corporate governance the most. However, there are many example where governance principles have been set aside in favour of other considerations. Consider corruption which comes in the form of concealed reward, incentive or inducement. Large companies often work on the "zero tolerance" to corruption mantra, but there are documented evidences, worldwide, of failures to adhere to this principle. To ease the passage of deal or loosen bottlenecks, they will pay an above-board fee to their consultants, advocates or public relations companies who in turn pay a good portion of their fees as inducement to get the work done. Such cases have been seen even in highly progressive nations that are considered to be having best corporate governance structures. Even in mid-sized & family-owned businesses there is presence of improper ways to get the work done.

Building trust, empowerment and team work

Corporate Governance says employers and employees should trust each other. Trust is another example where rules are different. For mid-sized companies or family-owned business, one can see a different level and form of trust. Employees in these companies can use their phones & laptops with no restrictions. Their laptop ports are not removed as employer and employee trust each other. But, in very large organizations, employees' laptop ports are disabled or removed for any unauthorized use. Although these controls may stop instances of misuse, they generalize the lack of trust between employers and employees.

Large corporates talk promote values like delegation, empowerment, and team work. But at the same time these terms and values are often diluted. Especially large corporates or multinational companies have a power center

> "Delegation, empowerment and team work, in mid-sized corporates, exist differently than that of multinational companies.

called head office. This head office is not independent. This head office is also governed by a board, consultants & multidiscipline auditors and a strong IT enabled system like ERP. The combination of board, consultants and multi discipline auditors are the people who bring real value and direction to the company. Whatever they decide, is supposed to be executed as it is, by the local resident team of that company; they are not empowered. Even the local managing Director of multinational company has no major empowerment given by the board. For various reasons, the future trend is heading towards centralization. Thus, usage of concepts such as empowerment and delegation in corporate governance policies is not appropriate as it explicitly diverges from the central tenets of the core pillars and principles.

Similarly, we can argue upon this term of team work also. Large corporates have a well-documented job description for each employee and nobody prefers or is allowed to enter into the area of others. In fact employees are discouraged from interfering with the matters related to another department.

These organizations work in compartments. Also, various management coaches and gurus talks in their corporate workshops in support of team work, while ignoring these facts of strict compartments which exists in multinational corporates.

On the contrary delegation, empowerment and team work, in mid-sized corporates, exist differently than that of multinational companies. In family-owned businesses, delegation and empowerment is more or less missing but teamwork exists at a comparatively higher level than very large companies.

Brand and its value

In the corporate world there is term called brand & brand values, which forms part of corporate governance. Many management geniuses say; brand is an identity of the product. It is asserted that products are changed to accommodate the market. One can buy a toothpaste of a particular brand, which is made in the UK and compare its taste and quality with same brand of toothpaste made in, say, Africa or India. The quality is completely different. The company makes the product based on various local conditions and peculiarities of the local market. Meaning, brand is not an identity of the product. So again, the question arises; where has Corporate Governance been applied by giving variation in the quality for the same product from country to country?

Healthy competition

Today businesses function in highly competitive scenario. There have been several instances where large businesses, with their power over monetary and other resources to kill small business by dumping products at a loss for sustained periods. Powerful and dominant business in industry uses predatory pricing, a strategy of undercutting prices on a large scale, and deliberately reduce its prices of a product or service to loss-making levels. In the process many good products and services provided by small businesses disappear from the market. Once competition is eliminated, abnormal prices are charged for the same product from the different markets. A question arises is this the correct application of Corporate Governance?

Across nations predatory pricing violates antitrust laws, as it makes markets vulnerable to a monopoly. Is aiming towards monopoly in Business a breach of corporate governance principles.

Many corporates generate sales by misleading advertisements of their products quality. In many advertisement, the brand ambassador is often a celebrity who talks & portrays as if, he/she is using the product & has achieved the desired results. This is not true at all, as most of the time the brand ambassador never uses that product. Is it matter of Corporate Governance? Creating controversy to get highlighted in media & attracting consumers attention is another misdemeanour of corporate governance especially in film industry & some other businesses. There have been claimed instances where a celebrity has been given a house or flat by real estate companies for free who never even visits there. This is used as a selling point for marketing to naive consumers, who buys the house thinking celebrity would be their neighbour. Good Corporate Governance!

Linking news stories with advertisements in electronic and print media to advertise the is also a big a breach of corporate governance ethics. Many of the leading magazines and newspapers in the world, publish articles that are included not on merit, but are paid.

Privacy Concerns

Many of the social media apps or TV Channels, project themselves as giving their services free, but in reality, they force advertisements or use

> There have been several instances where large businesses, with their power over monetary and other resources to kill small business by dumping products at a loss for sustained periods.

your data, by getting authority from you unknowingly. A clear breach of transparency in the approach.

Dichotomy in functioning

It has been seen that two different wings of same organisation have altogether different approach on same issue. The hotel industry is conspicuous in advancing its environment credentials; hangers and stickers encourage customers to refrain from adding their towels to the daily wash in the name of environmental conservation. By contrast, this very same industry does not promote food wastage as egregious to the environment-meal portions served in half measures are not options presented on a menu nor is their discounted value: you order a meal, you eat half and rest goes to waste. What does this say about the environment standard embedded in Corporate Governance?

Another classic example is about corporates recruiting workers through contactors instead of keeping them as regular staff is a perfect example of diluting corporate Governance principles & practice. Such people work similar to regular staff but never get the same benefits.

Reducing tax burdens

Transfer price is a tool often used by multinational companies for not paying the taxes in the country where income is earned or shifting to tax havens. Does it give justice to country which has made this income possible for that company.

Have a responsible approach to CSR

It is said that when you donate from one hand, the other hand should not know. This is the true meaning of CSR. But how many corporates follow this. Many corporates design their CSR in such a way that it impresses the government or regulatory body or the general Public. On many occasions CSR activities of corporates targets it current or future market or market strategy. Corporate social responsibility, in real sense should not have any business angle. This practice raises question marks on the true intentions of corporate governance on such CSR activities in many organisations.

Endnote

Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, senior management executives, customers, suppliers, financiers, the government, and the community. Let us truly balance these stakeholders. Lectures on Corporate Governance by management gurus, corporate and business leaders are welcome but they need to raise the bar. There are many instances in different industries and within the same company that require a relook to have better governance. It is the spirit of governance which is more important than any rule or law. In India the Companies Act, 2013 lays down a comprehensive governance framework, which as Chartered Accountants we all are aware of. However, time has come when the good governance practices percolates to each minutest aspect of the business. Then only we will enjoy real fruits of corporate governance. ■■■

Insulating Banks from Non Performing Assets

Sickness leading to Non Performing Assets (NPAs) are caused by many factors beyond the control of the lender and borrower. The article attempts to analyse different factors related to NPAs. Lenders often consider the ratings of securities. It is important to assess whether the ratings truly reflect the intrinsic value of underlying assets. There are also assertions on diversion of funds. Diversion of funds can be established only when there is investigation on the affairs of the company, including the conduct of people running the company and such investigation, if undertaken, will defeat the whole purpose of speedy settlement of claims through bankruptcy laws. Read on…

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The meaning of the term bank has its origins in confidence or faith. To bank means, to keep safely, like in a safe deposit vault. Associated with the term is trust. It is assumed that money kept in the bank is as safe as money kept in the house locker, except that there is no fear of theft. A banking company means any company which transacts the business of banking in India. Banking means accepting, for the purpose of lending or investment, deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise (The Banking Regulation Act, 1949).

Another associated term is 'shadow banking' which is doing banking activity, but the shadow bank cannot accept deposits repayable on demand. Popular shadow banks are non-banking financial companies and others who also access public money through deposits and lend to others. However, the term 'shadow bank' is a misnomer, since the protection available under deposit insurance is not available for NBFC deposits.

Under the Companies Act 2013—Chapter XX Winding up of companies—U/s 326 and 327, priority creditors (employees, taxes due to government, etc), secured creditors and then

unsecured creditors will get paid in the order of preference. However, these sections will not apply to winding up under Insolvency and Bankruptcy code, 2016. This article will discuss the impact of such exclusion; it will discuss in detail whether the exclusion was for speedy resolution or for abrogation of rights of secured creditors.

The Bankruptcy and Insolvency Code 2016 classifies debts as financial debts and operational debts. The financial creditor may make an application to initiate corporate insolvency process. The resolution professional shall constitute the committee of creditors. U/s 21, decision of committee of creditors shall be through vote, with 51% being the requisite voting share for a resolution. When Insolvency and Bankruptcy code was introduced to expedite the recovery process, it is a point for further debate on whether it diluted the position of secured creditors. Also to be considered is whether the property rights can be abrogated, as secured creditors preferential claim on such assets, except in the case of public interest.

Loan book may comprise of individual loans for asset purchase or loans to corporates. In case of individual loans, collateral is the asset (financed asset is normally offered as collateral, while for corporate loans, the security will be charge on the assets or it can also be unsecured loans. For loan book, the security value will depend on the replacement cost or disposal value, and utilisation/earnings from such assets will result in prompt loan repayment, including servicing of interest cost. Various factors may result in erosion in value of assets and drastic variation in earnings. However, larger the number of loan transactions, possibility of few loan portfolio turning bad may not adversely affect the financier.

Valuation principle

Asset valuation will depend on replacement value or realizable value of the asset, when put up for sale. Business valuation will depend on market conditions and replacement cost. However equity valuation depends on market, growth and earning visibility and market price is mostly factored on future earnings. Normally pledging of equity shares is private borrowing. Margin requirement on this front sometimes play havoc on market price. Fall in equity price result in lower margin. When lenders resort to sale of equity in the market, it will further depress the market price. With listing of equity instruments, market value determines the value of shares; of course, control premium, etc. may play a role. In the eighties and nineties, corporates used to publish accounts on historical basis. This is before the advent of fair value reporting and if no revaluation of assets has been done by the corporates, there used to be huge difference between book value and market value. This resulted in hidden reserves i.e. valuation difference. However present day accounting, viz fair value method has narrowed this gap. Another factor is the emergence of the knowledge sector i.e. advent of asset light companies. With novelty, these companies enjoyed attractive valuation in the stock market. Being asset light companies, normally financing was from equity market.

Evolution of Banking

Entrepreneurship is the cause for business enterprises. When an enterprise is started with one's own capital, entire risk is borne by the entrepreneur. When additional funds are required, borrowing is an available option. Persons with resources, lacking direct entrepreneurial appetite, lend amount to meet business requirements (though lending also is a business enterprise). Banking as a business evolved when some enterprising individuals turned lending to a business enterprise and such business enjoyed the return differential between loans and deposit interest rates. Even under corporate structure, shareholders are real owners and risk of failure is entirely borne by them. The lenders or financial creditors are to be paid in case of liquidation and then remaining amount is distributed to shareholders. Debt-equity ratio, thus, became one of the measures to determine the safety and security of loan assets. In addition to debt-equity ratio, lenders were also concerned with interest coverage and liquidity ratios.

Free cash flow is supposed to provide sufficient cover for interest obligations and repayment obligations and cover of more than 1 was deemed to be safe for the loan creditors.

An important factor on security is the asset valuation and ability to pay periodical instalments. Banks keep margins to take care of interest accumulation in case of defaults and changes in the market value of the underline assets. US sub-prime mortgage crisis was purely based on indiscriminate lending on the hope that the increase in real estate prices will justify the loan arrangement. Consider the current scenario on account of Covid—real estate prices dropped resulting in reduction in security cover; further, due to lockdown and loss of employment, repayment capacity (EMI) has been affected. This has been highlighted just to emphasize the importance of margin for adequate security.

Consider the case of a corporate borrower-- Suppose for putting up a power plant of 1600 MW capacity with total outlay of Rs.12000 Cr, the project report is prepared with debt-equity ratio of 3:1, which will mean that the total estimated borrowing for the project is Rs. 9000 Cr. The project has a gestation period of 5 years (from start to production/distribution of electricity). Any delay in project commissioning (for whatever reasons) will push up the project cost. Assuming that the promoters were not able to increase the equity component, then the debt-equity ratio will undergo changes. Further , the viability of the project may undergo changes if for some reason the output viz electricity price is depressed. The erosion in asset value or earning capacity may result in the loan turning non-performing category.

Borrowing is of two types—long term borrowing (which normally is to finance acquisition of assets/business undertakings) and short term borrowing (which normally is for working capital financing). Forty/Fifty years back specialized category of financier was there for long term loans viz 'Financial Institutions'. At that time, banks used to focus on working capital loans viz. short term borrowings. Financial institutions which used to specialize on long term loans will have appraisers who used to carry out project evaluation. While short term loans focus on security of asset (existence and adequacy of asset, loan repayment through liquidation of asset) while long term loans used to focus on revenues and cash flows for repayment of loans. Asset valuation used to be the focus for short term loans while business valuation was the norm for long term loans. Asset valuation is a simpler process compared to business valuation which is complex. Sales realization is used for liquidation of working capital loans while free cash flow was used for term loan repayment. Working capital loans used to be rolled over since the business which is going concern will require funds on a continuous basis. To illustrate, funds from sales realization was used for further purchase of goods for manufacture/trading. Safety/security of working capital loan will depend on sales realization and hence focus used to be on existence of current assets and their quick turnover. Project loan assessment used to focus on project completion and free cash flow while working capital assessment by banks used to focus on net current assets and their quick realisability. Business growth was normal growth (both inflation and real growth) and expansion. Capex for capacity addition was different from capex for asset replacement and project loans were used for capacity creation/addition. The differentiation assumes significance since evaluation tools required for long term loans and short term loans are different. While there will be greater emphasis on asset utilization and cash flow for short term loans, asset valuation and margin is more relevant for long term loans. Liquidity requirement of lenders also plays a part. Lender who may not face immediate liquidity pressure may wait for turnaround which may help to ward off the threat. It may be noted in the recent Union Budget, the Finance Minister highlighted the establishment of Development Financial Institution (DFI) to focus on infrastructure financing, viz long term loans.

Project financing

Requirement of funds for setting up of project by industrial houses, viz., acquisition of land, plant & equipment including commissioning thereof. Capacity utilization used to be progressive over 2-3 years, by scaling up of production. Risk assessment was primarily on project delays and output meeting standards. Asset which comprises of land/buildings & plant and equipment used to appreciate (mostly land/buildings). Only when the industry turns sick, the loan recovery used to be in problem. However, the value of security used to cover the loan liquidation and loss, if any, was borne by equity shareholders. Normally loans get priority on repayment and liquidation proceeds used to be first applied towards loan repayment leaving the surplus to the equity holders. Shortfall in realization of assets used to be borne by the equity holders.

Banks lending

Banks lend money out of deposits which is their borrowings. When one deals with other peoples' money, one acts as trustee or custodian and has to exercise utmost care and caution. When loans are written off by public sector banks or for that matter even by private sector bank, the write off decision affects the interest of depositors. Deposit insurance by banks is one way to protect the interest of depositors. Risk on unsecured loans granted by banks are borne by the depositors and hence at least to that extent, banks should have deposit insurance. When agricultural loans are waived due to crop failure, crop insurance is necessary to mitigate the losses. Furthermore, every bank must have a policy on unsecured loans and this must be included in their published accounts. Bank boards must specify the limit of unsecured advances by the bank and this limit should be well below the capital of the bank. This is to ensure that depositors' money is protected. Micro finance may be warranted to ensure credit for weaker sections of society; however all such unsecured loans and advances pose a risk to depositors and hence to that extent banks should have deposit insurance cover. Since banks lend out of depositors money, the policy directive by central banks or government intervention is not an ideal situation. Such funding requirement should be ideally met out of government revenue through subsidies.

Another connected issue is whether land allotted for industrial purpose by State Governments should vest back to government in case the purpose is not met. The State Governments allot land and grant approvals/clearances for setting up industries as industrial activity generates employment (both direct and indirect), and hence such allotment/approval serves the public interest. In such a case, such allotment/approval is like a conditional sale and whether the land should vest back to government in case of project failure/liquidation is a matter which has to be debated. There is merit in the argument that the land should vest back to government so that the same can be allotted to some other undertakings which will fulfil the objective of employment generation in the local are. Proper rules have to be framed in respect of cases where land was allotted at concessional or preferential basis, citing public interest, for setting up industries.

"When one deals with other peoples' money, one acts as trustee or custodian and has to exercise utmost care and caution.

Risk factors which are to be assessed will be different during the project stage and operational stage. Assuming a power project, the risk factors during project stage will be a) Project completion time of 4 years; land acquisition/allotment, building construction, plant & equipment installation (which will depend on the supply commitment of the manufacturer) etc. Once the trial production is achieved successfully, the risk will shift to operational factors like fuel supply; transportation; transmission to grid, operational power purchase agreement, etc. Hence the loan appraisal/monitoring will have to focus on different parameters during project stage and operational stage.

It is important to note that the time for course correction is very small. Also recessionary trend cannot be easily predicted and may occur because of several reasons beyond the control of the project authorities. I am not able to visualize any form of insurance to mitigate the impact of unforeseen economic recession on project overruns. If factors like economic recession is the cause of project delay resulting in NPA issues, can we blame the decision making process in loan sanction? We need to revisit the policies/procedures in such a case to see how the problem can be addressed. The solution will be to complete the project operational so that the losses can be minimized. However, the action cannot be after prolonged delay.

In the new age economy, the services sector account for substantial proportion of GDP. If a new airline operator enters the market with leased aircrafts, what will be assets owned against which they can borrow? The borrowings will then be only for operations and the financing is akin to working capital finance. The loan evaluation cannot be as project finance since there is no physical asset to finance but only operational expenditure to cover. Hence a lot will depend on revenue stream and alarm bell should ring if the cycle is broken. Risk assessment should focus on gross revenue stream and operational expenses (including fixed cost like space etc.). Such projects should have more equity component and loan amount should have collateral security.

Disclosure & transparency

When corporates borrow (access public money), there has to be accountability. Recent cases of NBFC and Housing Finance Companies liquidity issues highlight the importance of need for further regulation on matters of governance, disclosure & transparency. Creation of step down subsidiaries and borrowings by one corporate and ultimate utilization by some step down subsidiaries create problem of monitoring the funds utilization. Since what is lent is the public money, such disbursal has to be effectively monitored.

Currently infrastructure projects like airports, roads etc. are built under BOOT model (build, own, operate and transfer). Since most of these projects are public utilities, contracts are awarded based on cost competitiveness. However, there is no prohibition to transfer the project mid-stream. Transfer of projects actually pushes the enterprise value and when the buyer resorts to borrowings, the security cover comes down. How these transactions are not only against public interest but places lenders in a vulnerable position leading to NPAs will be a fit case study for further research.

Corporates which are putting up the project should also exercise due care and caution and select projects based on the viability. Extra care is required where project requires loan funds. If investment decisions are made objectively, possibility of loss will be minimal. The debt-Equity ratio indicates the cushion available for lenders. Further when banks look for unsecured loans (either as priority lending or as economic compulsions), the possibility of bad debt is very high. Hence bank boards should set limit for such unsecured loans in their loan portfolio.

Companies Act 2013—Chapter XX deals with winding up of companies and both voluntary winding up and compulsory winding up are covered in that chapter. The purpose of winding up is to have speedy resolution of stressed cases. While loan creditors get preference on distribution over owners, viz. shareholders, even creditors are categorized into preferential, secured and unsecured creditors and the order of preference is set for distribution of monies. The Insolvency and Bankruptcy code was brought into statute book with the express objective of speedy resolution. Once Insolvency resolution process is started, the resolution may be either by sale of undertaking or liquidation by means of sale of assets of undertaking. Secured creditors rights are protected by

> "Risk factors which are to be assessed will be different during the project stage and operational stage.

Sec 52. Time bound settlement will ensure that stressed assets are transferred before further deterioration in value. Secured loans will enjoy preference at the time of liquidation/resolution. To the extent of coverage of security, secured loans will enjoy preferential repayment. However the method of distribution is decided in the meeting of creditors and resolutions are put to vote and are passed with 51% of voting. What happens when unsecured creditors are in the majority and block resolutions for distribution? Secured creditors should have preference over distribution from such covered assets sale proceeds and surplus, if any, only should be transferred to general pool. Chapter VI of Companies Act 2013 covers registration of charges. Sec 77 casts an obligation on the company to register the charges created with the Registrar of Companies. Sec 370 of the Companies Act 2013 provides for 2 modes of winding up, viz by the Tribunal or voluntary winding up. Interest of secured creditors are maintained and not vitiated. Hence the Insolvency and Bankruptcy code, which incidentally was placed in the statute book for quick resolution of insolvency cases, will have to be deemed to be in favour of creditors and liberal interpretation in favour of creditors must be placed.

NBFC/HFC (Non-Banking Finance Companies/ Housing Finance Companies)

Growth of intermediaries like non-banking finance companies, housing finance companies, etc. is mainly on account of requirement of funds that were unmet by banks. These are types of shadow banking and initially they were regional players but over time, some of the companies reached size and became national players. Most of the finance companies borrowed from the market through public deposits, debentures etc. However, some part of their requirement was also met by banks and banks looking for bulk customers started patronizing them. In the deposit/loan cycle, when the borrower defaults, then the finance company also will not be able to meet their obligations. Whether such indirect lending by banks for further lending by finance companies is desirable or not will depend on prudential norms followed by such finance companies and also on quick resolution of cases where default is there on loans from such intermediaries. Whether ILFS or very recently DHFL, the holding company created subsidiaries, step down subsidiaries, etc. and in some cases also SPV (special purpose vehicles, for a particular bid/execution), the subsidiaries were able to borrow based on parent's corporate guarantee which means that they enjoyed substantial borrowing limits. How much of a corporate guarantee a company can offer? When the parent company itself is a limited liability company, can it offer unlimited guarantees to its subsidiaries? There should be a limit for such guarantees, whether by banks, financial institutions or even corporates.

In bankruptcy code resolution, when the provisions of the Companies Act concerning winding up is specifically excluded, what happens? Will it mean that secured creditors will lose their rights and preferences? The rights of secured creditors are not merely governed by Companies Act but by Law of Contract and securitization rights. These rights are not superseded and hence the right of secured creditors over the assets will rank first and surplus, if any, will only have to accrue to unsecured creditors.

When subsidiaries borrowings are covered by corporate guarantee, the parent company must make proper disclosure of this fact together with the limits of such guarantees provided. Further the auditor must comment on going concern concept after taking into consideration such corporate guarantees and the likely cash flow of such subsidiaries. Rating agencies, when they provide rating, must be held accountable for such rating and there should be deterrent for such rating agencies when they suddenly change the ratings.

Endnote

The fundamental question of safety and security will remain the focal point. Debt-equity coverage will insulate the loan amount to the extent of coverage. Whether banks and other lending agencies who access public money can lend money without security is a question which has to be answered if we have to find the solution to NPA issue. To the extent of unsecured loans, banks should have deposit insurance cover to ensure that depositors' monies are protected. Timely and corrective action will ensure that the loss amount will be minimized in case of loan default. Lenders must focus on book value and also market value to effectively monitor the debt-equity ratio and interest coverage ratio. Even to realize amount of secured loans by possession and disposal of secured assets is fraught with delays and such delays result in deterioration of asset quality and their realizable value. Speedy resolution of disputes will go a long way in minimizing losses to the lender. ■■■

Non-Banking Finance Company – Gateway to Finance Business in India

Non-Banking Finance Companies (NBFCs) are an integral part of the Indian Banking and Financial Service Industry, which aims at catering to large number of unbanked and underbanked users of the Indian Banking System. Over the period, the regulator has made various changeovers to address the needs of Indian Financial System viv-a-vis consumer point of view. It also provides support to scale the businesses to the next level at supervisory model of licensed NBFC. The article tries to spell out the category, market, eligibility, nature and way forward to support readers interested in Banking and Finance. Regulator aspects in the article are drilled down to facilitate layman readers, planning for finance business in future, if any. The article attempts to summarise the NBFC vertical to provide a basic insight on learning idea of NBFCs business in contemporary India. Read on to know more...

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Introduction

Non-Banking Financial Company (NBFC) is a gateway for finance business in India. There are two types of NBFC as per licensing policy:

a) Type I Deposit Taking

b) Type II Non-Deposit Taking

On regulator perspective, again as per the existing structure we can observe around 58 NBFCs, as *deposit taking* and rest around more than ten thousand NBFCs are *non-deposit taking.* Further, entire NBFC segment is divided into segments - systematically important and non-systematically important. Any NBFC with assets size of INR 500 Crore or more is termed as *Systematically Important*. Other than this, special provision and attention is given to all those NBFCs, which have assets size of INR 100 Crore or more.

Beyond this, again NBFC is further categorised into special category as per its main nature of activities like Investment and Credit Company (ICC), Infrastructure Finance Company (IFC), Infrastructure Debt Fund (IDF), Micro Finance

Institution (MFI), Factors, Core Investment Company (CIC), Mortgage Guarantee Company (MGC), Non-operative Financial Holding Company (NOFHC) and Assets Reconstruction Company (ARC).

As part of the process of transferring the regulations of HFCs from the National Housing Bank to the central bank, now the Housing Finance Companies (HFCs) also come under the purview of NBFCs. To cater the market developments and interest of stakeholders in this segment, Reserve Bank of India has further added two categories for NBFC portfolio i.e., Peer to Peer Lending (P2P) and Account Aggregator (AA).

Simplifying the category

a) ***Investment and Credit Company (ICC)***

It is a new amalgamated form of existing - Loan Company (LC), Assets Finance Company (AFC) and Investment Company (ICC). The category came into effect through notification dated 22nd February, 2019 [https://rbi.org.in/scripts/FS_Notification. x?Id=11483&fn=14&Mode=0]. It allows ICC with scope of all three functions collectively in one place, be it lending or investment activities or economic productivity related assets finance unlike earlier three different categories. It requires net owned fund of INR 2 crore to start with.

> Any NBFC with assets size of INR 500 crore or more is termed as Systematically Important.

b) ***Infrastructure Finance Company (IFC)***

IFC is a form of NBFC dealing with financing the Infrastructure Project. It shall deploy at least 75% of its total assets in infrastructure loans. It requires net owned fund of INR 300 crore to begin with.

c) ***Infrastructure Debt Fund (IDF)***

It is a NBFC company to facilitate the flow of long-term debt into infrastructure projects. It can raise the resources through issue of Rupee or Dollar denominated bond of minimum 5 years maturity. However, only infrastructure finance companies can sponsor of IDF.

d) ***Micro Finance Institution (MFI)***

It is a NBFC with specific guidelines and instruction on lending business, termed as Qualifying Assets. To remain as MFI, it shall maintain 85% of its business under Qualifying Assets category. Qualifying assets are - the total advances/loan given to client following certain criteria set by Reserve Bank of India.

> Any NBFC with assets size of INR 100 crore or more, subject to its major business vertical being acquisition of shares and securities with conditions given by Reserve Bank of India, is termed and defined as Core Investment Company.

e) ***Factor***

It is a NBFC engaged in the principal business of factoring. It is guided from Factoring Regulation Act, 2011. Factoring refers the business of acquisition of receivables of assignor, whether by way of making loans or advances or otherwise against the security interest over any receivables.

f) ***Core Investment Company (CIC)***

Any NBFC with assets size of INR 100 Crore or more, subject to its major business vertical being acquisition of shares and securities with conditions given by Reserve Bank of India, is termed and defined as Core Investment Company. It holds not less than 90% of its total assets in the form of investment in equity shares, preference shares, debt or loans in group companies.

g) ***Mortgage Guarantee Companies (MGC)***

It is also a kind of NBFC wherein at least 90% of the business turnover is mortgage guarantee business or at least 90% of the gross income is from mortgage guarantee business, with requirement of minimum net owned fund INR 100 crore. Mortgage guarantee business is a credit default guarantee taken by mortgage lender against borrower's payment defaults

h) ***Non-operative Financial Holding Company (NOFHC)***

It is a NBFC, which permits the promoter/promoter groups to set up a new bank. It is a wholly owned non-operative financial holding company, which will hold the bank as well as all other financial services companies regulated by Reserve Bank of India or other financial sector regulators.

i) ***Assets Reconstruction Company (ARC)***

It is a NBFC company with principal business of buying non-performing assets of bank at mutually agreed value and attempts to recover the debts or associated securities by itself. The Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002 (SARFAESI Act, 2002) is principal act to governed this nature of business and licensed by Reserve Bank of India on par as NBFC.

j) ***Housing Finance Company (HFC)***

It is a NBFC with major business of carrying financing of acquisition or construction of house. Earlier it was licensed from National Housing Bank, however, the same is retrenched and is again licensed by Reserve Bank of India.

k) ***Peer to Peer Lending (P2P)***

It is also a form of NBFC but the business model is completely reverse in comparison to traditional NBFC, as discussed above. In fact, it is a technology platform provider, which on boards both the borrower and the lender - on approved policy and methodology; and matches the needy with provider of funds, serving the tripartite agreement, in between parties on this. In this model, platform is not providing any loan/advance in fact the system participant on suo moto making transaction, therefore, P2P lending platform is regularised and supervised as NBFC from regulator perspective.

l) ***Account Aggregator (AA)***

It is an aggregation of financial information of business, as registered with Reserve Bank of India as Account Aggregator, a form of NBFC. The financial information user, financial information provider and applicant have single connecting platform termed as account aggregator that facilitates financial information holder - to speed up and scale the business technology, digitally.

Registered Market Player in NBFC Vertical

I. Statistically:

As on date, the registered market player in this NBFC vertical numerically seen as below[1]: -

Status on Number of Registered NBFC in India				
S. No	**Category**	**Number**	**Data as on**	**Reference**
1.	Investment and Credit Company (ICC)	9327	31st Jan, 2021	NTC Finance Pvt Ltd Smart Prism Fincap Pvt Ltd
2.	Infrastructure Finance Company (IFC)	9	31st Jan, 2021	Tata Cleantech Capital Limited Indian Railway Finance Corporation Limited
3.	Infrastructure Debt Fund (IDF)	4	31st Jan, 2021	India Infradebt Limited Kotak Infrastructure Debt Fund Limited
4.	Micro Finance Institution (MFI)	94	31st Jan, 2021	Asirvad Micro Finance Limited M Power Micro Finance Private Limited

[1] *https://nhb.org.in/en/a-list-of-housing-finance-companies-granted/; https://rbi.org.in/Scripts/BS_NBFCList.aspx*

5.	Factors	7	31st Jan, 2021	India Factoring & Finance Solutions Pvt Ltd Pinnacle Capital Solutions Pvt Ltd
6.	Core Investment Company (CIC)	64	31st Jan, 2021	GMR Airports Limited Tata Capital Limited
7.	Mortgage Guarantee Company (MGC)	No entity list published on Reserve Bank of India public domain, but 1 Company i.e. India Mortgage Guarantee Corporation Private Limited is in Market for this nature of business		
8.	Non-operative Financial Holding Company (NOFHC)	No list is published by Reserve Bank of India on this category at public domain		
9.	Assets Reconstruction Company (ARC)	28	31st Jan, 2021	Indiabulls Asset Reconstruction Private Limited Encore Assets Reconstruction Company Private Limited
10.	Housing Finance Company (HFC)@	17	11 has abstract authority to accept the Public Deposit and balance 6 need to take prior approval	LIC Housing Finance Limited PNB Housing Finance Limited L & T Housing Finance Limited
11.	Housing Finance Company (HFC)#	85		Magma Housing Finance Limited Tata Capital Housing Finance Limited Fullerton India Home Finance Company Limited
12.	Peer to Peer Lending (P2P)	21	31st Jan, 2021	Etyacol Technologies Private Limited “Cashkumar” Bigwin Infotech Private Limited “Paisa Dukan”
13.	Account Aggregator (AA)	4	31st Jan, 2021	Finsec AA Solutions Pvt Ltd NESL Assets Data Limited

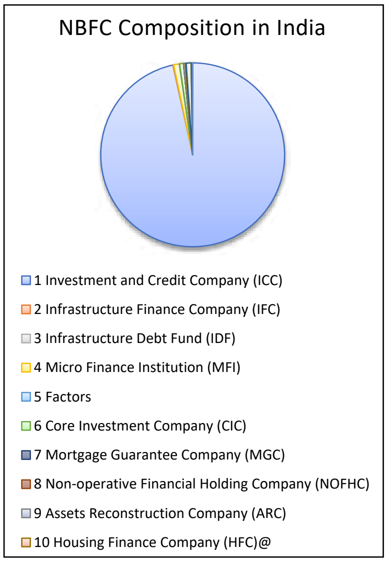
Furthermore, important information is as follows: [2]

S. No	Particulars	Number
1.	NBFCs holding Certificate of Registration (CoR) for accepting Public Deposits as on 31st Jan, 2021 Example: a) Fullerton India Credit Company Limited b) Shriram Transport Finance Company Limited c) Bajaj Finance Limited d) The Delhi Safe Deposit Company Limited	58
2.	Non-Deposit Taking NBFC Systematically Important (NBFC-ND-SI) as on 31st Jan, 2021 Example: a) Adani Capital Private Limited b) Aditya Birla Finance Limited c) MAS Financial Services Limited d) Unimoni Financial Services Limited	292

[2] *https://rbi.org.in/Scripts/BS_NBFCList.aspx*

3.	Non-Deposit Taking NBFC Non-Systematically Important (NBFC-ND-NSI) as on 31st Jan, 2021 Example: a) Downtown Finance Private Limited b) Punjab Lease Financing Limited c) Deccan Credit & Investment Private Limited d) DFL Finance Limited	9123

II. Graphically:



The data above gives a clear insight as it shows Investment and Credit Company (ICC) as the most popular product among entrepreneurs. An ICC carries on its principal business –asset finance, i.e., financing the assests involved in economic activities; investment in shares and other securities; lending the advances/ loan to a needy person or an entity in market, based on its best credit assessment methodology adopted by the Board. In fact, ICC is category formed after harmonisation of Investment Company (IC), Assets Finance Company (AFC) and Loan Company (LC). Other reason to have huge number of ICC in the market is due to the investment commitment of INR 2 crores as Net Owned Fund, which is comparatively lesser than the other category registration.

Market Scenario

NBFC segment is a very vital player in Indian Banking and Financial Service Industry serving the unbanked and underbanked individuals and entities to boost ease of speedy and convenient credit facilities. The segment aims at reaching out to every nook and corner of the country to serve the stakeholders with affordable credit facilities. RBI also acknowledges the importance of meeting the stakeholders' requirements of funds. Latest report on market contribution, share and return on this portfolio from the Regulator would show the potential of the segment. However, according to some report from private entities, there lies huge potential and growth in this segment. NBFC idea was conceptualised in year 1964 - from Reserve Bank of India Act, 1934 amendment, but still except few, most of NBFCs are underdog performer or family based financial institution camp. Moreover, currently, the same has been coming up with better innovative idea and visibility considering the financial inclusion ambition of Reserve Bank of India. In comparison to earlier times, now NBFC is active and well contributor on market credit supply. Similarly, the regulator has opened various doors of opportunity to existing NBFC for its scaling either its adoption of Information Technology mandatorily by registered entity or tie-up with Bank for co-lending model recently.

Developments

Recently Regulator Reserve Bank of India has made several developments focusing on NBFC sector be it its-

a) Relief Package,

b) Inclusion of NBFC in priority segment of lending to Banks,

c) Offering NBFC to open up Bank,

d) Co-lending model with Bank, or

e) Revision of Regulatory Framework

Government of India has provided COVID-19 relief package to pass it on to the end users for the finance provided by NBFCs. Further, the Finance Minister has announced to include NBFC on priority segment of lending to Banks. In fact, it helps NBFCs to raise Banking Fund to operate its business with no as such liquidity crunch. It shows the importance and market coverage of NBFC in Banking and Financial Service

ICC is category formed after harmonisation of Investment Company (IC), Assets Finance Company (AFC) and Loan Company (LC).

Industry of India. Over and above it, Government of India through Reserve Bank of India is making statement to come forward and open Bank to all the existing NBFCs, on the selection criteria set by Expert Advisory Committee. Reserve Bank of India has observed around 50 NBFCs across India, similar to Banks in terms of Assets Size and Capital Requirement. Recently the Reserve Bank of India, revised the co-lending model allowability to all NBFCs in the market, whereas earlier it was restricted to systematically important NBFCs only. It means, earlier NBFCs, which had assets size of INR 500 crore or more could do co-lending business with Banks, but now it is open for all. New window is open for NBFCs to expand the working skills and size of business, which is welcome step of Reserve Bank of India. Recent important development to note is - the proposed revision of regulatory framework for NBFC, wherein the entry-level net owned fund is revised to INR 20 crore in place of existing INR 2 crore. The step is to make entry level stringent. The proposed revised regulatory framework is with RBI for discussions and finalisation. Therefore, as per existing framework, the entry level net owned fund requirement is INR 2 crore. The link of proposed revised regulatory framework notification is *https://rbi.org.in/scripts/FS_PressRelease.aspx?prid=51011&fn=14*

Scaling Business to Next Level

The next stage discussed in following points:

a) ***Planning to enter into Finance Business***

This category of people or corporate are in planning stage and accordingly, keeping the view of Regulator can plan the registration process with RBI. As the title of this article suggests -NBFC is gateway of Finance Business in India- one can get basic learning idea on NBFCs – type, category and ancillary aspects of conclusively this portfolio. Only corporate, having valid certificate of registration issued by Reserve Bank of India, can-engage in finance business.

b) ***Already with NBFC Business***

Existing NBFCs have equal challenges and opportunities. Challenges in terms of "Proposed Revised Regulatory Framework" and "Ongoing Pandemic Business Scenario", and Opportunities in the form of "Planning for securing Bank license that of universal bank preferably, else that of small finance bank".

Organisations, today, are struggling due to Covid-19 pandemic. Those, which are able to survive, seem to have already planned their survival mechanism. Going forward, such organisations need to make use of proposed regulatory framework, as and when it is implemented. With these two aspects strongly in hold, organisations should target to scale their businesses to next level. Such organisations can plan to apply for getting the license of Small Finance Bank or Universal Bank as the case may be.

“It is always a welcome move to promote an eligible market player either in Universal Bank or in Small Finance Bank, subject to fulfilment of criteria mention on licensing guidelines of Reserve Bank of India.

It is always a welcome move to promote an eligible market player either in Universal Bank or in Small Finance Bank, subject to fulfilment of criteria mention on licensing guidelines of Reserve Bank of India.

Conclusion

Finance Businesses are promising as always. Tried and tested thereon; subject to growth, revenue and returns of investment. So many international market players are entering into this untapped market through its traditional NBFC business or modern technology based NBFC. The hundred per cent allowability of Foreign Direct Investment on financial intermediaries' services is intended to call international players, so that the competition of market increases. In nutshell, consumer benefits and choices have increased and overall financial inclusion programme of RBI is progressing. ■■■

Funds Transfer Pricing – Methods and Benefits

Funds Transfer Pricing has gained wider acceptance in post global financial crisis era. The crisis made the liquidity scarce and costly. Further, intense competition, complexity of products and increase in regulatory capital requirements forced Banks to efficiently allocate the funding resources to profitable segments. Funds Transfer Pricing enables Banks to adopt to the new era in an effective manner. Funds Transfer Pricing presents granular view of profitability across different segments, products, customer to senior management for calibrating the business strategy. Further, it assists in effective management of liquidity and interest rate risks along with appropriate transaction level pricing. Read on…

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Funds Transfer Pricing (FTP) is an important management accounting technique used by Banks. The primary objective of FTP mechanism is to assess Bank's profitability at micro level and establish the formal mechanism for asset pricing with due weightage on liquidity risk. FTP provides critical strategic input to the management to take decisions with respect to expanding or scaling down business segment/ product/customer segment.

Objectives of FTP

Emergence of liquidity risk during 2008 Global Financial Crisis (GFC) led to the wide use of FTP mechanism among Banks. In the pre-crisis world, the liquidity risk was taken for granted as abundant liquidity was always present. However, during the crisis this assumption turned faulty. This led to deposit runs, credit crunch, rise in cost of funds, defaults, fire-sale of assets to raise liquidity etc. Thus, liquidity became scarce and costly. Few financial institutions collapsed and many severely impacted.

Further, it was noted that not only liquidity and interest rate risk (IRR) were not effectively managed by Banks but also not considered for the asset pricing. This led to mispricing for many lending transactions as the required costs were not passed

to the lending units. Also, the borrowing units were not given their due benefits based on the funding mix. Hence, the need to assess and pass on the required costs, benefits and risks to the business units emerged strongly in the post crisis world.

FTP mechanism attempts to adequately address these risks within the Bank along with appropriate asset pricing based on the liquidity costs across different maturities.

Traditionally, Banks measure their profitability based on several matrices. These include Net Interest Income (NII), Net Interest Margin (NIM), Return on Assets (ROA) and Return on Equity (ROE). Though these matrices are important, they fail to provide micro level view of the profitability. For example, the profitability of the Branch/Region/Zone or Business Vertical/Segment/Product/Customer cannot be assessed from these matrices. The assessment of profitability at granular level is essential to understand the profitable branches, segments, products, customers or relationship managers. This will act as a strategic input to the senior management to take various business decisions with respect to expansion, scaling down, incentive structures, customer relationships etc. This becomes more important considering the increasing competition, regulations and increasing regulatory capital requirements.

FTP ensures the necessary costs and benefits are allocated to the respective business units, products and transaction, enabling objectivity in performance monitoring along with granularity.

FTP Mechanism – How it works?

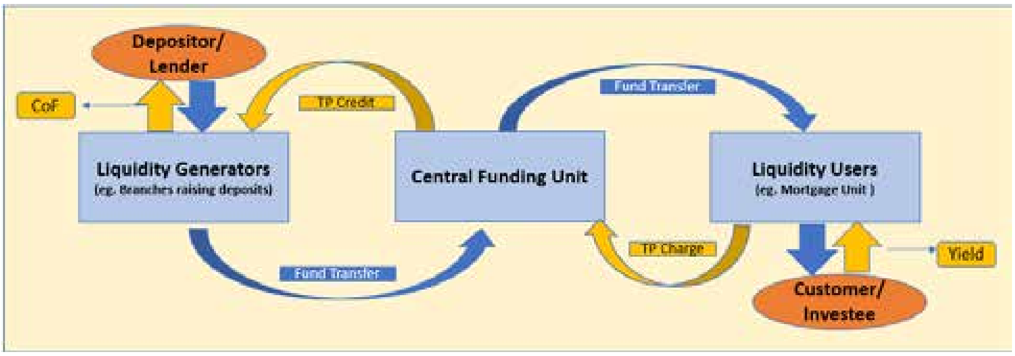
Banks are in the business of borrowing and lending. They incur interest costs on the borrowed funds (Cost of Funds (CoF)) and they earn interest income on the lending (Yield).

Banks typically borrow short term funds and lend for long term assets. This is called maturity transformation where the short maturity liabilities are transformed into long maturity assets. This typical business structure leads to different risks to Bank. The lending segment generates credit risk for Bank and the borrowing activities leads to liquidity risk and IRR. The profitability every asset created through lending transaction is subject to the behaviour of these risks till the life of the asset. Bank may do good on the credit risk side but may get hurt from the volatility in the interest rates or lack of funding due to credit crunch in the market. At other times, exactly opposite scenario can emerge. Hence, profitability of the Bank is subject to the management of these risks. FTP mechanism ensures the onus of risks are apportioned to the right risk owners and adequately considered during transaction level pricing.

Under FTP mechanism, Bank is divided into three segments, viz., liquidity generators, liquidity users and Central Funding Unit (CFU). Liquidity generators raise funds from the market in the form of deposits or debt (Example, Branch accepting deposits from customers). Liquidity users lend funds to the retail and corporate customers also invests the money in different financial instruments (Example, Home Loan or Personal Loan division of Bank). CFU is made responsible to handle maturity mismatches (which leads to liquidity risk) and IRR. CFU generally forms part of the Treasury/ ALM division of Bank.

The funds raised by liquidity generators are notionally transferred to the CFU at the Transfer Pricing (TP) rate *(will be discussed shortly)*. The funds received by CFU are in turn notionally transferred to the liquidity users for onward lending at TP rate. TP rate received by liquidity generators is known as transfer credit and the TP rate paid by the liquidity

> Banks typically borrow short term funds and lend for long term assets. This is called maturity transformation where the short maturity liabilities are transformed into long maturity assets.



The profitability of the liquidity generators is the difference between TP credit and CoF whereas the profits of the liquidity users are simply the difference between the Yield and TP charge paid. CFU profits are difference between the TP charge and TP credit.

FTP mechanism ensures centralization of liquidity risk and IRR in the CFU of the Bank. CFU takes the responsibility of these risks and relieves the business segments (both assets and liabilities) from the possible stress caused in the profitability due to constant changes in the liquidity conditions and interest rates. This model ensures that spreads of business units are protected from the inception of the transaction. The risk of possible fluctuation in the spread due to changes in the liquidity and interest rates in future are assumed by the CFU.

> Under FTP mechanism, Bank is divided into three segments, viz., liquidity generators, liquidity users and Central Funding Unit (CFU).

Hence, business segments are relieved from unnecessary stress and thus can focus on their core business strength.

How TP Rates are determined?

Determination of TP rates is the crucial component of the FTP mechanism. If these are not determined with proper methodology and rationale then the whole purpose of the FTP will fail. The TP rates for liquidity generators (TP credit) and liquidity users (TP charge) are different. The steps involved in determining TP rate include identification of appropriate market benchmark and adjustment to the rates by relevant market/internal factors.

Let's see first how the TP rate is determined for the liquidity generators.

The concept of opportunity cost is applied to determine this rate. For example, if a Branch would not have raised funds from the depositors (say @3%), then the Bank would have had required to raise the funds from the money market at the prevailing rates (say@5%). These money market rates are used by CFU to determine TP rates to be credited to liability unit.

In money market, the benchmark rate for short term funding (up to 1 year) is MIBOR. In case of funding in foreign currency, the benchmark rate is LIBOR. If the funding is medium to long term then G-Sec Yield for the equivalent maturity can be used as benchmark. Bank can select appropriate benchmarks based on its liability profile and credit rating. It may use single benchmark or average of two benchmark. For example, Bank may use average for MIBOR and T-Bill rates for determining TP rate for 3 -month Fixed Deposit raised by Branch.

Further, the funds mobilized by liquidity generators have different maturity profiles. Apart from short term and long-term maturities, the nature of maturities may differ based on the funding source. For example, Fixed Deposits have contractual maturity but CASA does not have any fixed maturity as customer can withdraw money at any time. Hence, to arrive at the TP rate, adequate consideration of the behavioural pattern of the funding source is imperative.

Thus, the TP rate for the liquidity generators is determined based on the appropriate benchmark available in the money market and the maturity profile of the funding source.

Now let's see how the TP rate is determined for the liquidity users.

Determination of TP rates for assets units requires some adjustments to the TP rate determined for liquidity generators. These adjustments include negative carry for the CRR/SLR maintenance, costs incurred for maintaining liquidity cushion, embedded optionality in terms of prepayment of loans and liquidity premium. Let's understand them one by one.

Funds mobilized from depositors are subject to CRR/SLR requirements in India. Due to these requirements, Bank is subject to negative carry as the yield on the CRR/SLR reserves are generally lower than the market yields. Hence, the TP rates need to be adequately adjusted to accommodate this negative carry.

Liquidity costs are incurred to maintain and manage liquidity cushion (Example, High-quality liquid assets, maintaining LCR ratio, contingency funding plans). These costs need to be adjusted to calculate the TP charge.

The customer who borrows funds from the Bank receives an embedded option as part of the contract to prepay the loan before the contractual maturity of the term. The funds received before the contractual maturity creates IRR for the Bank. Hence, CFU should be based on the past behaviour of the prepayments, consider this for adjustments to TP rate to be charged to liquidity users.

Sometimes, Bank may find it difficult to raise funds at reasonable costs due to market or internal factors. Bank may face this difficulty across all funding sources and maturities or few depending on the specific situation prevalent. This situation may arise either due to worsening liquidity conditions in the market or bank specific factors (Example, credit rating downgrade, deposit run). CFU should take these factors into consideration and levy liquidity premium to the liquidity users.

These are important adjustments that are performed to determine the TP rate to be charged to liquidity users.

Here, we should note that the adjustments discussed above for both TP credit and TP charge are not exhaustive. Bank may have additional adjustments based on the rates offered by competition, economic outlook, desired funding/asset profile, repricing frequency, basis risk, transaction costs etc.

Further, these adjustments can result in either positive or negative margins to be added or subtracted from to the TP rate for respective business units, which can, in turn, increase or decrease both the transfer cost of loans and the transfer income on deposits. For example, negative market adjustments may be considered if there is sharp move in the benchmarks compared to the market deposit rates because of extraneous factors.

FTP Approaches: There are different approaches to implement FTP in a Bank. The approach discussed above is called Matched Maturity approach. As we have seen, this approach involves determining FTP rates based on the marginal costs (based on appropriate benchmarks), liquidity costs, maturity profile of assets and liabilities along with certain market and internal adjustments. Further, these rates are applied at transaction level. This approach is more logical and used widely across Banks. However, FTP mechanism can be implemented with different approaches which are discussed below:

Average Cost Approach: Under this approach, average cost of the funds is calculated and is charged to the asset generators. The CoF is calculated for all funds taken together i.e. for the pooled funds, without specific consideration of maturity profile of funding sources. The performance of the liquidity generators is assessed by comparing the budgeted CoF with actual CoF, while performance of liquidity users is assessed based on the spread earned over and above the CoF.

Net Funding Approach: Business Unit raises funds and deploys it simultaneously. For example, Branch raising funds and providing loans in the local area/region. Hence, no distinction in terms of asset and liability units is made. Central Treasury lends funds to deficit units and mobilizes funds of surplus units. Business performance is assessed based on NIM achieved by the respective business unit against the budgeted NIM.

Benchmark-linked Approach: Under this approach, liquidity generators transfer the funds to CFU and receive TP credit. CFU transfers the funds to liquidity users and levy TP charge. The TP rates are determined based on CoF and market benchmarks.

Average Cost and Net Funding Approach are simple to implement in comparison with Matched Maturity Approach. These approaches do not need efficient IT infrastructure to implement FTP mechanism in Bank. However, these approaches do not consider marginal CoF based on market benchmarks, liquidity costs, maturity profile of the assets and liabilities, internal/external adjustments. Hence, these approaches fail to pass on the appropriate costs, benefits and risks to the liquidity generators and users. Further, the IRR and liquidity risks are not objectively managed under these approaches.

Benchmark linked approach is bit superior compared to these approaches but still it does not consider other factors which are factored in in the Matched Maturity approach.

FTP Mechanism – Key Participants

The important stakeholders and their roles and responsibilities are briefly discussed below:

Liquidity generators: They are responsible for raising funds from for the Bank. The funds can be raised from depositors in form of CASA and Term Deposits or from market in form certificate of deposit, bulk deposits, call, repo, term loans, NCDs, debentures, external borrowings etc. Branches raise funds from depositors whereas Treasury unit of the Bank raise funds from the market. The objective of the liquidity generators should be to raise funds with adequate consideration of CoF, funding mix, diversity of borrowers and maturity profile of the assets generated by Bank.

Liquidity users: They are responsible to deploy funds generated in the profitable assets for the Bank. These assets can be advances/loans or investments. Different lending divisions across the Bank provide loans to its retail and corporate customers for different end use. These loans can be secured or un-secured, short or long term, floating or fixed, amortized or un amortized. The Treasury division of the Bank invests funds in government and corporate securities.

Central Funding Unit: This unit is generally part of Treasury or ALM department depending on the reporting structure within Bank. It manages the liquidity risk and IRR for the Bank arising out of the maturity mismatches between assets and liabilities. It monitors the market benchmarks, maintains liquidity cushion and determines the FTP rates.

Finance and Planning: Finance division is responsible for implementation of the FTP within Bank. It coordinates with liquidity generators, liquidity users and CFU to ensure smooth functioning of the FTP mechanism. It ensures the FTP rates are finalized after taking inputs and concurrence from all business units. It monitors and reviews the lending or borrowing transactions which are not in line with the defined FTP rates and seeks required justifications from the respective business units. Finance division is responsible for setting up the business budget along for each business segment, product category, branch. It is also responsible for performance monitoring and reporting

Information Technology: IT division is responsible for the availability of adequate IT infrastructure used in FTP mechanism and its uninterrupted functioning. IT division should ensure the most of the critical procedures involved in the FTP (Example, fetching market benchmarks, calculating liquidity costs, assignment of FTP rates, exception approvals in case of breach of FTP rates etc.) are automated. It should be further responsible for the logical access management, change management, maintaining of audit logs and trails.

Market Risk Management: This division should monitor and report on the liquidity and IRR to the management. It should ensure business units are ensuring compliance with the Market Risk Management policy of the Bank.

Asset Liability Committee(ALCO): Asset Liability Committee is responsible for setting up adequate governance framework in terms of FTP policy, reporting mechanism and exception management mechanism. It should have adequate oversight on the FTP mechanism, changing market scenarios, funding mismatches, level of liquidity / IRR risks. ALCO should have members from the respective business units to ensure fair representation. The discussion in the meetings and actions taken by ALCO should be regularly updated to Risk Management Committee/ Board.

" Asset Liability Committee is responsible for setting up adequate governance framework in terms of FTP policy, reporting mechanism and exception management mechanism.

Internal Audit: Internal Audit should perform periodic reviews to ensure adequate controls are in place and working effectively along with compliance with the FTP policy.

Benefits of FTP Mechanism

Some of the significant advantages of the effective FTP mechanism (viz. Matched Maturity approach) has been listed below:

Centralization of Risks: IRR and liquidity risks are centralized under FTP mechanism and managed by ALM desk. This leads to close monitoring and management of these risks by specialist function.

Controlled Maturity Mismatch: Liquidity users in Banks are generally inclined towards generating long term/illiquid assets if they are not charged for the liquidity risk undertaken. This leads to aggressive maturity transformations by liquidity generators, which in turn, leads to cashflow mismatches between assets and liabilities thereby exposing Bank to the structural liquidity risk. FTP mechanism discourages unhealthy maturity transformation as the illiquid assets are charged after due consideration of liquidity risk for the longer maturity.

Appropriate Pricing: FTP ensures that the pricing of products is based on the market benchmarks, maturity profile, cost of maintaining liquidity cushion and other risk factors. This ensures no undue benefits are received by business units in terms of lower CoF. Use of marginal CoF ensures that the pricing is performed based on the current rates rather than historical rates. Further, the pricing is performed for each transaction separately.

Funding Strategy: FTP not only identifies profitable /non profitable segments but also identifies the appropriate funding mix suitable for the Bank. For eg, the funding mix for a Bank predominantly in long term lending business (Example, infrastructure loans) will be substantially different from the Bank which is mainly into short term unsecured lending (Example, credit cards/personal loans). It helps management to drive the behaviour of the liquidity generators in terms of raising funds from different instruments in line with the product profile of the liquidity users.

Micro level Performance Monitoring: FTP enables management to assess profitability at individual business segment, products, relationship manager and customer level. Margins earned by all business units become comparable as the FTP ensures allocation of CoF appropriately to business units Further, due to centralized management of the liquidity riskand IRR, the performance of the individual units can be measured purely based on the factors in control of the business units.

Appropriate Targets: The granular visibility of performance helps management to set appropriate targets, KRAs and incentives for different business units, products and relationship manager.

Capital Allocation: Banks are required to maintain regulatory capital for every asset created. Further, the quantum of capital depends on the risk profile of the asset. FTP assists management to identify the profitable segments / products from not so profitable segments/products. This critical input enables management to allocate the costly and scarce capital to the areas which are profitable for banks. Thus, FTP mechanism leads to prudent allocation of capital.

“Liquidity users in Banks are generally inclined towards generating long term/illiquid assets if they are not charged for the liquidity risk undertaken.

Conclusion:

FTP mechanism is an objective management accounting technique which is beneficial to Banks on multiple counts viz. appropriate pricing, effective risk management, correct performance monitoring, and prudent capital allocation decisions. Effective governing framework, availability risk related competencies, access to the relevant market information systems, effective internal IT infrastructure, detailed FTP procedures and comprehensive reporting mechanism will ensure smooth functioning of FTP mechanism in Banks. ■■■

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3. *Principles for Sound Liquidity Risk Management and Supervision – BCBS*
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Taxation Aspects of Transfer of Property between Firms and Partners

With the combined aim to promote digitisation, minimising litigations, and addressing the gaps in the tax on transfer of money or property or stock-in-trade by a firm/AOP/BOI to its firm/members, the Government of India unleashed Budget 2021, which received assent from the President of India on 28th March 2021 along with some amendments in the original amendments proposed in Budget 2021. Finance Act, 2021 settled some important issues. One among those issues was-taxation of firms in the event of dissolution/ reconstitution, given ample of favourable as well as contradictory judgements available. The article throws light, in detail, on the issues and the implication of the amendments made to resolve those issues. Read on to know more…

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Background

Prior to substitution by Finance Act, 2021, as per Section 45(4) of the Income Tax Act, 1961, profit or gains arising on transfer of capital asset on the dissolution of a firm or other association of persons or body of individuals or otherwise, was chargeable to tax as the income of the firm, association of persons or body of individuals, of the previous year in which the said transfer took place.

Further, the fair market value of the asset on the date of such transfer shall be deemed to be the full value of the consideration received or accruing for the purpose of Section 48.

However, there has been a long drawn dispute on taxation of capital gain under section 45(4) and it involved lot of controversies and some of them are listed below-

i. Whether the expression "Dissolution of the firm/ AOP/BOI or otherwise" as mentioned in Section 45(4) includes reconstitution also?

ii. Whether the provisions would be applicable in case where assets are revalued or self-generated assets are recorded in the books and payment made to partner is in excess of capital contribution?

iii. Whether money paid to partner would be taxable in the hands of the firm under section 45(4)?

All these issues have been addressed by Finance Act, 2021 with the insertion of Section 9B and 48(iii) and substituting Section 45(4) w.e.f. Assessment Year 2021-22.

Impact of the Amendments made by the Finance Act 2021, Section-wise

***Important terms for the purpose of the Section 45(4)/9B of the Income Tax Act*:**

1. **Specified entity** means a firm or other association of persons or body of individuals (not being a company or a co-operative society).
2. **Specified person** means a person, who is a partner of a firm or member of other association of persons or body of individuals (not being a company or a co-operative society) in any previous year.'
3. "**Reconstitution of the specified entity**" means, where—

   (a) one or more of its partners or members, as the case may be, of such specified entity ceases to be partners or members; or

   (b) one or more new partners or members, as the case may be, are admitted in such specified entity in such circumstances that one or more of the persons who were partners or members, as the case may be, of the specified entity, before the change, continue as partner or partners or member or members after the change; or

   (c) all the partners or members, as the case may be, of such specified entity continue with a change in their respective share or in the shares of some of them;

Section 9B- Income on receipt of capital asset or stock in trade by specified person from specified entity

At the time of Reconstitution or dissolution of specified entity-

- If a specified person receives any capital asset or stock in trade or both,
- then there shall be deemed transfer of capital asset or stock in trade or both in hands of the specified entity in the year in which such capital asset or stock in trade are received by specified person and
- Fair Market value of the capital asset or stock in trade shall be deemed to be the full value of the consideration received or accrued and
- shall be taxable under head "Capital Gain" or "Profits and Gains of Business and profession" in accordance with the provisions of the Act.

Computation of Gain arising from deemed transfer of stock-in-trade under section 9B read with Section 28 shall be as follows-

Fair Market value of stock transferred shall be recorded as sale and forms part of the business profit within the provisions of Section 28 of the specified entity.

Computation of Capital Gain arising on deemed transfer of capital asset under section 9B read with Section 48 shall be as follows:

Fair Market value of capital asset as Full value of consideration received or accrued as a result of the transfer of the capital asset	---
Less: Indexed Cost / Cost of acquisition of the asset	---
Less: Indexed Cost / Cost of Improvement of the asset	---
Income taxable under head capital gain	---

It is pertinent to note that mere reconstitution or dissolution of specified entity would not require application of provision of Section 9B. The provision becomes applicable when a specified person receives any capital asset or stock-in-trade at a time of *reconstitution* or *dissolution* of the specified entity. However, deemed taxability shall arise in the hands of the specified entity only.

Section 45(4)- Capital Gain on receipt of Money or Capital Asset by Specified Person in the hands of the Specified Entity

At the time of Reconstitution of specified entity,

- where a specified person receives any money or capital asset or both;
- then any profit and gains arising from such receipt of money or capital asset by specified person shall be deemed to be the income of the specified entity under the head "Capital Gains";
- in the previous year in which such capital asset or money or both were received by the specified person and
- such profit or gains shall be calculated in accordance with the following formula-

A = B+C-D

Where,

A = income chargeable to income-tax under the head "Capital gains";

B = value of any money received by the specified person from the specified entity on the date of such receipt;

C = the amount of fair market value of the capital asset received by the specified person from the specified entity on the date of such receipt; and

D = the amount of balance in the capital account of the specified person in the books of account of the specified entity at the time of its reconstitution without considering increase in the capital account of the specified person due to revaluation of any asset or due to self-generated goodwill or any other self-generated asset (if any).

Where the value of A is negative, it shall be deemed to be *nil.*

For the purpose of this sub-section

"Self-generated Goodwill" or "self-generated asset" means goodwill or asset which has been acquired without incurring any cost for purchase or which has been generated during the course of the business or profession.

Explanation- It has been clarified that when a capital asset is received by a specified person from the specified entity in connection with the reconstitution of specified entity, the provisions of this sub-section, i.e., 45(4) shall operate in addition to the provisions of Section 9B and the taxation under the said provisions thereof shall be worked out, independently.

> It is pertinent to note that mere reconstitution or dissolution of specified entity would not require application of provision of Section 9B.

Note- Section 45(4) comes only into the light at the time of reconstitution of a specified entity. It provides for taxability of profit and gains on receipt of capital asset or money in the hands of specified entity which is actually the income of specified person. Further, section 45(4) shall operate in addition to the provisions of Section 9B i.e. At the time of reconstitution, suppose if a specified entity transfers capital asset to its specified person then the same shall be taxable under section 9B as well as 45(4).

Section 48(iii)- Mode of computation of Capital Gain

Section 48 provides for the deduction at the time of calculating capital gain from the full value of consideration received as a result of transfer of capital asset. A new clause (iii) has been inserted vide Finance Act 2021 which provides for an additional deduction in respect of capital gain taxed under section 45(4), i.e., deduction shall be allowed in respect of amount chargeable to tax under section 45(4) from the full value of the consideration of the capital asset at the time of transfer, calculated in the prescribed manner. However, the method for the same is yet to be prescribed by CBDT.

Computation of Capital Gain as per amended Section 48 shall be as follows-

Full value of consideration received or accrued as a result of the transfer of the capital asset	---
Less: Indexed Cost / Cost of acquisition of the asset	---
Less: Indexed Cost / Cost of Improvement of the asset	---
Less: Amount chargeable to tax under section 45(4) in the hands of specified entity which is attributable to capital asset being transferred	---
Income taxable under head capital gain	---

Note- It is important to note that additional deduction shall arise only in case of reconstitution as section 45(4) cover only the reconstitution aspect and to mitigate the impact of double taxation [i.e. taxability under section 9B and 45(4)], clause (iii) has been inserted.

> "Self-generated Goodwill" or "self-generated asset" means goodwill or asset which has been acquired without incurring any cost for purchase or which has been generated during the course of the business or profession.

Comparative Analysis of Section 45(4), 9B and 45(iii) of the Income Tax Act, 1961

- Section 45(4) provides for taxability in the event of Reconstitution of specified entity whereas Section 9B provides for taxability in the event of reconstitution or dissolution of specified entity.
- For example- At the time of Reconstitution of the firm, if a partner gets capital asset and stock in trade from the firm, there are two transactions involved. First one is relinquishment of his rights as a partner and second is transfer of money or asset by the firm.
- Former transaction is dealt under the provisions of Section 45(4) and the latter in section 9B. However, in the former transaction income arises in the hands of the partner but as per section 45(4) it is deemed as income of the firm.
- Thus, the firm would be assessed under section 9B for its own income and under section 45(4) for the income arising to the partner.
- Further, in case of reconstitution of firm double taxability will arise once under section 9B and second under section 45(4). To remove the impact of such double taxation, clause (iii) has been inserted to the section 48 which provides for the deduction of the amount attributable to tax under section 45(4) from the full value of consideration received or accrued at the time of transfer of capital asset.

> The changes have been made applicable from the Assessment Year 2021-22, wherein if partner(s) or member(s) of the firms/AOP/BOI reconstituted or dissolved during the concerned year received any capital asset, stock and/or money, then the firm/AOP/BOI are required to evaluate the implications of the said amendment.

Concluding Remarks

Though the Finance Act, 2021 addressed several debated issues, few clarifications are further required from CBDT with respect to period of holding for capital asset classification for the purpose of Section 9B & 45(4), method of attribution under section48(iii), availability of deduction by virtue of Section 48(iii), bifurcation of amount attributable towards receipt of money and capital asset etc.

Further, the changes have been made applicable from the Assessment Year 2021-22, wherein if partner(s) or member(s) of the firms/AOP/BOI, reconstituted or dissolved during the concerned year received any capital asset, stock and/or money, then the firm/AOP/BOI are required to evaluate the implications of the said amendment. ■■■

Incentivising Indian Manufacturing for Growth

The Indian Government had recently introduced a production linked incentive (PLI) scheme with the objective to give companies incentives on incremental sales from products manufactured in domestic units. The scheme encourage local businesses to set up or expand manufacturing units as well as it invites foreign companies to set up units in India. The scheme is part of Aatmanirbhar Bharat campaign to reduce reliance on imports and generate more employment. This article will cover details of PLI scheme and how well it augurs for Indian manufacturing. Read on…

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To boost domestic manufacturing and as a way to reduce outgo of forex, the Government of India in March 2020 had introduced an incentive scheme for three sectors - Mobile & allied equipment, Pharmaceutical ingredients and Medical devices manufacturing. This incentive is available to foreign entities as well as it encourages local companies to setup or expand existing manufacturing units. The scheme was further expanded by the Cabinet to another ten sectors in November, 2020 totalling the financial outlay for the entire incentive program to about ₹ 2 lakh crores.

1. India's Manufacturing Post-Independence

Before getting into PLI scheme, let us look briefly into India's manufacturing sector, its contribution to GDP, employment, exports. In 1951, manufacturing sector's GDP contribution was 11% while its employment contribution also stood at 11%. Contrast this to agricultural sector which employed more than half the population & contributed 53% to GDP. In stark difference to most developed economies, growth trajectory of GDP in India has favoured the services sector. The decline of agriculture in its GDP

contribution was taken over by the services sector. In 2019,

Sector	GDP Contribution (%)	Job creation (%)
Agriculture	17.76%	42%
Industries	27.48%	26%
Services	54.77%	32%

Over time the service sector has gained substantially as a contributor to GDP at the cost of ground lost by agriculture sector. However, as evident above, service sector is not been able to garner surplus labour from agriculture. Despite the export contribution from labour intensive sectors close to 60%, India's share in global merchandise exports hovers around 2%. Investment in manufacturing sector and increasing its share in GDP can help absorb the excess labour from agriculture and increase India's share in global merchandise exports.

There is a situation of near stagnation of manufacturing which can be attributed to cost of capital, land, labour productivity, low investment in R&D, lack of size and scale, etc., As a result, it became economical for our industries to import than engage in domestic manufacturing. Governments have tried to offset the imbalance in domestic manufacturing vis-à-vis importing through developing industrial infrastructure, relaxing FDI norms to facilitate foreign inflows, skill development schemes, improving metrics in ease of doing business, make in India, etc. However a needs to be done on ground. India's Asian counterparts such as Bangladesh, Vietnam have been able to develop more manufacturing facilities that have been shifting from China even before the pandemic (as China's per capita wages is on the rise – this has led some companies to move out and tap more cost effective markets), while India could not reap the benefits of the same. The Indian economy had signalled a slowdown since second half of 2019 & the pandemic has accelerated the process of slowdown.

To counter these and project itself as a viable alternative in the Global supply chain, reduce dependency on China and mark a new lease of life to Indian manufacturing, PLI has been envisioned by the government.

2. Production Linked Incentive (PLI)

Production Linked Incentive scheme is an outcome based program to boost domestic manufacturing and attract investments at scale. The scheme provides for an incentive of 4% to 6% to eligible companies on incremental sales (Over base year 2019-20) of manufactured goods for a period of 5 years subsequent to base year (i.e. till 2024-25).

2.1 Eligible Companies

- A company registered in India, proposing to manufacture goods covered under target segments in India, and making an application for seeking approval under the scheme.
- Applicant can operate new/existing manufacturing facilities to manufacture goods covered under target segments.
- Manufacturing to be carried at one/more locations in India.
- The scheme for Large scale electronics is available to all companies registered in India which meet the threshold of specified investment (₹100 to ₹1000 crore) in the next four years as well as incremental sales of manufactured goods.
- Eligibility also subject to criteria under different target segments in the same scheme. Threshold of incremental investment and sales also to be considered for eligibility.

2.2 Incremental Sales & Investment

An applicant must meet the threshold of incremental investment and incremental sales of manufactured goods for eligibility of incentive.

- For incremental investment for any year, cumulative investment done till such year (including year under consideration) over base year shall be considered.

- For incremental sales, the total sales of manufactured goods under target segments for such year over base year shall be considered.

In any given year if the applicant fails to meet the criteria, the applicant shall not be eligible for incentive in that particular year. However, no restrictions are in place for claiming incentive in subsequent years upon the applicant satisfying the criteria.

2.3 *Incremental Investment over base year*

For example, in case of mobile phones (with invoice value of ₹ 15,000 & above) the applicant must have invested ₹ 250 crores or more by 31.03.2021 to satisfy incremental investment in that year. Likewise, Cumulative investment of ₹ 500 crores by 31.03.2022, ₹ 750 crores by 31.03.2023, ₹1000 crores by 31.03.2024 needs to made to avail the incentive.

2.4 *Some inclusions & exclusion in Incremental Investments*

- All non-creditable taxes and duties would be included.
- Expenditure on land and building (including factory building/under construction) not to be included.
- Expenditure on used/ refurbished plant, machinery and equipment are included subject to satisfying conditions like minimum residual life of at least 5 years, valuation by a Chartered Engineer assessing value and residual life. With respect to imports, valuation to be in accordance with Customs Valuation rules and circulars.
- Manpower cost for R&D not to be included

2.5 Sectors included under PLI scheme

Table (A)

Sectors	Implementing Ministry/ Department	Financial Outlay (₹ in crores)
Mobile manufacturing & Specified electronic components	MEITY	40,951
Critical key starting materials/ drug intermediaries & Active pharma ingredients	Dep of Pharmaceuticals	6,940
Manufacturing of medical devices	Dep of Pharmaceuticals	3,420
	TOTAL	**51,311**

Table (B)

Sectors	Implementing Ministry/ Department	Financial Outlay (₹ in crores)
Advance chemical cell battery manufacturing	NITI Aayog & Dep of Heavy industries	18,100
Electronic/Tech products	MEITY	5,000
Automobile & auto components	Dep of Heavy industries	57,042
Pharmaceuticals drugs	Dep of Pharmaceuticals	15,000
Telecom & networking products	Dep of Telecom	12,195
Textiles: Man-made fibre & technical textiles	Mo textiles	10,683
Food processing	Mo Food processing Industries	10,900

High Efficiency Solar PV modules	Mo New & renewable energy	4,500
White goods (ACs & LED)	Dep for Promotion of Industry & Internal trade	6,238
Speciality Steel	Mo Steel	6,322
	TOTAL	**1,45,980**

Table (A) represents announcements made in February' 2020 and based on its response and further work carried by ministries, departments, NITI Aayog, more sectors were included in November'2020 as indicated in Table (B). The final proposals of PLI for individual sectors will be appraised by the Expenditure Finance Committee and approved by the cabinet. Any new sector for PLI will require fresh approval of the cabinet.

3. Positives of the scheme

- There are certain features that could make the scheme effective in implementation and are enlisted below:
- To begin with PLI scheme has been announced after intense stakeholder consultations and deliberations.
- It is an outcome based scheme, meaning, incentives will be disbursed only after production takes place in the country.
- Calculation of incentives are based on incremental production and to achieve this additional investments are also expected to either establish green-field or expanding existing facilities.
- Scheme focuses on size and scale by selecting players who can deliver volumes.
- Selection of sectors are wide ranging from technology, integration with global value chains, labour intensive to sectors linked with rural economy.
- Scheme also addresses the financial constraints of companies and helping them achieve scale and size that can enable Indian products to be globally competitive.

4. Immediate Impact of the scheme

The scheme has started to a positive response with names from both global and domestic mobile phone and electronic component makers getting approvals from the government. Of the total production, major companies under Mobile phone segment have proposed more than 10 lakh crore and those under specified electronic components have proposed production of over 15,000 crore. The government has till date approved 16 of the 22 applications that it received under this sector.

This segment is alone expected to bring in 3 lakh direct employment in next 5years and thrice the number in indirect employment.

Recently TATA Sons has decided to invest $1 billion for a new mobile phone manufacturing facility (for Apple's sourcing needs) in Tamil Nadu using the benefits under PLI scheme. Add to that this facility is set to employ 18,000 of which 90% shall be women.

Other sector which has seen light of the Scheme (Feb'2020 announcement) - visible through the 215 applications under bulk drugs and 28 applications received from 23 Medical devices manufacturers under Medical devices. A maximum of 136 applications in bulk drugs and 28 for medical devices are likely to be approved.

5. Potential of other sectors

The above (4.) sheds light on the effects of Feb'2020 measures. Similar announcement was made in Nov'2020 enlarging the scope of the scheme to include 10 more sectors. Let us look briefly into the potential of some of those sectors.

> Any scheme will have its own share of challenges and the success or failure depends on how well the ecosystem surrounding it behaves.

Reference Table (B)

- **Advanced Chemistry Cell (ACC) battery:** Largest economic opportunities of this era from consumer electronics, electric vehicles to renewable energy.
- **Technology products:** India is projected to have $ 1 trillion digital economy by 2025. Add to that the government's push towards data localisation, projects like smart city, etc., are expected to increase demand for electronic products.
- **Automotive industry:** To make an already economic growth contributor more competitive.
- **Pharmaceuticals:** Indian pharma industry is currently 3rd largest in volume and 14th largest in value globally. It contributes 3.5% of total drugs and medicines exported globally. PLI envisages to make the industry engage in high value production.
- **Telecom & networking products:** India is aspiring to become a major original equipment manufacturer of telecom and networking products. Here PLI is expected to attract large scale global and domestic investments.
- **Textiles:** India's share in global exports of textiles and apparel is about 5%. However in man-made fibre India's contribution is low in comparison to global consumption. PLI lays special emphasis on man-made fibre segment and technical textiles.
- **Food processing:** PLI supplements Government's policy of doubling farm income by 2022 coupled with better prices and reducing high wastages, also potential to generate medium to large scale employment.
- **Solar PV:** India currently imports Solar PVs (> 70%) and dependent on China. PLI tries to incentivize domestic and global players in building large scale Solar PV capacity to capture global supply chains and also give thrust to India's green energy aspirations in fulfilling Paris Climate agreement and Sustainable development goal-7 (Clean & affordable energy).
- **White Goods:** High potential of domestic value addition and making globally competitive products. Also reduce import bill and focus on in house manufacturing enabling large scale jobs being created.
- **Steel:** India is world's 2nd largest producer and a net exporter. It also possess potential to become champion in certain grades of steel. PLI tries to enhance capabilities for value added steel that can increase exports.

6. Challenges with PLI

- Despite the prospects visible through more applications and potential of different sectors there are some areas which can hinder optimum realisation of the scheme some of which are listed below:
- Guidelines in the form of fine print for the sectors announced are not available in public domain and available currently only for Mobile phones & Specified electronic component manufacturers. (refer2.1 to 2.4)
- Despite consistently improving in ease of doing business ranking released by World Bank, the private investment in labour intensive sectors has not increased proportionally.
- Similar initiatives in the past have not yielded desired results showing implementation issues and tight regulations making businesses investment options averse.
- Requirements of strict commitments from companies, loads of documentation as seen with

> PLI scheme has come at a most crucial juncture in Indian economy having potential to improve India's manufacturing sector's GDP to much higher levels over the next five years in addition to creating more employment opportunities.

EV batteries, the scheme may make it tough for India's EV industry which is at its infancy and also where business visibility is low.

- According to Fitch Solutions (rating agency), in case of automobile industry (highest recipient of incentives –refer Table (B), it reiterated that PLI could bring in significant benefits to the sector over next 5 years. However, the sector will continue to face operational challenges in the form of legal risks, excessive bureaucracy, patchy utility infrastructure that increases the cost of doing business in India. This could minimise the impact of PLI in realising its potential.
- The land acquisition challenge in India is another averse factor for investors both global and domestic with land policies different in many states (as land is a state subject) and often has led to investors exit/shift to nearby Asian countaries.
- Another area of concern for investors is the compliance with numerous labour laws (different in different states as labour is a concurrent list item) and the number of returns associated with it.
- Resolution of disputes in commercial cases in India takes longer time to be redressed adding to negative Investor sentiment towards Indian markets.
- Presence of challenges for domestic players as to whether they can build core design and brand capabilities and also scale up to become globally competitive by optimising PLI incentive and be sustainable in future once the scheme settles down.

7. Conclusion

Any scheme will have its own share of challenges and the success or failure depends on how well the ecosystem surrounding it behaves and government's efforts in streamlining policies to meet the logical conclusions.

The government on its part had initiated changes to the functioning of business in India in the form of IBC for insolvency resolution proceedings, GST to create a unified tax and one market, New Delhi International arbitration centre to function as a dispute resolution centre with a vision to make India an international arbitration hub, reduction in income tax rates for manufacturing entities, Codifying more than 40 labour laws into 4 codes, more relaxations in FDI, various government programs among others.

The government is also planning to have a dedicated single window clearance portal for facilitating easy access to investors to policy makers at Central and State levels, faceless assessment and appeals (at different stages of implementation), creation of land pools for Industrial activity across the country (one estimate says the identified area-4,61,589 hectares is twice the size of Luxembourg, a European country) among other measures being considered by respective state governments.

PLI scheme has come at a most crucial juncture in Indian economy having potential to improve India's manufacturing sector's GDP to much higher levels over the next five years in addition to creating more employment opportunities. With the scheme unlocking its true potential, more sectors could be on the anvil and can lead India to transform into a higher-middle income economy, be an integral part of global supply chain and also achieve Aatmanirbhar Bharat. Finally to answer whether PLI can be a game changer in Indian Manufacturing- that time will tell. However, efforts are in right direction and it is hoped that it will Indian manufacturing to the forefront and make India Aatmanirbhar. ■■■

XBRL in India -Unchartered territories!

The pandemic has accelerated an already enormous shift and preference for businesses going digital. Different aspects of doing business have transitioned to a digital mode, benefiting the stakeholders involved. When it comes to digitalising business reporting, a smart way to do this is to adopt a standard such as XBRL that supports key requirements in that area. XBRL is the international standard for digital reporting of financial, performance, risk, and compliance information, although it is also used for many other types of reporting. XBRL specifications are freely licensed to anyone seeking to use the standard. Read on…

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XBRL provides a language in which reporting terms can be authoritatively defined, facilitates the creation of reports against those authoritative terms, enables definition and execution of validation rules to ensure data quality, offers highly stylised customised presentation as well as a standard tabular representation of reports. The XBRL reports make automatic consumption possible without the need to rekey the data.

More than 180 projects have adopted XBRL across more than 60 countries. Securities regulators, stock exchanges, business registrars, central banks top the XBRL implementation list. XBRL adoption in India ticks these popular categories, with the Reserve Bank of India starting the first XBRL implementation in 2008 for Basel II reporting. In 2011-12 Ministry of Corporate Affairs had mandated public companies above a threshold to submit their annual report in XBRL and designated companies to submit their cost audit report in XBRL. BSE had started to collect financial results and other corporate governance data in XBRL since 2015. In 2018 following the advice from the Securities and Exchange Board in India (SEBI), the nationwide exchanges BSE, NSE and MSE shifted towards a unified XBRL taxonomy to enable easier filings and the consumption and comparison of resulting digital disclosures.

There are avenues to explore where India canimplement XBRL beyond the usual

> In 2011-12 Ministry of Corporate Affairs had mandated public companies above a threshold to submit their annual

suspects and leverage the benefits. A few of those areas are discussedin this articleto steer ideas for potential XBRL implementations.

Sustainability Reporting

The recently introduced Business Responsibility and Sustainability Report (BRSR) applicable to the top 1000 listed companies from the financial year 2022-23 should be the next logical stop for digital reporting in India. The much in focus (rightly so) efforts to mandate non-financial reporting should leapfrog to the digital mode with XBRL. The benefits are pretty straight forward, enabling companies to produce a high-quality digital sustainability report.

Investors, analyst, data aggregators, policymakers are all looking for sustainability data. It becomes imperative to make the data available in a usable format. The machine-readable XBRL reports should solve this problem facilitating automatic consumption and analysis without the need to rekey and reimagine data from the PDF reports.

Here it is worth noting the recent proposal of the European Commission to adopt the Corporate Sustainability Reporting Directive (CSRD) to improve the flow of sustainability information in the corporate world. The directive requires companies to use Inline XBRL (XBRL variant), making sustainability reporting more consistent so thatstakeholders can use comparable and reliable sustainability information. It is also worth underlining the focus on the need to eventually shift towards relevant international disclosure standards.

Municipality Reporting

Local and national government leaders and officials, researchers, policymakers and wider stakeholders all rely on municipality data for a range of information. Open Government Data Platform does make municipality data accessible; however, the question remainshow effectively the data canbe used for aggregate and drill-down analysis. For example, the same underlying concept "Residential Property Tax Collection" is referred as "_2017_18_property_tax_collection_in_crores_residential" in one municipality and in other as "residential_collection_in_cr". Another notable difference is that elements are created for each reporting period in the first case, and in the second case, a separate file for each period is available with the period mentioned in the title. A significant normalisation effort is required before one can start using the data meaningfully.

A common dictionary definition using XBRL can be a good starting point for municipal reporting. XBRL provides a framework to define the reporting requirements unambiguously; it also provides a standard approach to report meta-data such as period, accuracy and currency for each data point. The data definition variation in the above example is because of the absence of any standard that XBRL can easily bridge. XBRL also enables defining machine-executable rules to ensure the data collected meets predefined quality criteria.

Efforts are underway in the US where the Comprehensive Annual Financial Reporting (CAFR) and other reporting requirements are being developed as an XBRL taxonomy demonstrating how

> In 2018 following the advice from the Securities and Exchange Board in India (SEBI), the nationwide exchanges BSE, NSE and MSE shifted towards a unified XBRL taxonomy to enable easier filings and the consumption and comparison of resulting digital disclosures.

comparable data standards could benefit all of those involved in reporting, from local governments to bond issuers, analysts and investors.

Here in India, while the Municipal Bond market is still relatively new and relatively immature, the use of standardised digital reporting at a state and municipal level offers a unique opportunity to underpin the enhancement of needed infrastructure across our communities.

Insurance Supervision

The Insurance Regulatory and Development Authority of India (IRDAI) plans to introduce a new risk-based solvency system and strengthen risk-management rules. This should be a good juncture for them to consider supervisory data collection using XBRL. A number of XBRL specifications are especially suited for supervisory data collection, including multi-

> Many European insurance and pension supervisors collect Solvency II data from their regulated entities in XBRL for submission to the European Insurance and Occupational Pensions Authority (EIOPA).

dimensional data model, definition of complex validation rules, andstandard tabular representation of data. It is also now possible to represent XBRL data as CSV, making it easy to collect granular, high volume, large datasets. The collection in a digital format backedup by a detailed taxonomy would accelerate data analysis for IRDAI.

Reporting requirements and rules shared with the Insurance companies in a machine-readable format would facilitate automatic, high-quality creation of required reports. Similar implementation? Many European insurance and pension supervisors collect Solvency II data from their regulated entities in XBRL for submission to the European Insurance and Occupational Pensions Authority (EIOPA).

Utilities and other reporting

Reporting in XBRL is not restricted to financial reporting as commonly understood. It can be extended to collect operational information related to all kinds of business information. For example, utilities and allied agencies such as power generationdistribution, sewage treatment plants, water boards, regional transport office, pollution control boards. A reason to consider XBRL here is to enable smooth data collection across the network of regional offices. The frequency of reporting and the huge number

> One of the perceived benefits of XBRL is enabling the reuse of the report created. It will be prudent to ask the companies to resubmit XBRL reports filed with MCA.

of distributed entities makes it necessary to have a standard for digital data exchange.

Data publication is a vital function for these agencies as it supports a considerable socioeconomics and environmental research. With XBRL, the aggregation and publishing of data collected becomes easier as the reports are digital and consistent. Moreover, the well-define data dictionary would be helpful for stakeholders to precisely understand the definition of published data. A similar effort to note is that Colombia's Superintendency of Residential Public Services has recently launched a project to collect XBRL data from entities and companies that provide domiciliary public services of the aqueduct, sewerage, cleaning, energy and gas.

Re-purposing existing filings

Financial statements are an essential document sought by credit rating agencies, banks

> In the Netherlands, and now in Germany, the reuse of digital private company annual reports to make credit allocation decisions, and to support the efficient allocation of capital within banks, is becoming a key driver for SME company loans.

and industry-specific regulators. Currently, these are submitted as PDFs or in other proprietary templates/formats.

One of the perceived benefits of XBRL is enabling the reuse of the report created. It will be prudent to ask the companies to resubmit XBRL reports filed with MCA (the optimum would be to obtain it fromthe regulator – that is a conversation for another day). It will immensely benefit from accepting already digitally structured report as the collection agency can immediately use the report in their monitoring/analysis model without requiring rekeying of information or other transformation. From the companies' perspective, it leads to ease of doing businesses as they need not spend their resources to create financial statements for each agency.

One such exampleof report reuse is BSE permitting companies to file their XBRL Annual Report submitted to the MCA as part of their Annual Returns. An interesting project to note here is SBR Nexus in the Netherlands, aiming at the cross-sectoral exchange of (financial) company data between entrepreneurs, companies, and governments. In the Netherlands, and now in Germany, the reuse of digital private company annual reports to make credit allocation decisions, and to support the efficient allocation of capital within banks, is becoming a key driver for SME company loans.

It goes unsaid that these are sample use cases and not the only areas in which XBRL can be implemented. XBRL is built typically to solve the problem associated with collecting business/performance data across entities for monitoring, analysis, or publications. XBRL is a "toolbox" of specifications offering a wide range of features to support digital data supply chain requirements. It is backed up by a global network of software and services – including a range of leading players from right here in India -- that means that it is easy and increasingly cheap to ensure that disclosures of all kinds can go digital with accurate, timely, comparable XBRL in a surprisingly short time, helping analysis of all kinds.

> XBRL is a "toolbox" of specifications offering a wide range of features to support digital data supply chain requirements.

In the era of data transparency, data must be collected and shared in the most useful way, which XBRL aims to achieve. The way forward should be adopting a digital standard without requiring reinventing of the wheel. ■■■

SEBI doubles AIFs overseas investment limit to $1.5 bn after talks with RBI

The Securities and Exchange Board of India (Sebi) doubled the overseas investment limit of alternative investment funds (AIFs) to $1.5 billion. The market regulator said the decision was taken following consultation with the Reserve Bank of India (RBI). In 2015, Sebi had created a $500-million allowance for overseas investment. However, domestic AIFs were only allowed to invest a fourth of their corpus overseas. Also, overseas investments were required to have an Indian connection. In 2018, the limit was increased from $500 million to $750 million. Sebi's circular said the overseas investment conditions remain unchanged. Industry players said Sebi's move will help the Rs 4.4-trillion AIF industry as the current allowance in many cases was getting fully utilized given the rapid growth in the industry.

(Source: *https://www.business-standard.com/*)

SEBI's sustainability reporting norms mandate ESG overview

The Securities and Exchange Board of India (SEBI) recently issued a circular notifying new disclosure norms on sustainability related reporting for the top 1,000 listed companies by market cap by FY23. Such a reporting will now be under a new business responsibility and sustainability report (BRSR) format. The decision was first made at SEBI's board meeting on March 25. Now, the companies will need to provide an overview of their material environmental, social, governance risks and opportunities and approach to mitigate or adapt to the risks along with financial implications. Sustainability related goals and targets and performance and environment-related disclosures covering aspects such as resource usage (energy and water), air pollutant emissions, greenhouse emissions, transitioning to circular economy, waste generated and waste management practices and bio-diversity may have to be provided. The social-related disclosures will cover the workforce, value chain, communities and consumers. Companies will have to disclose the gender and social diversity of employees, including measures for differently-abled employees and workers, turnover rates, median wages, welfare benefits to permanent and contractual employees / workers, occupational health and safety and trainings. On the community front, companies need to make disclosures on social impact assessments (SIA), rehabilitation and resettlement and corporate social responsibility. For consumers, they have to make disclosures on product labelling, product recall and complaints in respect of data privacy and cybersecurity. BRSR will be voluntary for FY22 and mandatory from FY23. However, companies are encouraged to be early adopters of the BRSR, thus being at the forefront of sustainability reporting, SEBI said.

(Source: *https://www.businesstoday.in/*)

Firms can offset excess FY20 funds to PM CARES against FY21 CSR spend

Companies that contributed to the PM CARES fund in excess of their minimum Corporate Social Responsibility (CSR) obligations on March 31, 2020 will be able to offset the amount against their CSR expenditure in FY21. Firms that have already done so will not be considered in violation of CSR norms, subject to certain conditions, the MCA said. The MCA had received several representations seeking offsetting of excess CSR funds contributed to the PM CARES fund in FY20 as the ministry had appealed to the chief executives of the top 1,000 companies to contribute generously to the fund on March 30 last year. The clarification came with the condition that the offset being claimed should have factored any unspent CSR amount from previous financial years. The company would have to certify that the contribution to PM CARES fund was indeed made on March 31, 2020.

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

COVID-19: RBI Governor Announces Measures to Tackle 2nd Wave, Promises More Steps

The Reserve Bank of India (RBI) has announced several measures as part of a calibrated strategy to tackle the second Covid-19 wave in the country. The measures will help healthcare providers, key medical suppliers, small borrowers MSMEs and businesses. As part of the measures, the RBI eased lending and restructuring norms for all stakeholders, especially those smaller businesses and MSMEs that have been impacted by the second wave. Priority lending facilities have also been announced for vaccine manufacturers and firms engaged in providing key medical supplies to hospitals during the pandemic. Measures provide for term liquidity of Rs 50,000 crore for emergency healthcare services; Special long-term repo operations (SLTRO) for small finance banks (SFBs), primarily lend to micro, unorganised and small industries; Priority lending by SFBs to MFIs; Credit to 'unbanked' MSME entrepreneurs; Resolution 2.0 for individuals, small businesses; Rationalisation of KYC compliance requirements; Relaxation in overdraft facility for state governments.

The RBI has also announced certain relaxation with regard to availment of overdraft facility by states wherein the maximum number of days of OD in a quarter is being increased from 36 to 50 days and the number of consecutive days of OD from 14 to 21 days. The facility will be available up to September 30, 2021.

(Source: *https://www.indiatoday.in/*)

MCA21: First Phase of Version 3.0 online portal launched

The first phase of a data analytics driven version of MCA21, which was India's first mission mode e-governance project, was virtually launched last month. This MCA 21 version 3.0 (V3.0) is being implemented in two phases with the second and final phase likely to be launched in October 2021. The first phase comprised of revamped website, new email services for MCA Officers and two new modules, namely, eBook and eConsultation. MCA21 V3.0 was part of this year's Budget announcement and leverages the use of latest technologies to further streamline the Corporate Compliance and stakeholders experience. The online portal of corporate affairs ministry (MCA) having e-consultation module will reduce the requirements of attachments, make the forms as web based and strengthen the pre-fill mechanism. The entire project of MCA 21 V3.0 is proposed to be launched within this Financial Year and will be data analytics and machine learning driven.

The MCA21 V3.0 in its entirety will not only improve the existing services and modules, but will also create new functionalities like e-adjudication, compliance management system, advanced helpdesk, feedback services, user dashboards , self-reporting tools and revamped master data services, an official release said.

(Source: *https://www.thehindubusinessline.com/*)

Govt. Allows Indian Public Companies to Directly List Shares Overseas

To improve ease of doing business, the government recently announced allowing Indian public companies to directly list their shares overseas. Also, private companies that list their debentures on stock exchanges will now not be regarded as listed firms. The move will help Indian companies get access to multiple jurisdictions for raising capital, with differing costs and listing conditions, said experts. Besides, clarification with respect to listing of non-convertible debenture (NCDs) will ease compliance issues faced by private firms. Sources say the existing window through ADR and GDR has been losing popularity, prompting market regulator Sebi and government to come out with the options, so that corporate could access larger pool of capital. However, this proposal has been under deliberation between stakeholders and regulators for few years, especially on selecting the foreign jurisdiction. Sebi had in 2018 suggested that this route should only be available to the financially sound companies so that the platform can't be used for manipulation. Sources hinted that final rules in this regard would likely be based on the recommendations of the Financial Action Task Force.

(Source: *https://www.business-standard.com/*)

SEBI Extends Timeline for REITs, InvITs Regulatory Compliances

SEBI, recently extended the due date for regulatory compliances by Infrastructure Investment Trusts (InvITs) and Real Estate Investment Trusts (REITs) by one month in the wake of the second wave of the COVID-19 pandemic. The extension of one month is over and above the timelines, as prescribed under Infrastructure Investment Trusts (InvITs) and Real Estate Investment Trusts (REITs) regulations and the regulator's circulars, SEBI added. The decision to extend the timeline was taken as the regulator received representations from InvITs and REITs requesting an extension of timelines for various regulatory filings and compliances for InvITs and REITs for the period ending March 31, 2021, due to the ongoing second wave of the COVID-19 pandemic and restrictions imposed by various state governments, the regulator said in a circular.

(Source: *https://www.businesstoday.in/*)

Enabling Sustainability a Priority for Accountants in Business & Public Sector

IFAC's Professional Accountants in Business (PAIB) Advisory Group has compiled insights on key global trends impacting the future readiness of the accountancy profession in a new report Enabling Purpose Driven Organizations: PAIBs Leading Sustainability and Digital Transformation. This report includes highlights from the PAIB March 2021 meeting, focusing on enabling value creation and sustainability; Delivering on climate change; how procurement and supply chain operating models are changing the role of finance functions; the changing nature of work and remote finance Gen Z and the future of accountancy; public sector priorities to support COVID-19 recovery. Access the report and additional insights: *https://www.ifac.org/knowledge-gateway/preparing-future-ready-professionals/discussion/enabling-purpose-driven-organizations.*

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

IASB Clarifies the Accounting for Deferred Tax on Leases & Decommissioning Obligations

The International Accounting Standards Board (Board) recently issued targeted amendments to IAS 12, the IFRS Standard on income taxes, to specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. IAS 12 *Income Taxes* specifies how a company accounts for income tax, including deferred tax, which represents tax payable or recoverable in the future. In specified circumstances, companies are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations—transactions for which companies recognise both an asset and a liability. The amendments clarify that the exemption does not apply and that companies are required to recognise deferred tax on such transactions. The aim of the amendments is to reduce diversity in the reporting of deferred tax on leases and decommissioning obligations. The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted. Access *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* at *https://www.ifrs.org/content/dam/ifrs/publications/amendments/english/2021/ias-2021-3-deferred-tax-related-to-assets-and-liabilities-arising-from-a-single-transaction-amendment-ias-12.pdf* (IFRS Digital Subscription required).

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

IAASB Issues Revised Detailed Work Plan for Remainder of 2021

After consultations with the Public Interest Oversight Board, the International Auditing and Assurance Standards Board (IAASB) has published a revised detailed work plan that supersedes the work plan published on February 1, 2021. The IAASB revised the work plan to account for the continued impact of the COVID-19 pandemic on both board operations and stakeholders' capacity to implement new standards and participate in the IAASB's due process. IAASB is facing the reality of reduced plenary time resulting from remote plenary meetings throughout the remainder of the calendar year. The Board is prioritizing the on-time completion of two significant public interest documents—*the finalization of ISA 600 (Revised) on Group Audits (expected after the December 2021 IAASB meeting)* and *a proposed standard for Audits of Financial Statements of Less Complex Entities for public consultation (expected after the June 2021 IAASB meeting).* Other updates include that the IAASB will now discuss project proposals for Fraud and Going Concern in September 2021 and March 2022, respectively. The shift in the dates of the project proposals should not materially impact the work timelines for those two projects. The revised work plan also includes an exposure draft for ISA 500 (Audit Evidence) in September 2022.

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

IAASB Issues Updated Framework for Activities to Guide Selection and Prioritization of Actions

The International Auditing and Assurance Standards Board (IAASB) recently published its new *Framework for Activities*. The Framework describes the IAASB's operating processes and procedures for advancing standard setting and other related activities. The IAASB developed the Framework to support a more agile standard-setting process. The Framework also provides additional public transparency around the IAASB's prioritization activities, beyond the formally approved due process. The Framework sets out the different components within the IAASB's due process for advancing topics onto and through the IAASB's work plan.

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

Putting the Public Interest at the Heart of Our Work: Acting with Urgency, Purpose and Responsiveness

The International Auditing and Assurance Standards Board (IAASB) recently published its Public Report detailing its progress to support the public interest between July 2019 and December 2020. During this 18-month period, the IAASB completed five major standards aimed at enhancing audit and assurance quality, adopted a four-year strategy focused on the public interest, and established a new work plan focused on emerging issues. The IAASB also responded to a new environment sparked by the global pandemic by issuing guidance and engaging with a broad range of stakeholders in order to sustain trust in audit and assurance.The Public Report showcases the IAASB's efforts to be a responsive, agile and innovative standard setter, closely connected with its stakeholders. The report highlights completed and in progress standard-setting projects, other new initiatives to respond to stakeholder needs, and our efforts to improve the agility of the standard-setting process.

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

IFAC Encourages a Building Blocks Approach for Reporting Sustainability-Related Information

Recently, the International Federation of Accountants (IFAC) published a revised *building blocks approach to reporting sustainability information*—enhancing its previously issued roadmap, *The Way Forward*. IFAC hopes to foster discussion on how this approach can deliver a global system for consistent, comparable, and assurable sustainability-related information that best meets the needs of investors and other stakeholders. IFAC supports a new standard-setting board under the IFRS Foundation that can lead to the coordination and harmonization of reporting and provide a baseline of requirements addressing sustainability information that is material to enterprise value. The IFRS Foundation has proposed amendments to the *Constitution of the Foundation* as it continues to consider establishing a new board. IFAC encourages its member organizations to submit comments to this IFRS Foundation consultation. IFAC welcomes feedback on the building blocks approach and plans to engage with stakeholders at future IFAC events addressing the broader journey to an enhanced corporate reporting world.

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

PCAOB Proposes Rule to Create Framework for HFCAA Determinations

The Public Company Accounting Oversight Board (PCAOB) recently issued for public comment a proposed rule, (PDF available at *https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/rulemaking/docket048/2021-001-hfcaa-proposing-release.pdf?sfvrsn=dad8edcf_6)* related to the PCAOB's responsibilities under the Holding Foreign Companies Accountable Act (HFCAA). The Board requests public comment on the proposal by July 12, 2021. The proposed rule provides a framework for the PCAOB to use when determining, as contemplated under the HFCAA, whether the Board is unable to inspect or investigate completely registered public accounting firms located in a foreign jurisdiction because of a position taken by one or more authorities in that jurisdiction. The proposed rule would establish:

- The manner of the Board's determinations;
- The factors the Board will evaluate and the documents and information it will consider when assessing whether a determination is warranted;
- The form, public availability, effective date, and duration of such determinations; and
- The process by which the Board can modify or vacate its determinations.

In addition to a section addressing background information and the reason for the proposed rule, the proposing release includes a discussion of the proposed rule and a section on economic considerations. Questions upon which the Board seeks public comment are included throughout the document. The public can learn more about submitting comments on proposed PCAOB rules at the *Rulemaking Docket* page. For more information regarding the PCAOB's cross-border cooperation and engagement, visit our International page: *https://pcaobus.org/oversight/international.*

(Source: *https://pcaobus.org/*)

ACCOUNTANT'S BROWSER

"PROFESSIONAL NEWS & VIEWS PUBLISHED ELSEWHERE"

Index of some useful articles taken from Periodicals for the reference of Faculty/Students & Members of the Institute.

1. Accountancy

Accounting for Covid-19 issues by Jill Halford. *International Accountant,* March-April 2021, pp.19-20.

Proximity to broad bond rating change and annual report readability by Wray Bradley and Li Sun. *Asian Review of Accounting,* Vol.29/2, 2021, pp.227-250.

Students : Exam preparation and technique. *International Accountant,* March-April 2021, pp.7-9.

2. Auditing

Effect of audit engagement partner professional experience on audit quality and audit fees : Early evidence from AP disclosure by Chenyong Liu and Chunhao Xu. *Asian Review of Accounting,* Vol.29/2, 2021, pp.128-149.

3. Economics

Assessment of perceived labor, market conditions in employees turnover intention model-mediation and moderation analyses by Mohd Abass Bhat and Shagufta Tariq khan. *PSU Research Review*, 2021, pp.1-32.

COVID-19 and Supreme Court contractual disputes in India : A Law and economics perspective by Ram Singh and Utkarsh Leo. *Economic and Political Weekly,* Vol.56/16, 17th April 2021, pp.37-43.

Intellectual capital and asset quality in an emerging banking market by Nicholas Asare and Margaret Momo Laryea. *Asian Journal of Accounting Research,* Vol.6/1, 2021, pp.55-68.

Islamic Finance : Challenges to Islamic finance by Roszaini Haniffa. *International Accountant,* March-April 2021, pp.21-23.

4. Law

Intellectual property rights and competition Law : A converging reflection by Susmitha P Mallaya. *Chartered Secretary,* Vol.51/4, April 2021, pp.55-57.

5. Management

Reforming theory of planned behaviour to measure money management intention : A validation study among student debtors by Chinun Boonroungrut and Fei Huang. *RAUSP Management Journal,* Vol.56/01, 2021, pp.24-37.

Stakeholders expectations for CSR-related corporate governance disclosure: Evidence from a developing country by Yousuf Kamal. *Asian Review of Accounting,* Vol.29/2, 2021, pp.97-127.

6. Taxation and Finance

Effect of conservative financial reporting and tax aggressiveness on the market valuation of unrecognized tax benefits by Carlos E. Jimenez-Angueira and Emeka Nwaeze. *Asian Review of Accounting,* Vol.29/2, 2021, pp.150-172.

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

Legal Decisions

Income Tax

LD/69/150, [ITAT Chandigarh: I.T.A. No.263/Chd/2020], Shri Ashok Kumar Vs. The Income Tax Officer, 30/04/2021

Addition under section 69 made by the Revenue, regarding deposit of ₹ 27 lakhs in assessee's saving bank account, deleted by the ITAT. Deposit was made without mentioning the specific currency, PAN details, address, etc. of the depositor and about which assessee had no knowledge. Deposits and subsequent internal transfer to another account was easily traceable by Revenue if an enquiry was made, it was subsequently, identified by the assessee himself that the mischief was done by the Bank Manager. ITAT expressed dissatisfaction over Revenue's reluctance to address the real beneficiary and mere reliance on a 'withdrawal slip' where the signatures denied by the assessee were arbitrarily, identified as assessee's signatures. ITAT ruled in favour of assessee.

LD/69/151, [ITAT Pune: I.T.A. No.2977/Pune/2017], Kumar Properties and Real Estate Private Limited Vs. The Dy. Commissioner of Income Tax, 28/04/2021

Addition of deemed rent from assessee's stock in trade deleted by the assessee. ITAT held that insertion of Section 23(5) by Finance Act, 2017 is prospective from AY 2018-19. Revenue held that assessee which is engaged in the business of property development should have offered deemed notional rental income from certain unsold flats/bungalows which were ready for possession at the year-end. As per exceptions to Section 22 any such property or its part, which is occupied by the assessee for the purposes of any business shall be excluded or computation of annual value of property, which condition was also satisfied in this case.

LD/69/152, [Madras High Court: Tax Case Appeal. Nos. 1120 of 2009], Dharampal R Pandia Vs. The Dy. Commissioner of Income Tax, 26/04/2021

Penalty under section 271(1)(c) confirmed by High Court for AYs 1999-2000 to 2001-02 holding that amendment in explanation 3 in Section 271(1)(c) was not prospective for the assessee. High Court rejected assessee's contention that since he was an existing assessee even prior to the amendment, the explanation 3 was not applicable to him and the amendment made was applicable prospectively from AY 2003-04. High Court observed that for the subject AY, assessee neither filed the returns within time specified in Section 153(1) nor before the amendment to Explanation 3 to Section 271(1)(c) was brought in and hence, it cannot be a case of retrospective application of the provisions. ITAT's observation that assessee failed to prove any reasonable cause in failure to file the return of income within the specified date, even though there was taxable income

LD/69/153, [Karnataka High Court: I.T.A. No. 141/2020], The Commissioner of Income Tax Vs. Texas Instruments India Pvt. Ltd., 21/04/ 2021

Section 80JJAA deduction allowed to assessee software company for additional wages paid during AY 2008-09 in respect of new employees employed during the preceding year who were not eligible for deduction in such preceding year as they did not work for more than 300 days. High Court stated that what is required is that a person is to be employed for a period of 300 days continuously and there is no such criteria made out for a person to be employed in any particular year or otherwise. High Court remarked that if Revenue's contention is accepted, any person employed post 5th June of a particular year would not entitle the assessee-employer to claim any deduction, which would militate against the purpose and intent of Section 80JJ-AA.

the assessee.

LD/69/154, [ITAT Pune: ITA No 1337/PUN/2016], The Dy. Commissioner of Income Tax Vs. Mahalaxmi TMT P. Ltd., 19/04/2021

Assessee issued 40 lakh equity shares at a face value of ₹ 10/share and share premium of ₹ 90/share and received ₹ 37 crore during AY 2010-11. Revenue made an addition of this ₹ 37 crores under section

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.

68 observing that assessee, though established in FY 2004-05, commenced its operation in the current year and there was business activity performed by the assessee and that the companies that invested in assessee either had meagre income or losses. ITAT deleted the said addition since assessee's discharge of onus proving identity/ creditworthiness of investors and genuineness of transaction. Though there were no business activities during concerned time, there was evidence that the assessee was in the process of setting up of its plant that had not yet operationalized and that assessee had taken finance facilities from a bank and conducted techno-economic feasibility report, based on which the share price was decided.

LD/69/155, [ITAT Bang. I.T.A. No. 1374/ Bang/2018], Jaya Prakash Vs. Income Tax Officer, 16/04/ 2021

Assessee entered into an agreement with a developer for development of land for a total consideration of ₹ 4.8 crore and the amount was reflected in assessee's Form 26AS since the developer deducted TDS on it. Later, the MoU with the developer did not materialize and the assessee instead sold the property to an individual for a total consideration of Rs 2.7 crore - his share being ₹ 67.5 lakhs (1/4th share in property) and claimed exemption under 54F. AO taxed ₹ 4.8 crore reflected in Form 26AS as business income under section 44AD by considering an income of 8%. ITAT set aside the assessment which was merely based on entries in Form 26AS without verifying the sale consideration in the property sale deed. Provisions of Section 2(47)(v) can be applied only if there is a written contract coupled with the transfer of possession in terms of Section 53A of the Transfer of Property Act.

LD/69/156, [Delhi High Court. I.T.A. No. 17/2021], Maruti Insurance Broking Pvt. Ltd. Vs. Deputy Commissioner of Income Tax, 12/04/2021

Expenses incurred by the assessee company prior to obtaining IRDA license to conduct insurance business, held to be deductible revenue expenditure. Assessee was incorporated on 24/11/2010 and was issued a broker's license by IRDA on 02/02/2012. For A.Y. 12-13, the Revenue disallowed business expenditure amounting to ₹ 2.7 crore incurred prior to the said date. High Court noted that though the license was issued only on 02/02/2012, the assessee was all primed up, i.e., ready to commence its business from date prior to that. The High Court drew distinction between setting up of business' and 'commencement of business', and remarked that setting up of business means the concerned assessee is ready to commence business.

LD/69/157, [Bombay High Court: W.P. No 6096/2021], Aafreen Fatima Fazal Abbas Sayed Vs. Principal Commissioner of Income Tax, 08/04/2021

Bombay High Court held that once an assessee chooses not to file appeal before the CIT(A) and time limit for the same expires, waiver of right to file appeal is not required for Principal CIT to accept the application under section 264. After the period of 30 days, there is no right of appeal but an appeal rests on the discretion of the Appellate Authority. While filing return for A.Y. 2018-19, LTCG amounting to ₹ 3 crore pertaining to A.Y. 2017-18 was inadvertently copied by the assessee's accountant and therefore, the assessee received order under section 143(1) raising a demand of ₹ 87 lakhs as against a refund of ₹ 34 thousand. Assessee filed rectification application seeking to rectify mistake of mis-recording LTCG in the order under section 143(1). Owing to delay in response, assessee thereafter, filed an application under section 264, which was dismissed on account of alternate remedy available to assessee and stating that assessee had not waived right of appeal before the CIT(A).

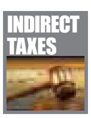
LD/69/158, [Delhi High Court: I.T.A. No. 35/2019], International Tractors Ltd. Vs. Deputy Commissioner of Income Tax, 07/04/2021

High Court allowed fresh claim made of Section 80JJAA before the CIT(A). For A.Y. 2007-08, the assessee failed to claim deduction under section 80JJAA and of certain prior period expenses, while filing its return, which was later claimed before the

AO vide a statement, which was rejected by the AO. CIT(A) allowed assessee's claim for deduction under section 80JJAA as the assessee placed on record Form 10DA, duly certified by the Chartered Accountant and details concerning the new regular workmen, however, did not allow the deduction of prior period expenses due to TDS default. ITAT had observed that because as no opportunity was given to AO to examine the material, the matter needed to be remanded for fresh verification. As per High Court, fresh claim could be entertained since ITAT had accepted the CIT(A)'s view and the Revenue did not prefer an appeal against the ITAT's order.

LD/69/159, [ITAT Delhi: I.T.A. No. 1428/Del/2016], Income Tax Officer Vs. M/S Arizona Ventures Pvt. Ltd., 26/03/ 2021

Assessee company received funds amounting to ₹ 53 crores on account of Optionally Fully Convertible Debentures (OFCD) which was added by the AO under section 68 as unexplained cash credit. Revenue alleged that most of the subscribers did not have appreciable liquidity to invest in Assessee's OFCD and that the assessee did not produce a list of Directors of subscriber companies as required by Revenue. ITAT deleted the addition and noted that details like PAN, address, confirmation from investors, bank statements highlighting the transactions, etc were submitted by the assessee and AO did not rebut the aforementioned documents filed or produce materials to allay the veracity of the documents. Revenue granted insufficient time to respond to notice calling for the Directors of investor companies. There was no material evidence demonstrating Revenue's stand that assessee had engaged in recording dummy entries. ITAT ruled in the assessee's favour.



GST

LD/69/160, [2021 – TIOL – 1127 -HC-Teangana – GST], M/s Golden Mesh Industries vs. ACST, 31/03/2021

Where the department proceeds against the assessee for assessment under section 62 of the CGST Act, on his failure to file a return in response to the notice under section 46 of the CGST Act, the department is expected to put the assessee to notice indicating the method of best judgment and pass reasoned order after affording to him reasonable opportunity of being heard. As order passed by merely multiplying the average monthly tax by 3 times without explaining any reasons and imposing 100% penalty without quoting any section is arbitrary and contrary to the provisions of the Act.

Service Tax

LD/69/161, [2021-TIOL-241-CESTAT-BANG], ACE Creative Learning Pvt. LTD. Vs. Commissioner of Central Tax, 15/04/2021

An investment in mutual funds carried out by a service provider who is in the business of Commercial Training and Coaching services, should not be perceived as Trading in mutual funds/securities. Further, investment in a mutual fund cannot be regarded as a provision of service. The assessee is not liable for any reversals of Common Cenvat Credit treating redemption in mutual fund as exempt service for the purpose of Rule 6(3) of the CENVAT Credit Rules.

LD/69/162, [2021-TIOL-207-CESTAT-BANG], Tektronix India Pvt. Ltd. Vs. Commissioner Of Central Tax, 06/04/2021

Where CENVAT credit has been reversed by the assessee before utilisation thereof prior to issuance of a show-cause notice, even after the liability was brought to its notice during the course of Audit, no show cause notice can be issued and imposition of penalty u/s 78 of the Finance Act, 1994 is illegal.

Customs

LD/69/163, [2021-TIOL-259-CESTAT-BANG], Baby Marine Seafood Retail Pvt. Ltd. Vs. Commissioner of Customs, Cochin, 26/04/2021

Where the vendor of the imported goods was communicated specification of goods as per permissible norms, and if after the import, the said goods fail to meet the said specified norms, the Importer cannot be held liable to have been imported 'Prohibited Goods'. Thus the same cannot be made liable for confiscation or redemption fine and penalty under the Act. In other words, no costs can be imposed on an importer who has acted in bonafide way and has taken due care in the course of the import transaction.

Disciplinary Case

Signing of Compilation Report by a Chartered Accountant without adhering to Standard on Related Services (SRS) 4410 -- Held, Respondent is guilty of professional misconduct falling under the Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act 1949 (as amended).

Held:

In the instant case, the allegation against the Respondent is that he had signed the Balance Sheet of Samithi (entity) for the period from 15th July 2007 to 31st July 2013, though the accounts were not being properly maintained, and did not comply with certain provisions of law. The Respondent in his defence submitted that the Report dated 9.11.2013 prepared by him containing financial statements of the said Samithi were not subject to Audit rather it was only a compilation report along with a Receipt and payment account for the period from 15th July 2007 to 31st July 2013 along with addendum to the Compilation Report dated 9.11.2013 disclosing the important findings in the accounting records and other documents produced before him simply for the internal consumption of members of the Samithi. The Committee noted that the Respondent has not compiled with requirement of Standard on Related Services (SRS) 4410 titled Engagements to Compile financial Information issued by ICAI which deals with the practitioner's responsibilities when engaged to assist management with the preparation and presentation of historical financial information without obtaining any assurance on that information. The Committee noted that in the extant case Respondent was dealing with historical financial information from 2007 to 2013 the compilation report was required to be prepared in accordance with SRS 4410 but the Respondent has not followed the same and failed to bring into the attention of management the limitations and prepared compilation report from incomplete information available with him. The committee further noted that the defence of the Respondent that only Compilation report was given by him not an Audit Report, but at the same time the Respondent has failed to give any disclaimer in his compilation Report. In view of above noted facts, the Committee was of the opinion that as far as SRS 4410 issued by ICAI has not been followed by the Respondent and there are serious lapse in the overall compilation and non-review of the various legal provisions to be compiled by the Samithi which reflects the casual approach towards handling his professional duties Therefore, the Committee, was of the opinion that Respondent is guilty of professional misconduct falling within the meaning Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

Circulars/Notifications

Given below are summarised important Circulars and Notifications issued by the CBDT, CBIC-GST, MCA, SEBI and FEMA since the publication of the last issue of the journal, for information and use of members. Readers are requested to use the citation/website or weblink to access the full text of desired circular/notification. Suggestions on this column can be submitted at eboard@icai.in

I. NOTIFICATIONS

1. *Central Government specifies various pension and wealth funds u/s 10(23E) - Notification No. 33/2021, dated 19-04-2021 & Notification Nos. 34&35/2021, dated 22-04-2021*

Vide this notification, the Central Government has specified the sovereign wealth fund 'the Norfund', Government of Norway as the specified person for the purposes of section 10(23FE) in respect of the investment made by it in India on or after 19.04.2021 but on or before 31.03.2024 subject to the fulfilment of conditions specified therein. Further, Annexure to the said notification also specifies Audit report to be filed by the Sovereign Wealth Fund claiming exemption under section 10(23FE). Also, some other pension funds are also notified i.e. the Canada Pension Plan Investment Board and "CPP Investment Board Private Holdings (4) Inc. vide Notification No. 34&35/2021 dated 22.04.2021.

Refer: https://www.incometaxindia.gov.in/communications/notification/notification_33_2021.pdf;

https://www.incometaxindia.gov.in/communications/notification/notification_34_2021.pdf;

https://www.incometaxindia.gov.in/communications/notification/notification_35_2021.pdf

2. *Format, Procedure and Guidelines for submission of Statement of Financial Transactions (SFT) for Dividend and Interest income – Notification No. 01&02/2021, dated 20-04-2021*

Vide these notifications, CBDT has specified Format, Procedure and Guidelines for submission of SFT for Dividend and Interest income u/s 285BA r.w.r. 114E(5A). Section 285BA and Rule 114E requires specified reporting persons to furnish SFT. For the purposes of prefilling the return of income, CBDT had earlier issued Notification No. 16/2021 dated 12.03.2021 to include reporting of information relating to dividend and interest income.

Refer: https://www.incometaxindia.gov.in/communications/notification/notification_1_2021_dividend_income.pdf; https://www.incometaxindia.gov.in/communications/notification/notification_2_2021_interest_income.pdf

3. *Rule 2DB (Other conditions to be satisfied by the pension fund) amended vide the Income-tax (11th Amendment) Rules, 2021 w.e.f. 26.04.2021 – Notification No. 37/2021, dated 26-04-2021*

Vide this notification, the CBDT has also substituted Form No. 10BBA (Application for notification u/s 10(23FE)) part from amending Rule 2DB. A proviso has been inserted after Rule 2DB(ii) and a second proviso has been after Rule 2DB(iii). Said proviso after rule 2DB(ii) has laid down 3 conditions which are to be satisfied by the pension fund with respect to assets being administered or invested by it.

Refer:https://www.incometaxindia.gov.in/communications/notification/notification_37_2021.pdf

4. *Format, Procedure and Guidelines for submission of Statement of Financial Transactions (SFT) for Depository Transactions & Mutual Fund Transactions by Registrar and Share Transfer Agent – Notification No. 3&4/2021, dated 30-04-2021*

For the purposes of pre-filling the return of income, CBDT had earlier issued Notification No. 16/2021 dated 12.03.2021 to include reporting of information relating to Capital gains on transfer of listed securities or units of Mutual Funds. All Depositories as defined in section 2(1)(e) of the Depositories Act, 1996 are required to prepare the data file in prescribed format from their internal system. Similarly, all Registrar and Share Transfer Agents are required to prepare the data file in prescribed format from their internal system. Further, reporting entities are required to submit the data files using SFTP Server using the login credentials.

(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)

Refer: https://www.incometaxindia.gov.in/communications/notification/notification-3_2021_depository_transaction.pdf; https://www.incometaxindia.gov.in/communications/notification/notification_4_2021_mutual_fund_transaction.pdf

5. New Rule 44DA and Form No. 34BB notified vide the Income-tax (12th Amendment) Rules, 2021 w.e.f. 30.04.2021 – Notification No. 40/2021, dated 30-04-2021

In exercise of powers conferred u/s 245M(1), the CBDT has notified a new Rule 44DA (Exercise of option u/s 245M(1) and intimation thereof) and Form No. 34BB (Exercise of option to withdraw pending application u/s 245M(1)). Form No.34BB to be furnished electronically by an assessee to withdraw his pending application before settlement Commission u/s 245M(1).

Refer:https://www.incometaxindia.gov.in/communications/notification/notification_%2040_2021.pdf

6. CBDT defines thresholds for the purposes of significant economic presence vide the Income-tax (13th Amendment) Rules, 2021 applicable w.e.f. 01.04.2022 – Notification No. 41/2021, dated 03-05-2021

Vide this Notification, CBDT has inserted a new Rule 11UD wherein two separate thresholds have been specified for the purposes of significant economic presence under clauses (a) & (b) of Explanation 2A to section 9(1)(i). For the purposes of clause (a) of Explanation 2A to section 9(1)(i), the amount of aggregate of payments arising from transaction or transactions in respect of any goods, services or property carried out by a non-resident with any person in India, including provision of download of data or software in India during the PY, shall be Rs two crore.

Refer:https://www.incometaxindia.gov.in/communications/notification/notification_41_2021.pdf

7. Rule 114AAB amended and Form No. 49BA amended vide the Income-tax (14th Amendment) Rules, 2021 w.e.f. 04.05.2021 – Notification No. 42/2021, dated 04-05-2021

In exercise of powers conferred u/s 139A(8)(d) r.w.s. 206AA(7)(ii), CBDT has amended rule 114AB (Class or classes of person to whom provisions of section 139A shall not apply) and has also substituted Form No. 49BA (Quarterly statement to be furnished by specified fund or stock broker in respect of a specified non-resident). Sub-rule (2A) has been inserted to provide that the provisions of section 139A shall not apply to a non-resident, being an eligible foreign investor, who has made transaction only in a capital asset referred to in section 47(viiab) which are listed on a recognised stock exchange located in any International Financial Services Centre and the consideration on transfer of such capital asset is paid or payable in foreign currency subject to satisfaction of conditions specified therein.

Refer:https://incometaxindia.gov.in/communications/notification/notification_42_2021.pdf

8. Central Government further notifies several Pension and Sovereign Wealth Funds u/s 10(23E) – Notification Nos. 43,44,45,46/2021, dated 04-05-2021, Notification Nos. 51,52,53,54,55/2021, dated 05-05-2021 & Notification Nos. 62,63,64,65,66/2021, dated 13-05-2021

Vide the aforesaid Notifications, Following Pension Funds have been specified:

(a) the Caisse de dépôt et placement du Québec.

(b) the CDPQ Infrastructures Asia III Inc.

(c) the Ivanhoe Logistics India Inc.

(d) the CDPQ Fixed Income XI Inc.

(e) the Public Sector Pension Investment Board

(f) the Government Employees Superannuation Board

(g) the OMERS Administration Corporation

Further, following Sovereign Wealth Funds have been specified:

(a) the Bricklayers Investment Pte. Ltd.

(b) the Anahera Investment Pte. Ltd

(c) the Dagenham Investment Pte. Ltd.

(d) Stretford End Investment Pte. Ltd.

(e) the Chiswick Investment Pte. Ltd

(f) the CDC Group Plc

(g) the Ministry of Economy and Finance (of the Republic of Korea)

The detailed Notification can be downloaded from: *https://incometaxindia.gov.in/communications/notification/notification_43_2021.pdf* to *https://incometaxindia.gov.in/communications/notification/notification_46_2021.pdf;*

https://incometaxindia.gov.in/communications/notification/notification_51_2021.pdf to *https://incometaxindia.gov.in/communications/notification/notification_55_2021.pdf*

https://www.incometaxindia.gov.in/communications/notification/notification_62_2021.pdf to *https://www.incometaxindia.gov.in/communications/notification/notification_66_2021.pdf*

9. *Partial modifications in 3 Notifications issued u/s 35CCC r.w.r. 6AAD & 6AAE issued in year 2015 – Notification No. 47,48,49/2021, dated 06-05-2021*

Vide the aforesaid Notifications, CBDT has amended Notification No. 14,15,16/2015 dated 16.02.2015 (pertaining to expenditure on agricultural extension project and notified eligible agricultural extension projects) thereby substituting S. No. 7 and 8 of the aforesaid notifications providing clarification regarding availability of exemption from 16.02.2015 till AY 2017-18.

Refer:https://egazette.nic.in/WriteReadData/2021/226874.pdf;https://egazette.nic.in/WriteReadData/2021/226879.pdf;https://egazette.nic.in/WriteReadData/2021/226880.pdf

10. *Rule 2B amended vide the Income tax (15th Amendment), Rules, 2021 w.e.f. 01.04.2021 – Notification No. 50/2021, dated 05-05-2021*

In exercise of powers conferred u/s 10(5), Rule 2B specifying conditions for claiming exemption for Leave Travel concession u/s 10(5) has been amended vide this Notification. Sub-rule (1A) has been inserted to provide for exemption for receipt of specified amount of cash allowance from employer in lieu of not availing LTC subject to fulfillment of conditions specified therein.

Refer:https://incometaxindia.gov.in/communications/notification/notification_50_2021.pdf

II. CIRCULARS

1. *Extension of time lines related to certain compliances by the Taxpayers under the Income-tax Act 1961 - Circular No. 08/2021, dated 30-04-2021*

Vide this Circular, the Government had extended timelines of certain compliances in light of the severe pandemic to 31.05.2021. Filing of belated return under sub-section (4) and revised return under sub-section (5) of Section 139 of the Act, for Assessment Year 2020-21, which was required to be filed on or before 31.03.2021, can be filed on or before 31.05.2021.

Refer:https://www.incometaxindia.gov.in/Communications/Circular/Circular_No_8_2021.pdf

III. PRESS RELEASES/INSTRUCTIONS/OFFICE MEMORANDUM/ORDER

1. *Government extends certain timelines in light of the raging pandemic – Press Release, dated 24-04-2021*

The Central Government has extended the time limits to 30.06.2021 in the specified cases where the time limit was earlier extended to 30.04.2021 through various notifications issued under the Taxation and Other Laws (Relaxation) and Amendment of Certain Provisions Act, 2020, eg time limit for passing of any order for assessment or reassessment under the Act the time limit for which is provided under section 153 or section 153B thereof. Further, time for payment of amount payable under the Direct Tax Vivad se Vishwas Act, 2020, without an additional amount, has been further extended to 30.06.2021.

Refer:https://incometaxindia.gov.in/Lists/Press%20Releases/Attachments/933/PressRelease_Government_extends_certain_timelines_in_light_of_raging_pandemic_24_4_21.pdf

2. *Launch of new e-filing Portal of the Income Tax Department - Non-availability of e-filing services from 01.06.2021 to 06.06.2021 – Press Release, dated 20-05-2021*

The Income Tax Department is going to launch its new e-filing portal www.incometax.gov.in on 07.06.2021. In order to avoid any inconvenience to taxpayers, the Department will not fix any compliance dates during this period. Further, directions have been issued to fix hearing of cases or compliances only from 10.06.2021 onwards, to give taxpayers time to respond on the new system.

The complete text of the above Press Release can be downloaded from the link below:

https://www.incometaxindia.gov.in/Lists/Press%20Releases/Attachments/935/PressRelease_Launch_new_efiling_Portal_ITD_20_5_21.pdf

3. *Government extends certain timelines in light of severe pandemic – Press Release, dated 20-05-2021*

The Central Government, in continuation of its commitment to address the hardship being faced by various stakeholders on account of the severe Covid-19 pandemic, has, on consideration of representations received from various stakeholders, decided to extend timelines for compliances under the Income-tax Act, 1961 in the cases specified in Circular No. 09/2021 dated 20.05.2021. Timelines have been extended for filing of SFT, SRA, TDS Returns, TDS Certificate (Form 16), ITR, TAR etc.

The complete text of the above Press Release can be downloaded from the link below:

https://www.incometaxindia.gov.in/Lists/Press%20Releases/Attachments/936/PressRelease_Government_extends_certain_timelines_in_light_of_severe_pandemic_20_5_21.pdf

INDIRECT TAXES

GST

I. Notifications

1. *Companies allowed to verify GSTR-3B, GSTR-1/invoice details furnished using IFF through EVC from April 27, 2021 to May 31, 2021*

The CBIC vide *Notification No. 07/2021-Central Tax dated 27th April, 2021* has amended rule 26 of the CGST Rules, 2017 to also allow a company to furnish the return in Form GSTR-3B and the details of outward supplies in Form GSTR-1 or using invoice furnishing facility (IFF), verified through electronic verification code (EVC) during the period from 27th April 2021 to 31st May 2021.

2. *Lowering of interest rates for delayed payment of tax*

Notification No. 13/2017- Central Tax dated 28th June, 2017 has been amended vide *Notification No. 08/2021-Central Tax dated 01st May,2021* to reduce the rate of interest for delayed payment of CGST (u/s 50 of the CGST Act, 2017) as under:

Class of registered persons	Rate of Interest	Applicable tax period
Taxpayers whose aggregate turnover in the preceding FY > Rs. 5 crores	9% for the first 15 days from the due date and 18% thereafter	March, 2021, April, 2021
Taxpayers whose aggregate turnover in the preceding FY ≤ ₹ 5 crores [Both taxpayers filing monthly returns and taxpayers filing quarterly returns under QRMP scheme]	Nil for the first 15 days from the due date, 9% for the next 15 days, and 18% thereafter	March, 2021, April, 2021
Taxpayers paying tax under Composition Scheme	Nil for the first 15 days from the due date, 9% for the next 15 days, and 18% thereafter	Quarter ending March, 2021

Interest rate for delayed payment of IGST has also been lowered parallelly vide *Notification No. 01/2021 – Integrated Tax dated 1st May, 2021.*

3. *Waiver of late fees on delayed filing of GSTR-3B*

Notification No. 76/2018-Central Tax dated 31st December, 2018 has been amended vide *Notification No. 09/2021- Central Tax dated 1st May, 2021* to waive off late fees payable on belated furnishing of GSTR 3B for the months of March 2021, April 2021 and for the quarter January-March 2021 as under:

Class of registered persons	Applicable tax period	Period for which late fee waived
Taxpayers whose aggregate turnover in the preceding FY > ₹ 5 crores	March, 2021 & April, 2021	15 days from the due date of furnishing return
Taxpayers whose aggregate turnover in the preceding FY ≤ ₹ 5 crores [Both taxpayers filing monthly returns and taxpayers filing quarterly returns under QRMP scheme]	<u>For monthly filers</u> - March, 2021 & April, 2021 <u>For quarterly filers</u> - January – March, 2021	30 days from the due date of furnishing return

4. Extension of due date of filing GSTR-4 for the F.Y 2020-21

Notification No. 21/2019- Central Tax, dated 23rd April, 2019 has been amended vide *Notification No. 10/2021- Central Tax, dated 1st May, 2021* to extend the due date of filing Form GSTR-4 (annual return for composition taxpayers) for the FY ending 31st March, 2021 to 31st May, 2021. This notification shall be deemed to have come into force with effect from the 30th April, 2021.

5. Extension of due date for furnishing declaration in Form GST ITC-04

Notification No. 11/2021- Central Tax, dated 1st May, 2021 has extended the time period for furnishing the declaration in Form GST ITC-04, in respect of goods dispatched to a job worker or received from a job worker, during the period from 1st January, 2021 to 31st March, 2021 up to 31st May, 2021. This notification shall be deemed to have come into force with effect from the 25th April, 2021.

6. Extension of due date for filing of GSTR-1

Notification No. 83/2020-Central Tax, dated 10th November, 2020 has been amended vide *Notification No. 12/2021- Central Tax, dated 1st May, 2021* to extend the time limit for furnishing the details of outward supplies in Form GSTR-1 for the month of April, 2021 to May 26, 2021.

7. Relaxation in availment of ITC and extension of due date for IFF

The following changes have been made in the CGST Rules, 2017 vide *Notification No. 13/2021- Central Tax, dated 1st May, 2021*:

- Rule 36(4) has been amended to provide that the condition of availing 105% of eligible ITC (i.e., ITC reflecting in GSTR-2A) in GSTR-3B shall be applicable on cumulative basis for the period April 2021 and May 2021.
- Rule 59 has been amended to extend the time limit for furnishing the details of B2B invoices for the month of April, 2021 using IFF till 28th May, 2021.

8. Extension granted for specified compliances falling due between 15.04.2021 to 30.05.2021 till 31.05.2021

In exercise of powers conferred under section 168A of the CGST Act, 2017, *Notification No. 14/2021- Central Tax, dated -1st May, 2021* has been issued to extend the time limit for completion of various actions, by any authority or by any person, under the CGST Act, 2017 which falls during the period from 15th April, 2021 to 30th May, 2021, upto 31st May, 2021, subject to some exceptions as specified in the notification. The notification has come into force w.e.f. 15th April, 2021.

Detailed notifications can be accessed at: www.cbic.gov.in

CUSTOMS

I. Notifications

1. Exemption from custom duty and IGST on imports of specified COVID-19 related relief materials for limited period

In view of COVID-19 pandemic, the Central government has issued notifications exempting basic custom duty and health Cess on imports of number of COVID-19 related relief materials as under:

S. No.	Notification	Purpose
1.	27/2021-Customs dated 20.04.21 (as amended by Notification No. 29/2021-Customs dated 30.4.21)	Remdesivir injection/ API and Beta Cyclodextrin (SBEBCD), Inflammatory diagnostic (markers) kits, till 31st Octber,2021
2.	28/2021-Customs dated 24.04.21	Medical grade Oxygen, oxygen therapy related equipment such as oxygen concentrators, cryogenic transport tanks, etc. and COVID-19 vaccines till 31st July, 2021

Further, Central Government vide the ad hoc exemption *Order Number 4/2021 dated 3rd May, 2021* has also granted exemption from IGST on the import of COVID-19 relief material (already exempted from customs duty), donated/received free of cost from outside India for free distribution subject to conditions specified therein. Such exemption shall apply till 30th June, 2021. Exemption from IGST will also apply to goods which are already imported but lying uncleared on the date of its issuance of exemption.

2. Reduction in IGST rate on oxygen concentrator imported for personal use

The Central Government vide *Notification No. 30/2021-Customs dated 1st May, 2021* has reduced the rate of IGST on import of oxygen concentrator for personal use from 28% to 12%. Such reduced rate shall be applicable upto 30th June, 2021.

CORPORATE LAWS

Clarification on spending of CSR funds for setting up makeshift hospitals and temporary COVID care facilities

The Ministry of Corporate Affairs has clarified vide its circular no 05/2021 dated 22nd April, 2021 that spending of CSR funds for setting up makeshift hospitals and temporary COVID care facilities is an eligible CSR activity under item no (i) and (xii) of Schedule VII of the Companies Act, 2013 relating to promotion of health care, including preventive health care and disaster management respectively.

Refer:http://www.mca.gov.in/Ministry/pdf/GeneralCircularNo5_22042021.pdf

Relaxation on levy of additional fees in filing of certain Forms under the Companies Act, 2013 and LLP Act, 2008

The Ministry of Corporate Affairs vide its circular dated 03rd May 2021 has granted additional time **up to 31st July 2021** for Companies/LLPs to file such forms (other than CHG-1, CHG-4 and CHG-9) which were/ would be due for filing during 01st April 2021 to 31st May 2021, without payment of additional fees.

Refer:http://www.mca.gov.in/Ministry/pdf/GeneralCircularNo6_03052021.pdf

Relaxation of time for filing forms related to creation or modification of charges under the Companies Act, 2013

The MCA has granted relaxation of time for filing forms related to creation or modification of charges under the Companies Act, 2013 vide its general circular no 7 dated 3rd May 2021.

The said relaxation is applicable in respect of filing of form CHG-1 and CHG-9 by a company or charge holder, where the date of creation/modification of charge

- is before 01.04.2021, but the timeline for filing such form had not expired u/s 77 of the Act as on 01.04.2021, or
- falls on any date between 01.04.2021 to 31.05.2021 (both dates inclusive)

Refer:http://www.mca.gov.in/Ministry/pdf/GeneralCircularNo7_03052021.pdf

Clarification regarding gap between two board meetings under section 173 of the Companies Act, 2013

The Ministry of Corporate Affairs has issued a circular dated 03rd May 2021 wherein it has clarified that the requirement of holding Board Meetings of the companies within the interval of 120 days as provided in section 173(1) of the Act shall stand extended by 60 days for first two quarters of the Financial Year 2021-22.

Refer:http://www.mca.gov.in/Ministry/pdf/GeneralCircularNo8_03052021.pdf

Clarification by MCA regarding spending of CSR funds for 'creating health infrastructure for COVID care', 'establishment of medical oxygen generation and storage plants' etc

The Ministry of Corporate Affairs has clarified vide its circular dated 09th May 2021 that spending of CSR funds for 'creating health infrastructure for COVID care', 'establishment of medical oxygen generation and storage plants', 'manufacturing and supply of Oxygen concentrators, ventilators, cylinders and other medical equipment for countering COVID-19' or similar such activities are considered as eligible CSR activities under item nos. (i) and (xii) of Schedule VII of the Companies Act, 2013 relating to promotion of health care, including preventive health care, and, disaster management respectively.

Further, it has been clarified that contribution for the said purpose(s) is considered as eligible CSR activity, if it is made as per item no. (ix) of Schedule VII of the Companies Act, 2013.

Refer:https://www.mca.gov.in/Ministry/pdf/GeneralCircular No9_05052021.pdf

Clarification by MCA regarding list of forms where additional fees has been waived off in respect of Circular 06/2021 and 07/2021

The MCA has hosted an announcement at its official website in the form of clarification listing out the forms which will be covered under the circular no 06/2021 and 07/2021 issued by the Ministry on 3rd May 2021.

In this regard, the forms which are eligible for waiver of additional fees under the aforesaid circulars are: CHG-1, CHG-9, ADT-1, INC-22, NDH-3, FC-4, MSC-3, INC-27, NDH-2, IEPF-3.

Refer:http://mca.gov.in/Ministry/pdf/FeeWaiver_13052021.pdf

Relaxation relating to procedural matters- Issues and Listing

SEBI vide circular dated 22nd April, 2021 has further extended the one time-relaxation pertaining to Rights Issue opening up to September 30, 2021 i.e. acceptance of application of the shareholders through optional mechanism (noncash mode only) has been extended up to 30.09.2021.

However, it shall be ensured that no third party payments shall be allowed in respect of any application. Moreover, the issuer along with the Lead Manager(s) shall continue to comply with point (v) of the SEBI Circular No. SEBI/HO/CFD/DIL2/CIR/P/2020/78 dated May 06, 2020 along with the other two requirements as specified in circular dated 22nd April 2021.

Refer:https://www.sebi.gov.in/legal/circulars/apr-2021/relaxations-relating-to-procedural-mattersissues-and-listing_49900.html

Relaxation from compliance with certain provisions of the SEBI (Listing Obligations Disclosure Requirements) Regulations, 2015 due to the CoVID-19 pandemic

In respect of entities which have listed their specified securities, SEBI has issued a Circular dated 29th April, 2021 wherein extension has been provided in the timelines for various filings and compliance obligations under the LODR Regulations **upto 30th June 2021**

The provisions in respect of which extension has been granted are as follows:

- Regulation 24A- Annual Secretariat Compliance Report
- Regulation 33(3)- Quarterly financial results / Annual audited financial results
- Regulation 32(1)- Statement of deviation or variation in use of funds

Further, the listed entities are permitted to use DSC for authentication/ certification of filings/ submissions made to the stock exchanges under the LODR Regulations for all filings until December 31, 2021.

Refer:https://www.sebi.gov.in/legal/circulars/apr-2021/relaxation-from-compliance-with-certain-provisions-of-the-sebi-listing-obligations-disclosure-requirements-regulations-2015-due-to-the-covid-19-pandemic_50000.html

Relaxation from compliance with certain provisions of the SEBI (LODR) Regulations, 2015 / other applicable circulars due to the CoVID-19 pandemic- Entities which have listed their debt securities/bonds

SEBI vide its circular dated 29.04.4021 has further granted relaxations, in respect of entities which have listed its debt securities/bonds, from compliance with certain provisions of the LODR Regulations or other applicable circulars **upto 30th June 2021**.

Refer:https://www.sebi.gov.in/legal/circulars/apr-2021/relaxation-from-compliance-with-certain-provisions-of-the-sebi-listing-obligations-disclosure-requirements-regulations-2015-other-applicable-circulars-due-to-the-covid-19-pandemic_50001.html

Amendment to the SEBI (LODR) Regulations, 2015

SEBI has made several amendments in the provisions of LODR Regulations, 2015 vide SEBI (LODR) (Second Amendment) Regulations, 2021 dated May 05th 2021.

For detailed amendments, refer the link: https://www.sebi.gov.in/legal/regulations/may-2021/securities-and-exchange-board-of-india-listing-obligations-and-disclosure-requirements-second-amendment-regulations-2021_50100.html

Amendment to the SEBI (ICDR) Regulations, 2018

SEBI on 5th May 2021 has issued SEBI (ICDR) Second Amendment Regulations, 2021 with the intent of amending the various provisions of the said regulations.

For detailed amendments, refer the link: https://www.sebi.gov.in/legal/regulations/may-2021/securities-and-exchange-board-of-india-issue-of-capital-and-disclosure-requirements-second-amendment-regulations-2021_50078.html

Business Responsibility and Sustainability Reporting by Listed Entities

SEBI vide its circular dated 10th May 2021 has introduced new reporting requirements on ESG parameters called the Business Responsibility and Sustainability Report (BRSR) replacing the existing BRR in terms of regulation 34 (2) (f) of LODR Regulations.

The filing of BRSR has been mandated from the financial year 2022-2023, for the top 1000 listed companies (by market capitalization), and is voluntary for the financial year 2021-22.

For detailed amendments, refer the link: https://www.sebi.gov.in/legal/circulars/may-2021/business-responsibility-and-sustainability-reporting-by-listed-entities_50096.html

External Commercial Borrowings

A.P. (DIR Series) Circular No. 01 dated April 07, 2021

Parking of ECB proceeds domestically:

Presently ECB borrowers are allowed to park ECB proceeds meant for rupee expenditure in term deposits with AD Category I Bank in India for a maximum period of 12 months cumulatively. These term deposits should be kept in unencumbered position.

To provide relief to ECB borrowers affected by the COVID- 19 pandemic, as a one time measure, with effect from April 07, 2021, unutilised ECB proceeds drawn down on or before March 01, 2020 can be parked in term deposits with AD Category-I banks in India prospectively, for an additional period up to March 01, 2022.

Exposure Draft of Audit Quality Maturity Model - Version 1.0 (AQMM v1.0)

Explanatory Memorandum on Applicability of Audit Quality Maturity Model - Version 1.0 (AQMM v1.0)

The Audit Quality Maturity Model -Version 1.0 (AQMM v1.0) is a capacity building measure initiated by ICAI and the objective of this Evaluation Matrix is for sole proprietors and Audit firms to be able to self-evaluate their current level of Audit Maturity, identify areas where competencies are good or lacking and then develop a road map for upgrading to a higher level of maturity.

In the Council meeting held on January 9, 2021 it was decided that both the Peer Review Board and the Centre for Audit Quality (CAQ) would need to develop the ecosystem which is acceptable to both and such collaborative approach would have the advantage of the CAQ developing the quality standards and Peer Review Board testing the said standards.

Using the above-mentioned collaborative approach, the **AQMM v1.0 would be recommendatory initially** and after 1 year the Council will review the date from which it would become mandatory.

Firms auditing following entities are covered in AQMM v1.0:

(a) A listed entity; or

(b) Banks other than co-operative banks *(except multi-state co-operative banks)*

(c) Insurance Companies

However, firms doing only branch audits are not covered.

This AQMM v1.0 is being shared with various stakeholders as an Exposure Draft and will be available for public comments for a period of 15 days. The Centre for Audit Quality (CAQ) will release the final AQMM v1.0 on July 1, 2021, after incorporating the comments received from stakeholders.

The CAQ encourages you to fill up the checklist and self-assess your audit quality maturity level. We recommend that your firm try to enhance its competencies every quarter as there is always scope for improvement. We wish you all the best in your journey!

The above-mentioned Exposure Draft is hosted on the website of the Institute of Chartered Accountants of India (www.icai.org) for public comments with last date as June 10, 2021. The downloadable version of Exposure Draft is available at https://resource.cdn.icai.org/64847caq52120new.pdf

The comment period on the proposal is kept short to expedite the process of considering the issuance of this practical relief in time.

How to comment:

Comments should be submitted through email to caq.comments@icai.in so as to be received not later than **June 10, 2021.**

Further clarifications on this Exposure Draft may be sought by e-mail to **caq@icai.in**.

Career Ascent for Experienced Chartered Accountants (Experience of 1 year and above)

Date of Interviews: 30th June, 2021

Yet another initiative on the part of the **Committee for Members in Industry & Business (CMI&B)** in the form of potential opportunity for the Chartered Accountants to secure career advancement in the leading organizations! Change and advancement in career depend upon how the imminent opportunities are capitalised.

Career Ascent is a platform specifically designed and aims to provide placement opportunities to the Experienced Chartered Accountants. This programme is an extended dimension to the existing initiatives, i.e, Campus Placement Programmes, undertaken by CMI&B to provide employment opportunities to the Newly Qualified Chartered Accountants, organized twice a year.

Eligibility: A Chartered Accountant (No COP & Part Time COP) having membership as on 31st May, 2020 or prior to that.

Schedule of Activities:

Sr.No.	Activities	Last Date
1.	Start date for organization registration	1st June, 2021
2.	Last date for organization registration	18th June, 2021
3.	Start date for Member registration	10th June, 2021
4.	Last date for Member registration	16th June, 2021
5.	Opening of database for companies	18th June, 2021
6.	Short listing by Companies	18th to 23rd June, 2021
7.	Consent sending by Members	24th & 25th June, 2021
8.	Online Psychometric and written test	28th June, 2021
9.	Date of Interview	30th June, 2021

Registration Fee:
For recruiting Organisations - Nil
For Candidates - Members who wish to register for the placement shall be required to remit a registration cum participation fee (non-refundable) amounting to Rs 1,000/.

Online registration at https://cmib.icai.org/.

The Indian companies participating have to offer a minimum CTC as per the following experience criteria:

S.No.	*Work Experience*	*Minimum CTC*
1	*1-5 Years*	*INR 10 LPA*
2	*5-10 Years*	*INR 15 LPA*
3	*10-20 Years*	*INR 24 LPA*
4	*20 years & above*	*INR 36 LPA*

There is no minimum CTC prescribed for overseas recruiters.

Committee for Members in Industry & Business (CMI&B)
The Institute of Chartered Accountants of India
Tel. No. (011) 30110491/550/430
E-mail: experiencedcas@icai.in

May 2021 CA Examinations to be commenced across the globe from Monday, 5^{th} July, 2021.

26^{th} May, 2021

In continuation to the Announcement dated 27^{th} April, 2021, it is hereby announced for general information that the Chartered Accountants Intermediate (IPC) {Under Old Scheme}, Intermediate {Under New Scheme}, Final {Under Old & New Scheme} and Post Qualification Course, viz.,: Insurance and Risk Management (IRM) Technical Examination and International Taxation – Assessment Test (INTT – AT) of May 2021 Examinations shall now commence from Monday, 5^{th} July, 2021 across the globe. The detailed Schedule / Notifications for the said Examinations will be announced shortly.

The Candidates are advised to note the above and stay in touch with the website of the Institute, www.icai.org.

Sd/-
Additional Secretary (Exams)

Programmes by IIM Ahmedabad Under MoU with ICAI

The Memorandum of Understanding (MoU) signed between The Institute of Chartered Accountants of India (**ICAI**) and Indian Institute of Management Ahmedabad (**IIMA**) enables mutual co-operation for offering and co-hosting open-enrolment and customized training programmes exclusively designed, developed and delivered for Chartered Accountants

As part of the MOU, IIMA has been offering two programmes explicitly designed for young and experienced CAs. This year, because of Covid-19 pandemic, the two programmes will be conducted via an online platform in 100% live sessions through direct-to-device mode [D2D].

Programme Details

Management and Finance for Experience Chartered Accountants	July 10, 2021 – October 20, 2021

Programme Highlights

- Interactive Case-based teaching pedagogy
- Intensive and interactive learning through 2-way live sessions
- Broad range of topics that will help acquire cross-functional perspective and improve personal effectiveness to become an effective manager
- Alumni status from IIM Ahmedabad

For more information and programme brochure

Members can kindly get in touch with the Programme Coordinators at IIMA on E-mail: caprogram@iima.ac.in or feel free to call **Mr. Ashutosh Rajput** @+91-79-7152 6423 or Mobile: 70690 29946 for Experienced CA Programme.

visit - https://www.icai.org/

ICAI in Media : Glimpses of April - May, 2021

INDIA POST

ICAI further launches 40th Chapter in Chicago

April, 24, 2021

The Institute of Chartered Accountants of India (ICAI) inaugurated its 40th overseas chapter in Chicago, USA on April 24, 2021 through virtual mode.

The Washington DC chapter became ICAI's sixth chapter in the United States which now joins San Francisco, New York, Houston, New England and Washington DC chapters. The virtual ceremony was graced by Amit Kumar, Consul General of India in Chicago, USA as Guest of Honor.

Congratulating the Institute for having its presence at Chicago, Kumar mentioned that the professional competence and contribution of ICAI members in economic and social development of a country is well recognized worldwide. He provided a brief overview of the priorities in India-US relations. He mentioned that the professional Institutions like ICAI can play a key role by leveraging through its vast network of professionals in advancing and deepening the partnership between India and USA as we mark India@75. He offered his full support to facilitate endeavors of ICAI in Chicago, USA.

ICAI President CA Nihar N Jambusaria provided an overview of ICAI and the role various international chapters play in strengthening bilateral relationships between the countries. CA Mahaveer Singhvi (IFS), Joint Secretary, Ministry of External Affairs, Government of India while addressing at the event said that Chartered Accountants are important part of Indian diaspora in the United States occupying important positions in the industry and public life, and opening of the chapter is an important milestone in furthering ties between the two countries to increase trade and investment between the two great nations to make India Aatmanirbhar.

The founding chairman of the Chapter, CA Gaurav Jain in his inaugural address said that Chicago chapter will serve as a strong knowledge platform bringing together 50+ chartered accountants in Chicago to connect them through organizing CPE based sessions for spreading knowledge and understanding etc.

Debashis Mitra, Vice President, ICAI while congratulating the opening of Chapter informed about ICAI's current endeavors in the field of Information Technology. He also mentioned that how ICAI is investing heavily in data auditing tools and development of forensic standards for its members in the coming time. Speaking at the event CA. Vish Arunachalam, Founder and Director, USA (San Francisco) Chapter who helped facilitating expand ICAI presence in USA committed his vision to further explore more professional opportunities and footprints of ICAI in North America.

The event was also addressed by guest speakers Mr. John Gimpert, Regional Director, The CFO Leadership Council, Ms. Dorri McWhorter, Chairperson – Illinois CPA Society and Ms. Shweta Baid, Aurora's 10th Ward Alderman-elect. CA. Hemant Kumar, Vice Chairman, USA (Chicago) Chapter delivered the Vote of thanks and assured ICAI that the Chicago Chapter will be committed towards achieving ICAI's mission with the support of Consulate General of India in Chicago and Ministry of External Affairs.

The Institute of Chartered Accountants of India (ICAI) is a statutory body set up under an Act of Parliament under the Chartered Accountants Act, 1949 for the regulation of the profession of Chartered Accountancy in India. The Institute, which functions under the administrative control of Ministry of Corporate Affairs, has achieved recognition as a premier accounting body in the country for its contribution in the fields of education, professional development, maintenance of high accounting, auditing and ethical standards.

The ICAI's sagacious journey of more than 70 years has seen it expand nationally and globally with its establishing 164 branches in India, 40 chapters overseas, 350 thousand members and over 750 thousand students.

THE HINDU BusinessLine

New Delhi, May 3, 2021

ICAI to move RBI for tweaking of bank auditor appointment norms

Wants the cooling off period retained; suggests central bank setting minimum number of auditors

The Reserve Bank of India's new rules on statutory auditor appointments for banks and NBFCs has not come as any jolt for the audit profession, but the CA Institute plans to approach the central bank for certain inclusions in order to improve overall bank audit and get a better outcome for the fraternity, Nihar N Jambusaria, President, ICAI, said.

The missing points in the new guidelines as regards the cooling-off period for auditors, the need to give higher weightage for experienced firms compared to new firms, and fixing the minimum number of Statutory Central Auditors while leaving the decision of the maximum number to the banks are some of points the ICAI would like to see in the new guidelines and will pitch for them, Jambusaria told BusinessLine.

The RBI had, on April 27, brought in new set of rules – without sharing them with the ICAI for its views – for appointment of statutory auditors of banks and non-bank finance companies (NBFCs), excluding housing finance firms.

Joint audit

The central bank has now made joint audit mandatory for entities with asset size of ₹15,000 crore and above, capped the number of audits a firm can perform in a year (four banks, and eight NBFCs and urban cooperative banks) and reduced the tenure of auditors to three years from four. It has also done away with the concept of cooling period that was part of the previous set of guidelines. Approval of the central bank is mandatory for the appointment of statutory auditors of commercial banks.

Nihar Jambusaria, President, ICAI

Currently, if one firm has done audit of a bank for three years, there has to be a cooling period for three years. "There are many capable firms that are getting a chance to do audit. Now what they (the RBI) have decided is that after completion of the tenure of three years, the same firm can be appointed by another bank without any rest. Continuing with the cooling period concept will be better as more firms will be able to do audits. Many capable firms are there. They will all get a chance, too. The concept of cooling period should be retained and we will pitch for it," Jambusaria said.

Instead of leaving it to banks to decide on the minimum number of Statutory Central Auditors (SCAs), it should be set by the RBI. The maximum number can be decided by the banks and this would enable smooth conduct of audits, he said.

Experienced vs new firms

The ICAI President said the new guidelines do not distinguish between the experienced and the new firms. Previously, the old guidelines had a ratio – 60 per cent for experienced firms and 40 per cent for new firms – in the appointment of auditors.

"...the 60:40 ratio should be there. Its removal may help big firms and banks will be at liberty to appoint all new or all experienced auditors. The balance will be lost. It needs to be retained," he said.

ICAI in Media

BusinessLine
New Delhi, May 07, 2021

EXPORT OF ACCOUNTING SERVICES

CA Institute wants 'barriers' removed

Members asked to give feedback on the hurdles faced in overseas markets

K.R. SRIVATS
New Delhi, May 6

The CA Institute wants to facilitate export of professional services in a big way now that the government had declared the accounting and financial services sector as one of the '12 champion sectors'.

Towards this end, the CA Institute has now sought its members' feedback on the kind of barriers that they are faced with while providing outsourcing services to organisations abroad.

Also, they have been asked to give feedback on which

Firms are leveraging on accounting outsourcing services to cut cost

country has the most barriers and tougher regulations for accounting outsourcing services. The CA Institute members have been asked to comment on whether there are any barriers of language, education (degree recognition) and legal requirements. "ICAI members have been asked to suggest as to how the CA Institute can work towards reducing barriers and help in facilitating export of professional services," sources said.

More training

They also been asked to suggest areas where they feel training is required to be more equipped to face competition from foreign firms. "This would help the ICAI understand the issues and challenges involved," official sources said.

Given the market competition across industries, organisations are leveraging accounting outsourcing services as a smart business move to get practical advantage of it, cost-cutting being one of them. In India, the finance and accounting services occupy a substantial share of the total outsourcing services.

BusinessLine
New Delhi, May 12, 2021

CSR spending: Corporates told to create accounting 'liability' for unspent amounts

CA Institute's clarification follows MCA's diktat on fulfilling 'obligation'

K.R. SRIVATS
New Delhi, May 11

Close on the heels of the Ministry of Corporate Affairs (MCA) requiring companies to mandatorily spend their Corporate Social Responsibility (CSR) obligation, the CA Institute has clarified on the accounting treatment of the unspent amounts, stipulating that Corporate India should create "liability" for such amounts in their financial statements every year.

Both the MCA and the ICAI actions, when seen together, would mean that the corporates cannot escape from their CSR obligations by explaining the reasons for the underspend. "They will have to provide as 'liability', the amounts remaining unspent in a financial year," said a top ICAI official.

Under company law, a corporate is supposed to spend 2 per cent of its net profit in the preceding three financial years towards CSR

'FAQs issued'

This could now result in a hit on the bottomlines of companies that hitherto opted not to fulfil their CSR spend and came with explanations for not doing so.

"This ICAI clarification has been made as a FAQ and it follows the MCA bringing amendments in the CSR rules in January 2021. This will instill more discipline among corporates as they will have to spend or earmark the unspent to certain designated accounts. Further, they would have to account for the unspent amount as a liability in the same financial year", Nihar Jambusaria, President, ICAI told BusinessLine. He said that ICAI's Accounting Standards Board deliberated on the Accounting Standards and came to a conclusion that at the end of the financial year, a provision has to be made on the unspent amount. Asked if a company does not still make provision for unspent amount of CSR, Jambusaria said that auditors will have to qualify the accounts. "The FAQs issued by ICAI are binding on its members," he said. This accounting treatment will apply from current financial year 2020-21 itself.

Under company law, a corporate is supposed to spend 2 per cent of its net profit in the preceding three financial years towards CSR. "Prior to January 2021, if a corporate did not spend its entire CSR amount, it had to explain why it couldn't spend it. That's all. But now if a corporate is unable to spend on an ongoing project, I will have to transfer it to an earmarked bank account and after our FAQ also provide for the unspent amount as 'liability'," Jambusaria said.

Morning India
May 13, 2021

Cabinet nod for MoU between ICAI and Qatar Financial Centre Authority

NEW DELHI: The Union Cabinet on Wednesday approved signing of Memorandum of Understanding (MoU) between Institute of Chartered Accountants of India (ICAI) and Qatar Financial Centre Authority (QFCA).

The MoU would enhance cooperation between the Institutes to work together to strengthen the Accounting profession and entrepreneurship base in Qatar.

ICAI has a strong membership base of over 6000 members in Middle East and Qatar (Doha) Chapter is amongst the most vibrant Chapters of ICAI. ICAI members hold key positions in various private and public companies and are actively involved in support and development of the accounting profession in Qatar.

The signing of this MoU would provide an additional impetus to prospects of the ICAI Members in the entire Middle Eastern

Region to have better recognition, together with working to support Indian businesses desirous of doing business in Qatar and thus supporting the growth of Qatar and India's economies.

The ICAI also has an active Chapter in Doha, Qatar which was established in the year 1981 and is the oldest among the 36 overseas Chapters of the ICAI. The membership of the Chapter has grown steadily since its founding days and presently has over 300 members who hold key positions in various private and public companies and are actively involved in support and development of the accounting profession in Qatar. This MoU will benefit Ministry of Corporate Affairs, Institute of Chartered Accountants of India and Qatar Financial Centre Authority.

As per the MoU, both sides would endeavour to increase opportunities for members of ICAI to provide professional services through setting up practice for providing professional services in the State of Qatar in the areas of assurance and auditing, advisory, taxation, financial services and allied areas.

ICAI shall also nurture and develop local Qatar professionals, entrepreneurs and students through a specialized training programme, in collaboration with QFCA.

ICAI and QFCA will work together to explore the opportunities for Indian businesses in Qatar by organizing roundtables, networking events etc., as the case may be mutually agreed.

नवोदय टाइम्स
New Delhi, May 14, 2021

'चार्टर्ड अकाउंटेंट्स परिवार' भी मदद करने आगे आया

■ ऑक्सीजन, रेमडेसिविर, प्लाज्मा, एम्बुलेंस सेवा देकर कर रहे मदद

Classifieds

5850 We are a two partner, 32 years old firm in Gurugram. We are basically into audit. We are now planning to expand our horizon and invite proposal for merger. Please mail your proposals with profile at sangeeta.pgc@gmail.com or call at mobile number : 9811278153

5851 Retired CAs, practicing CA professionals, proprietorship/ partnership firms in India interested in joining or merging with a 50 years old CA firm, write with details of name of city, year of CoP (preferably 10 years of CoP), DISA, etc enclosing Membership Card /Firm Status Certificate to contactcafirm@gmail.com

5852 Required full time Chartered Accountant having sound experience to lead the Direct & Indirect Taxation matters at Raipur. Interested candidate can forward resume to raipur@rdnaca.in

5853 RK Doshi & Co. LLP, a 40 year old CA firm, looking for senior professionals to onboard as partners. Please send email at: firm@rkdoshi.com

LEADING THE TRANSFORMATION TO A HEALTHIER, HAPPIER, AND SAFER PLANET

Corporate Film released
by Sustainability Reporting Standards Board of
The Institute of Chartered Accountants of India

The Institute of Chartered Accountants of India (ICAI), as part of its ongoing commitment for being partner in nation building, truly upholds the power of our students and members to come together and contribute in making our planet healthier, happier and safer. The Sustainability Reporting Standards Board of ICAI has developed a corporate film on "Leading the transformation to a Healthier, Happier, and Safer Planet" to create awareness on environmental issues among its members and other stakeholders. The Corporate Film is available at http://icaitv.com/video/1309/srsb-corporate-film-leading-transformation-healthier-happier-and-safer-planet .

LET'S DO OUR BEST TO BUILD A CLEANER, SAFER AND GREENER FUTURE FOR EVERYONE

ABOUT SUSTAINABILITY REPORTING STANDARDS BOARD

Sustainability Reporting Standards Board (SRSB) has been constituted by ICAI in February 2020, with the mission to formulate comprehensive, globally comparable, and understandable standards for measuring and disclosing non-financial information about an entity's progress towards United Nations Sustainable Development Goals (SDG) 2030. The Board has worked relentlessly to enhance knowledge of members and other stakeholders by conducting workshops, seminars, and organizing Certificate Course on BRSR. Activities and initiatives undertaken by the SRSB are available at https://icai.org/post/sustainability-reporting-standards-board. For any further details, please mail at sustainability@icai.in .

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