Azadi Ka Amrit Mahotsav

BANKING, FINANCIAL SERVICES & INSURANCE
(BFSI)

CHRONICLE

12th Edition, December 2022

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory Body under an Act of Parliament)

www.icmai.in

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Behind every successful business decision, there is always a *CMA*

Mission Statement

"The CMA professionals would ethically drive enterprise globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting."

Vision Statement

"The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprise globally."

About The Institute

The Institute of Cost Accountants of India is a statutory body set up under Act of Parliament in the year 1959. The Institute as a part of its obligations, regulates the profession of Cost and Management Accountancy, enrolls students for its courses, provides coaching facilities to the students, oragnises professional development programmes for the members and undertakes research programmes in the field of Cost and Management Accountancy. The Institute pursues the vision of Cost Competitiveness, Cost Management, Efficient use of Resources and Structured Approach to Cost Accounting as the key drivers of the profession. In today's world, the profession of conventional accounting and auditing has taken a back seat and Cost and Management Accountants are increasingly contributing towards the management of scarce resources apply strategic decisions. This has opened up further scope and tremendous opportunities for cost accountants in India and abroad.

After an amendment passed by Parliament of India, the Institute is now renamed as "The Institute of Cost Accountants of India" from "The Institute of Cost and Works Accountants of India". This step is aimed towards synergising with the global management accounting bodies, sharing the best practices which will be useful to large number of trans-national Indian companies operating from India and abroad to remain competitive. With the current emphasis on management of resources, the specialized knowledge of evaluating operating efficiency and strategic management the professionals are known as "Cost and Management Accountants (CMAs)". The Institute is the 2nd largest Cost & Management Accounting body in the world and the largest in Asia , having approximately 5,00,000 students and 85,000 members all over the globe. The Institution headquartered at Kolkata and an office in Delhi operates through four Regional Councils at Kolkata, Delhi, Mumbai and Chennai and 114 Chapters situated at important cities in the country as well as 11 overseas Centres. It is under the administrative control of Ministry of Corporate Affairs, Government of India.

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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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President's Message

It is indeed a great pleasure to know that Banking, Financial Services and Insurance (BFSI) Board of the Institute is bringing out the 12 th edition of its Banking, Financial Services and Insurance (BFSI) Chronicle. The first issue of BFSI Chronicle was launched on the occasion of Foundation Day of the Institute on 28th May, 2020. Since then, the Chronicle has proved to be an invaluable resource for all stakeholders who consider it important to stay abreast of important updates and development taking place in BFSI Sector.

The BFSI sector is the most important sector and provides the maximum employment in the service sector. The economy is highly dependent on the success of the service sector as it provides the highest contribution to the GDP. The Banking, Financial Services and Insurance are pivotal and CMAs have huge scope both in employment and in practice. The sector is vibrant and dynamic with change of business proposition and with modification of the rules regulations imposed by the regulators like RBI, SEBI and IRDAI the role of professionals is epitome for both as a compliance and also as a consultant to such entities.

I congratulate CMA Chittaranjan Chattopadhyay, Chairman- Banking, Financial Services and Insurance (BFSI) Board for bringing out the 12 th issue of the BFSI Chronicle. I would like to express my sincere gratitude to the resource persons who had contributed for the issue by providing their valuable inputs and contribution in the BFSI Chronicle. I hope that the BFSI Board will continue to bring out such valuable documents for the capacity building of the members and stakeholders.

I wish the BFSI Board grand success in all their initiatives.

Wish all the readers a very happy and prosperous new year 2023.

With warm regards,

(CMA Vijender Sharma)
President
The Institute of Cost Accountants of India.

Vice-President's Message

The Banking, Financial Services and Insurance (BFSI) Board of the Institute would be soon publishing the quarterly publication and this is the 12 th edition of its Banking, Financial Services and Insurance (BFSI) Chronicle.

The BFSI Chronicle is being sent to the regulators of the BFSI sector and all to various Banks, Financial Institutions and Insurance Companies.

It creates the interest amongst all the stakeholders about the Institute's activities in the BFSI sector. The BFSI Board is regularly conducting webinars, symposiums, certificate courses, publications of relevance and this Chronicle also has articles from eminent authors in the BFSI sector.

The CMAs are the important fulcrum between the regulator and the Institutions and we feel that this dynamic sector of BFSI needs continuous updation to keep abreast of all changes by the members.The Chronicle caters to such a need of the hour by providing necessary such knowledge and information in the BFSI sector.

I congratulate CMA Chittaranjan Chattopadhyay, Chairman- Banking, Financial Services and Insurance (BFSI) Board and his team for bringing out the 12 th issue of the BFSI Chronicle. I also wish you a very happy and prosperous new year 2023.

With warm regards,

(CMA Rakesh Bhalla)
Vice- President
The Institute of Cost Accountants of India.

Chairman's Message

When you were made a LEADER, you were'nt given a Crown; you were given the responsibility to bring out the best in others

- Jack Welch

We are in the threshold of a brand new 2023.Take a leap of faith and begin this wonderous new year by believing in ourselves. I wish and a pray for good health , peace and prosperity for all my CMA families across the world. When my arms can't reach people who are close to my heart, I always hug them with my prayers. There is a whole new world waiting for you on the other side of FEAR. Be a game-changer. The world is already full of players. We have been positive for the last two years despite the pandemic and negative news across the globe. Negativity-It can only affect you , if you are on the same frequency. Vibrate higher. Our positive vibes were far higher in this column and we are here to see the posituve things happening.

It's not India's decade , it is India's century as per Bob Sternfels, CEO, Mckinsey & Co., with all key elements in place- a large working population, multinational companies reimagining global supply chains and a country leapfrogging at digital scale- to achieve something special not just for Indian economy, but potentially for the world The economy seems to have weathered the pandemic fairly well despite hitting a few rough patches in the last two years. India is the future talent factory for the world.

India has the conditions in place for for an economic boom fueled by offshoring, investment in manufacturing, the energy transition and the country's advanced digital infrastructure, Morgan Stanley said in a report titled " The New India: Why this is India's decade " These drivers will make it the world's third largest economy and stock market before the end of the decade. They forecast that India will be the third largest economy by 2027 with its GDP more than doubling from the current$ 3.4 tn to $ 8.5 tn over the next 10 years.

Swiss brokerage Credit Suisse believes that India is growing faster than what is captured by our official data and is a strong case for an upgrade of equities outlook in view of India's GDP acceleration in 2023.

- *CRISIL sees Banks' GNPA touching decadal low of 4% by FY 24*
- *As per S&P , India is a 'STAR' among emerging market economies with 7.3% growth in FY 23*

- *India digital payments crossed 20 billion mark in Q2 led by UPI*
- *As per CRISIL ratings , credit quality of Indian Corporates remains strong*
- *India to become world's third largest economy by FY 28 as per IMF*
- *India's cash transfer schemes a ' logistical marvel' says IMFh*
- *The real economic growth for India in 2022-23 is expected to be 6.8%, the second highest in G 20*
- *Fitch sees limited risk to India's sovereign rating from external head winds and remains confident of Forex reserves*
- *GST collection over Rs.1.51 trillion in October ,second highest ever*
- *At Rs. 60 000 cr , Indian Banks post highest profit in Q 2*
- *India to become third largest economy by 2027 as per Morgan Stanley*
- *Remittances to India touch USD 100 billion as per World Bank*
- *India well placed to face global headwinds states World Bank*

I along with Officials of the BFSI Department attended the Business Standard Seminar titled Business Standard BFSI Insight Summit at Jio World Centre,Mumbai on 21st and 22nd December 2022. Shri Shaktikanta Das, Governor, Reserve Bank of India graced the occasion as the Chief Guest. He highlighted the following in his speech with Fire Side Chat with Shri Tamal Bandyopadhyay, Renowned Journalist and columnist.

Shri Shaktikanta Das, Governor, RBI, is also bullish about the growth in the Indian economy. When asked in a fireside chat at the BFSI Summit in Mumbai on Wednesday whether a credit growth of 17.5 pct is sustainable the RBI Governor opined that Credit growth is not exuberant. On the contrary it reflects the underlying fundamentals of the Indian economy. Das expressed confidence in the resilience of the Indian economy highlighting that several high frequency indicators used by RBI are in "the green zone". He, however, expressed his concern over the impact a global economic slowdown might have on India's exports and GDP growth as a result. Mr Das was also critical on private Cryptocurrencies saying that these assets without any underlying security posed a threat to financial stability.

There will be lot many changes. There will be less number of brick and mortar branches and more number of neo banks. CBDC would rule the commercial transactions in place of paper currency.

- *The BFSI Board did lot of activities for the quarter from October to December, 2022 are as follows:*
- *Observance of the World Investor Week from 10th to 16th October, 2022*
- *Webinar on Infrastructure Financing held on 21st October, 2022*
- *Capital Market Symposium on 28th October, 2022 at Kolkata.*

- *Workshop on Due Diligence in Banks from 18th to 20th November, 2022*

- *Announcement of Winners of the 2nd ICAI National Awards -Essay Contest 2022 for Bankers*

- *Completion of the Batch No. 4 of Level-II of the Certificate Course on Investment Management in association with NISM from 17th September to 30th October, 2022*

- *Release of Handbook on Stock and Book Debts Audit (Revised and enlarged 2nd Edition) on 23rd December, 2022*

- *Seminar on Banking-India@100 Growth Trajectory for Banks on December 23, 2022 at MMA Management Centre, Chennai organized jointly by the BFSI Board,SIRC,ICAI and IPA,ICAI along with Madras Management Association (MMA)*

- *Seminar on Social Stock Exchange- Role of Professionals organized by the BFSI Board, ICAI on 24th December, 2022*

In the midst of continuing Ukraine war, we do hope that when the POWER OF LOVE overcomes the LOVE OF POWER, the world will know PEACE.

With the curtains down on World Cup 2022 , let me conclude with the words " The game of life is like football. You have to tackle your problems, block your fears and score your points, when you get the opportunity .

CMA Chittaranjan Chattopadhyay

Chairman
Banking, Financial Services and Insurance Board
The Institute of Cost Accountants of India

From the Desk of the Department

Seasons Festive Greetings from team BFSI to all our esteemed readers!

The Monetary Policy Committee (MPC) is a committee constituted by the Central Government and led by the Governor of RBI under section 45ZB of the Reserve Bank of India Act, 1934 and was formed with the mission of fixing the benchmark policy interest rate (repo rate) to restrain inflation within the particular target level. On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting during 5 -7 December 7, 2022 decided to further Increase the policy repo rate under the liquidity adjustment facility (LAF) by 35 basis points to 6.25 per cent with immediate effect. The next meeting of the MPC is scheduled during February 6-8, 2023 and we shall keenly follow the direction taken and bring forward its outcome to our readers. We have seen the US Federal Reserve Chairman's recent hints that their central bank will moderate the pace of monetary policy tightening and it will be interesting to see it's movements vis-a v-s The Reserve Bank of India's Monetary Policy Committee (MPC) in the days to come.

The Indian banks are expected to continue to offer better deposit rates to retail customers as the RBI tries to balance inflationary trends and economic growth. The Institute and BFSI Board is continuously bringing out programmes and articles to address these contemporary issues of national importance in the global context across all verticals of the BFSI sector. We request our readers to stay connected with us through these programmes, details of which are uploaded on the Institute's website www.icmai.in from time to time.

The general budget for FY year 2023 is scheduled to be presented by the Hon'ble Finance Minister on 1 February 2023 and indications are that the upcoming budget will be set on the template that will prepare the Country for the next 25 years and follow the spirit of earlier budgets. The industry leaders are expected to work out strategies as to how businesses operating in developed countries can look at India as a production or sourcing hub amid recession fears in the West. This budget will be the full year budget of the present Government ahead of the Lok Sabha elections which are due in 2024.

We urge our readers to take adequate precautions and follow Government advisories and protocols as may be issued from time to time resulting from indications of a possible increase in the spread of new variants of COVID-19 virus.

We wish our readers a happy new year 2023.

Stay safe and happy reading!

कार्यपालक निदेशक
Executive Director

August 01, 2022

Dear Shri Chattopadhyay,

Thank you very much for your letter of July 26, 2022 and the enclosed BFSI Chronicle 10th Edition (2nd Annual Issue) July 2022. It is indeed a compilation of some very useful articles.

2. Taking this opportunity to thank you once more for your gesture.

Warm Regards.

Yours sincerely,

(Jayant Kumar Dash)

CMA Chittaranjan Chattopadhyay
Chairman-Banking, Financial Service & Insurance Board
The Institute if Cost Accountants of India
CMA Bhawan
12, Sudder Street,
Kolkata 700016

सुरेश एन. पटेल
SURESH N. PATEL

सत्यमेव जयते

केन्द्रीय सतर्कता आयुक्त
केन्द्रीय सतर्कता आयोग
CENTRAL VIGILANCE COMMISSIONER
CENTRAL VIGILANCE COMMISSION

November 23, 2022
CVC/Misc./2022-531118

Dear Shri Chattopadhyay ji,

I am glad to receive the handbook titled as 'Aide Memoire on Infrastructure Financing' brought out by the BFSI Board of the Institute of Cost Accountants of India. This Handbook is one of its kind to address issues relating to infrastructure financing broadly.

Sharing of knowledge is one of the best ways of empowering people. Case studies are also a very powerful medium to learn through illustrations. This handbook provides both knowledge and guidance in the field of infra sector with valuable case studies to illustrate the salient points in appraisal, risk identification and mitigation.

I compliment the efforts of The Institute of Cost Accountants of India for this excellent initiative. This publication would surely promote sharing of knowledge, experience and best practices among all stakeholders as well as public.

I thank you for sharing this handbook with us and also convey our Best Wishes to you and your team.

With regards

Yours sincerely,

23/11/2022

(Suresh N. Patel)

CMA Shri Chittaranjan Chattopadhyay,
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Central Bank Digital Currency - e ₹ The way forward

Shri C. M. Khurana
Former CGM -CFO Oriental Bank of commerce
Former CGM (credit) -IIFCL

Background

As a part of the budget speech FY 2022-23, the Honourable Finance Minister, proposed to introduce Digital Rupee to be issued by Reserve Bank India as a legal tender. With digitalisation of the economies across the world, specially after the pandemic, the relevance and importance of a digital currency issued by the central bank of the country (RBI) is all the more. The evolution of money to replace the traditional barter system, to precious metals(like gold and silver) and then to paper currency has to now take a dramatic turn to a nonphysical domain and a 'sovereign backed' fiat digital currency is now going to be a reality. Central Banks across the world are working on the introduction of digital currencies .

Concept paper on CBDC by RBI

The Reserve Bank of India issued a Concept Note on Central Bank Digital Currency (CBDC) on 7th October. The concept paper sought to explain RBI's approach towards introduction to CBDC and to create awareness about CBDC in general and the planned features of the digital rupee. The concept note explains the objectives, technology choices, benefits and risks of issuing CBDC.

As per the concept note, RBI broadly defines CBDC as the legal tender issued by a central bank (like RBI). It is similar to the sovereign (Government) paper currency but has a different form (digital as against physical paper),exchangeable at par with existing currency.Just like paper currency ,it is essentially a liability of the central bank (and sovereign) and an asset of the holding public.The CBDC would coexist with and complement existing forms of money promoting, innovation and efficiency .

Functions of money vis a vis CBDC

While there are varied text book definitions of money , the most simple way to describe it is by the famous quote -- Money is what money does. Therefore we need to understand the different functions of money.Traditionally the functions of money include a) medium of exchange i.e common medium of buying and selling in place of barter of goods. b)measure of value as a yardstick to measure values of all other goods and services in terms of their money price. c)money as a standard of deferred payments facilitating not only the current transactions of goods and services but also their credit transactions when present goods are exchanged against future payments, d) store of value, whereby people hold a part of their present earnings in the form of money to be spent in future i.e saving or conserving money as an asset for future use. Money is thus also a means of transferring purchasing power.

For CBDC, to be a successful, acceptable currency, it needs to be capable of performing all the functions as above. For CBDC to play the role as a medium of exchange, it needs to incorporate all the features that physical currency represents including anonymity, universality and finality. The other three functions as above shall follow automatically with its universal acceptability, suitable structure/designing and delivery. The underlying aim is to build an open inclusive ,inter-operable and innovative system which will meet the aspirations of the modern digital economy of India.

Benefits and Risks

Across the world, central banks of more than 60 counties have expressed interest in CBDC with a few implementations already under pilot stage and many other are researching, testing and launching their CBDC framework. The introduction of CBDC in India is expected to provide several benefits like lesser dependency on cash, lesser overall currency management cost,lesser fake currency issues and reduced settlement risk.It is expected to to provide the public/households and the business community a convenient electronic form of central bank money with safety and liquidity and provide entrepreneurs/ banks a platform to bring out new products and services best suited for the customers/end users. The introduction of CBDC may also entail certain risks which may have a bearing on important public policy issues like monetary policy , financial markets structure, role of banks, and overall financial stability.

Robust Digital Infrastructure

India has created a competitive advantage in its favour with massive digitalisation of processes, more particularly the financial transactions. The journey has been traversed with consistent innovations in digital payments and RBI has been playing the role of a catalst. Starting with ECS (Electronic clearing services) in 1990, we had RTGS (Real time gross settlement) in 2004, NEFT (national electronic fund transfer)in 2005, CTS (cheque truncation system),NACH (national automated clearing house in 2012 and UPI (unified payments interface) in 2016.The NPCI (national payments corporation of India) has emerged as an umbrella organisation for operating retail payments and settlements in India. It facilitates services like UPI payment, Bharat Bill pay, rupay card, FASTag, NACH etc.The monthly volume of transactions has crossed 7000 million under UPI in October 2022, indicating India's substantial capability of handling digital transactions. The facilitation of non -bank Fintech firms in the payment ecosystem has further increased the adoption of digital payments in the country. The impressive progress in digital payments provides RBI an edge over others in moving towards a CBDC eco system.

Pilot Run of Digital Rupee in whole sale segment e ₹-W

In line with the approach brought out in the concept paper,the RBI has launched, on pilot basis ,the Digital Rupee -whole sale segment on 1st November 2022.In the first pilot case, the Usage of the Digital

Rupee- wholesale currency is for settlement of secondary market transactions in Government Securities.This is expected to make the inter-bank market more efficient. Settlement in CBDC would reduce transaction costs by pre-empting the need for settlement guarantee infrastructure or for collateral to mitigate settlement risk .On day one of the pilot launch, the nine identified banks undertook 48 transactions aggregating ₹ 275 crores. The pilot project has got encouraging response and shall gain momentum over a period of time. Each participating bank needs to maintain a separate CBDC account with RBI by transferring requisite amount of funds to execute the individual transactions of sale and purchase of government bonds which is done directly on real time basis with other banks.

Pilot launching of digital rupee in retail segment e₹-R

The RBI has launched the retail segment of digital rupee on pilot basis from 1st December 2022 as announced earlier. Initially the pilot project will be operational in 4 cities through four identified Banks and will cover a 'closed user group.' As brought out in the initial concept note, the model/architecture used for the retail segment is different from the one used for wholesale segment, taking into account the suitability and specific requirements of the retail level. The retail e rupee would be in the form of a digital token that represents legal tender. It would be distributed through banks(as intermediaries), which would offer digital wallets to be stored on mobile phones/devises of actual users/retail customer. Transactions can be both person to person (P2P)and person to merchant (P2M), using QR codes displayed at merchant locations. As in the case of cash, it will not earn any interest and can be converted to other forms of money, like deposits with banks. NPCI is expected to play a significant role in the retail digital Rupee segment.

Way Forward

The technology and modalities for implementation will evolve over time as the various stakeholders gain experience based on this pilot projects under both the whole sale and retail segments. Bkockchain technology is expected to be put to use to ensure,transparent, secured and scalable transactions, overtime.

Going forward, in future, RBI proposes to introduce CBDC for other whole sale transactions and cross border payments based on the learnings from the first pilot case. Similarly in case of retail segment also the scope of the pilot project may be expanded gradually to include more banks, users and locations as needed . The essence of the mechanisms involved will focus on speed, accuracy, transperency and cost effectiveness

The digital currency introduced by RBI will have significant impact on the Indian Economy in general and Banking sector in particular The new Digital Rupee issued by RBI shall form a part of the over all money supply in the economy, which will in turn impact total demand and prices. The velocity of circulation of currency will undergo a change too. The over all cost of transactions is expected to be reduced, bringing in efficiency. With RBI's own Digital currency in circulation gaining ground, the role and of crypto currencies is expected to be impacted too.

In so far as Banks are concerned, new processes will evolve over time to handle and use the Digital currency for for the transactions / dealings with counter parties, depositors and borrowers.

The overall cash dependence in the economy is expected to come down. The digital currency is likely to further improve the welfare distribution of funds .The digital currency can help in evolving modified improved Banking products and services. It can also help in prevention of frauds by effectively tracking end use of funds and ensuring specific utilisation of funds through suitable programming.

The Digital Rupee has the potential of transforming the economy and Banking sector in multiple ways. Real time visibility and insights into the economy shall be available for policymakers and overall cost effectiveness and efficiency shall improve creating a win win situation for all the stakeholders.

DUE DILIGENCE CERTIFICATE FOR CORPORATE LOANS BY BANKS

CMA (Dr.) P. Siva Rama Prasad
Asst. General Manager (Retd.)
State Bank of India
Hyderabad

Due Diligence is a process of research and analysis that is initiated before an acquisition, investment, business partnership, or bank loan, to determine the value of the subject of the due diligence or whether there are any major issues involved. Such findings are then summarized in a report which is known as the **Due Diligence Report**.

To streamline consortium / multiple banking arrangements, the Reserve Bank of India has been making regulatory prescriptions from time to time regarding the conduct of consortium / multiple banking. Banks have also been advised to strengthen their information back-up about the borrowers enjoying credit facilities from multiple banks by following specified criteria.

Way back in October 1996, the Reserve Bank of India withdrew various regulatory prescriptions regarding the conduct of consortium/multiple banking/ syndicate arrangements to bring flexibility to the credit delivery system. With time, however, it was observed that the relaxations meant for providing flexibility to the borrowing community, may also have contributed to various types of fraud, prompting the Central Vigilance Commission to attribute the incidence of fraud mainly to the lack of effective sharing of information about the credit history and the conduct of accounts of the borrowers among various banks.

Accordingly, the Reserve Bank of India has in consultation with the Indian Banks' Association, specified the framework to be observed by banks for improving the sharing/dissemination of information among the banks about the status of the borrowers enjoying credit facilities from more than one bank.

Further, the banks are required to obtain regular certification of Diligence Reports from a professional, preferably a CMA/CA/CS about conformity to statutory prescriptions in vogue. Thus, the banking community in general, and the Regulator, in particular, have reposed enormous trust in professionals.

The Diligence Report covers many critical and relevant matters such as details of the Board of Directors, shareholding pattern, details of the forex exposure and overseas borrowings, risk mitigation through insurance cover in respect of all assets, payment of all statutory dues and other compliances, proper utilization/end-use of the loan funds, compliance with mandatory Accounting Standards, compliance with various clauses of Listing Agreement in case of a listed company, etc.

The same is done to inculcate a strong foundation of **Good Governance** culture among borrowing corporate and correspondingly enhance the comfort level of banks by reducing the information asymmetry prevailing currently.

The RBI circular dated September 19th, 2008 / December 8th, 2008/February 10th, 2009. Regular Certification on a Half-Yearly Basis (Diligence Report) by a professional, preferably a CMA/CA/CS, regarding compliance by the Borrowing Company with the various statutory provisions that are in vogue.

Why Banks Need Due Diligence Reports:

1. The objective of the 'Diligence Report on Governance for Banks' is to examine the records of a borrowing entity to assess borrowers' conduct (as a Corporate Entity) from the perspective of the Status of Governance.

2. To confirm the compliance of certain statutory and procedural requirements to provide comfort to the Banks.

3. To verify the details of the Directors of the Company, and their relation with the Company i.e., Promoters, Independent or otherwise.

4. To Examine the previous and existing lending of the Company.

5. To know the defaulting Status of Directors and the Company in the Past.

6. To Confirm whether the Company has complied with all the provisions of the law especially the Companies Act, 2013.

7. To know the Forex Exposure and Overseas Borrowing of the Company as of the Certification Date.

8. To confirm whether the Company has Insured all its Assets or not so that in case of any mishappening, no burden on the funding of the Banks should be dealt with.

The following paragraphs outline the Compliance Inputs that may be relied upon by the Professionals for issuing of Diligence Report. Compliance Inputs are indicative and the Professionals shall not exclusively rely upon that, but use that as a guide and apply their judgment to determine what is to be checked and to what extent. While preparing the 'Diligence Report' the Professionals should ensure that no field in the report is left blank. If there is nothing to be reported or the field does not apply to the company, then the Professional should write 'none' or 'nil' or 'not applicable' as the case may be.

The Professional should obtain a list of statutes applicable to the Company before proceeding with the assignment for the issue of the Diligence Report.

The compact structure of the Diligence Report under its twenty-five paragraphs makes it obligatory for Practicing Professionals to prepare the Report after a critical examination of all relevant records and documents of the borrowing companies which demands a high degree of care, skill, and knowledge

A Brief on the areas to be checked by the Professionals as mentioned in the RBI Circular are as follows:

1. The management of the Company is carried out by the Board of Directors comprising the following persons:

   a.

   b.

   c.

   d.

During the period under review, the following changes took place:

   a.

   b.

   c.

   d

2. The shareholding pattern of the company is as under:

   a.

   b.

   c.

   d

During the period under review the changes that took place:

a.

b.

c.

d.

3. The company has altered the following provisions:

   (i) The Memorandum of Association during the period under review and has complied with the provisions of the Act.

   (ii) The Articles of Association during the period under review and has complied with the provisions of the Act.

4. The company has entered into transactions with business entities in which directors of the company were interested.

5. The company has advanced loans, given guarantees, and provided securities amounting to ₹ ----------- to its directors and/or persons or firms or companies in which directors were interested.

6. The Company has during the period under review, made loans and investments; or given guarantees or provided securities to other business entities as under:

7. The amount borrowed by the Company from its directors, members, financial institutions, banks, and others was within the borrowing limits of the Company. Such borrowings were made by the Company in compliance with applicable laws. The break-up of the Company's domestic borrowings is as under:

   a.

   b.

   c.

   d.

8. The Company has during the period under review, not defaulted in the repayment of any public deposits or unsecured loans, and the Company or its Directors are not under the Defaulter's list of Reserve Bank of India or in the Specific Approval List of ECGC.

9. The Company has during the period under review, created, modified, or satisfied charges on the assets of the company as under:

   a.

   b.

   c.

   d.

10. The Forex Exposure and Overseas Borrowings of the company are as under:

    a.

    b.

    c.

    d.

11. The Company has issued, offered, and allotted all the securities to the persons entitled thereto and has also issued letters, coupons, warrants, and certificates thereof to the concerned persons and also redeemed its preference shares/debentures and bought back its shares (wherever applicable) in compliance with the specified procedures and within the stipulated time.

12. The Company has insured all its secured assets.

13. The Company has complied with the terms and conditions, set forth by the lending institution at the time of availing the facility and also during the currency of the loan and has utilized the funds for the purposes for which these were borrowed.

14. The Company has declared and paid dividends to its shareholders as per the provisions of the Companies Act, 2013.

15. The Company has insured fully all its assets.

16. The Company/Directors are not on the wilful defaulters' list of RBI.

17. The Company/Directors are not on the Specific Approval List of ECGC.

18. The Company has paid all its statutory dues and there are no arrears.

19. The Company has complied with the provisions of the Companies Act, 2013 in respect of its Inter Corporate loans and Investments.

20 The Company has complied with the Terms and Conditions, set forth by the lending institution at the time of availing any facility and also during the currency of the loan.

21. The Company has complied with the applicable and mandatory Accounting Standards issued by the Institute of Chartered Accountants of India.

22. The Company has credited and paid to the Investor Education and Protection Fund all the unpaid dividends and other amounts required to be so credited.

23. A list of prosecutions initiated against or show cause notices received by the Company for alleged offences under the Act and also the fines and penalties or any other punishment imposed on the Company in such cases is attached.

24. The Company has complied with the various clauses of the Listing Agreement, if applicable.

25. The Company has deposited both Employees' and Employer's contributions to Provident Fund with the prescribed authorities.

To Conclude, the Reserve Bank of India, looking at the needs of the industry has liberalized rules for consortium lending a little more than a decade back. Multiple banking as a concept had also started gaining ground at that time and many corporates opted for the multiple banking route presumably due to the perceived rigidity of the consortium arrangement. Sadly, the exchange of information between banks was minimal, and resultantly unethical borrowers were able to take advantage of the information asymmetry that prevailed.

The Central Vigilance Commission concerned with this development had attributed these phenomena to a lack of effective sharing of information among banks. A felt need all along has also been the requirement to have certification of statutory compliance by a Company through a professional such as a Cost Accountant/Company Secretary/Chartered Accountant/so that the lending banker gets the desired comfort.

LIFE AFTER LIBOR

(London Interbank Offered Rate)

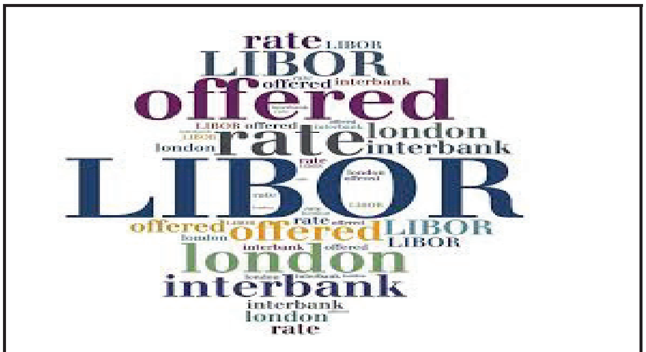
Abstract:

LIBOR stands for London Inter-Bank Offered Rate which is the benchmark interest rate at which banks lend to and borrow from one another in the interbank market. Essentially, it is the rate for unsecured short-term borrowing in the interbank market. LIBOR has been the most important number in the world's financial markets over the past few decades. Trillions of dollars of financial transactions and derivative products have been riding on this benchmark rate. LIBOR was considered as the gold standard of the financial world for reference as an interest rate benchmark. Over time, however, there have been certain happenings that eroded trust in this benchmark.

Er. Sunil Dasari,
Senior Manager,
Bank of Maharashtra,
Head Office, Pune

Scandal: In 2010 the British Financial Services Authority (FSA) launched an investigation into allegations of manipulative practices followed by the member banks for determining LIBOR. The Department of Justice of the US and the UK Serious Frauds Office (SFO) investigated the member banks. A lot of US financial instruments are linked to the USD LIBOR rate and hence the US had the authority to prosecute the member banks.

The investigations revealed that derivatives traders and employees of the member banks discussed and provided **artificial rates** that would benefit the traders instead of the rates that the bank would actually quote to borrow money. Banks also coordinated with other banks, something **akin to a cartel**, to alter the rates as well. This made the benchmark rate vary based on entirely the trader's positions sometimes. Further during the global financial crisis of **2007-08**, banks artificially quoted lower rates to appear that they can borrow money at lower rates to make the bank appear less risky and insulate themselves from the global phenomenon.



The investigation revealed facts that shocked the financial world as to the scale of wrongdoings and the benefits the member banks got by rigging the benchmark rate. It also shattered the trust the financial system had in the benchmark rates. **Reports revealed manipulation could be traced as far back as 2003**.

There were no proper checks in place for the determination of the rates and the conduct of the member banks and the process relied on a self-policing mechanism left to the banks themselves. The problem was not just limited to the member banks, it was also found that the relationships between these high-profile banks and the regulators like the Bank of England and the Federal Reserve Bank of New York also played a part. The executives at these regulators knew of the happenings but chose to **turn a blind eye**.

RBI Guidelines:

The Reserve Bank of India (RBI) has released a Roadmap for the LIBOR transition which inter-alia requires banks / financial institutions to frame a Board-approved plan, outlining an assessment of exposures linked to LIBOR and the steps to be taken to address risks arising from the cessation of LIBOR, including preparation for the adoption of ARRs. RBI has also encouraged banks / financial institutions to cease, and also encourage their customers to cease, entering into new financial contracts that reference LIBOR as a benchmark and instead use any widely accepted ARR.

The following table below shows the recommended **Alternative Reference Rates (ARRs)** which are nearly Risk-Free Rates (RFRs) for each of the LIBOR Currencies:

ARR	Geography	Administrator	Currency	Details
SOFR	USA	United States Federal Reserve System	$	**USD**-Secured Over Night Financing Rate (SOFR)
SONIA	UK	Bank of England	£	**GBP**-Sterling Over Night Index Average (SONIA)

ARR	Geography	Administrator	Currency	Details
ESTER Euro Short-Term Rate	Euro Zone	EUROPEAN CENTRAL BANK EUROSYSTEM	€	**EUR-** Euro Short Term Rate (ESTER)
SARON	Switzerland	SIX Swiss Exchange	₣	CHF- Swiss Average Rate Over Night (SARON)
TONAR Tokyo Over-Night Average Rate	Japan	BANK OF JAPAN	¥	JPY- Tokyo Over Night Average Rate (TONAR)

In preparation for the transition away from LIBOR, various authorities, industry bodies, and trade associations have identified certain **RFRs** as possible replacements for LIBOR and/or are considering how existing benchmark rates might be reformed. RFRs are overnight rates, **which traditionally are backward-looking**, i.e., are published after the period to which they relate. RFRs are considered to be more robust and representative than LIBOR because transactions in the underlying market inform the determined rate to a greater extent than is currently the case for LIBOR.

RFRs are calculated on a different basis and are **not like-for-like replacements for LIBOR**. LIBOR is set at or prior to the commencement of the period to which they relate, allowing certainty during such a period over amounts that will be due at the end of that period. A non-exhaustive list of the **differences between LIBOR and RFRs** is mentioned below:

LIBOR is a term rate benchmark across multiple tenors - O/N (Over Night), 1W (Week), 1M (Month), 2M (Month), 3M (Month), 6M (Month), 12M (Month), whereas RFRs are overnight rates with no term element;

LIBOR is a forward-looking rate, whereas RFRs are backward-looking rates;

LIBOR contains a premium for bank credit and term liquidity risk. In contrast, while the precise nature of each RFR may vary, in general, the RFRs contain little or no such additional premiums because they are overnight and sometimes secured; and

For each LIBOR currency, the replacement RFR would have both distinct characteristics and a distinct RFR administrator, whereas LIBOR is administered by a single administrator for all currencies, according to a single set of characteristics.

Fallbacks are contractual provisions that specify trigger events for a transition from referenced LIBOR rate to a replacement rate along with spread adjustments.

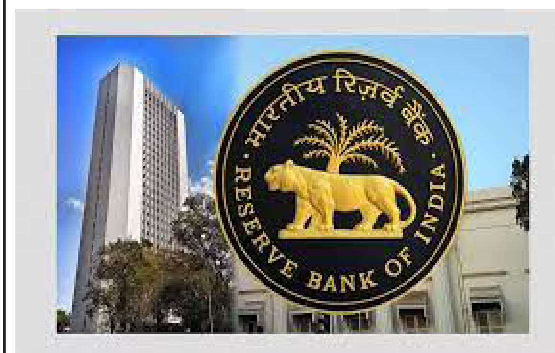
RFRs are based on overnight transactions and are therefore overnight rates as opposed to LIBOR which is published in multiple tenors. The overnight RFRs are risk-free or nearly risk-free whilst LIBOR reflects bank credit risk premium and other factors such as liquidity and supply and demand fluctuations. Consequently, adjustments need to be made to the relevant RFR to be used as fallbacks to LIBOR.

A "term adjustment" will account for the move from a term rate to an overnight rate and this will likely involve compounding the RFR on a daily basis to arrive at an "Adjusted RFR". For derivatives, the **International Swaps and Derivatives Association (ISDA)** has determined that the compounded setting in arrears rate will apply. Such a methodology will result in an adjusted RFR that is known at the end of the relevant interest period, rather than at the start of the interest period.

A "**Spread Adjustment**" will then be applied to the relevant adjusted RFR to account for the rate differential between the relevant LIBOR and the adjusted RFR. For derivative products, ISDA has determined that upon a permanent cessation of LIBOR, the spread adjustment will be based on the historical median spread between the relevant IBOR and the adjusted RFR calculated over a five-year lookback period.

Roadmap for LIBOR Transition:

The Reserve Bank of India had, in August 2020, requested banks to frame a Board-approved plan, outlining an assessment of exposures linked to the London Interbank Offered Rate (LIBOR) and the steps to be taken to address risks arising from the cessation of LIBOR, including preparation for the adoption of the Alternative Reference Rates (ARR).



a) Immediately after December 31, 2021, in the case of all Pound sterling, Euro, Swiss franc, and Japanese yen settings, and the 1-week and 2-month US dollar settings; and

b) Immediately after June 30, 2023, in the case of the remaining US dollar settings.

With the objective of orderly, safe, and sound LIBOR transition and considering customer protection, reputational and litigation risks involved, banks / financial institutions are encouraged to cease, and also encourage their customers to cease, entering into new financial contracts that reference LIBOR as a benchmark and instead use any widely accepted ARR.

While certain US dollar LIBOR settings will continue to be published till June 30, 2023, the extension of the timeline for cessation is primarily aimed at ensuring the roll-off of USD LIBOR-linked legacy contracts, and not to encourage continued reliance on LIBOR.

Banks/financial institutions are advised to incorporate robust fallback clauses, preferably well before the respective cessation dates, in all financial contracts that reference LIBOR and the maturity of which is after the announced cessation date of the respective LIBOR settings.

Banks/financial institutions may refer to the standard fallback clauses developed for this purpose by various agencies such as International Swaps and Derivatives Association, Indian Banks' Association, Loan Markets' Association, Asia Pacific Loan Markets Association, and Bankers Association, for Finance & Trade.

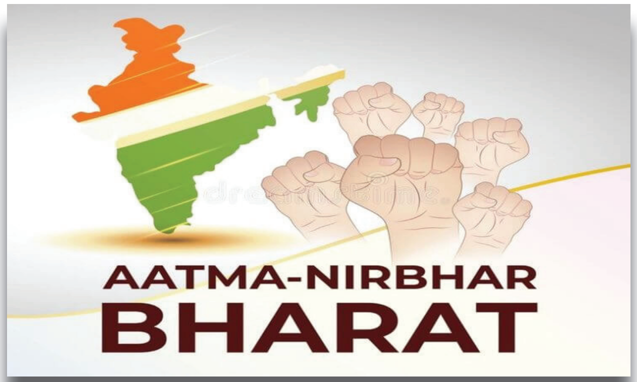
Banks are also encouraged to cease using the Mumbai Interbank Forward Outright Rate (MIFOR), published by the Financial Benchmarks India Pvt Ltd (FBIL), which references the LIBOR as soon as practicable. FBIL has started publishing daily adjusted MIFOR rates from June 15, 2021, and modified MIFOR rates from June 30, 2021, which can be used for legacy contracts and fresh contracts respectively.

To Conclude, banks / financial institutions must undertake a comprehensive review of all direct and indirect LIBOR exposures and put in place a framework to mitigate risks arising from such exposures on account of transitional issues including valuation and contractual clauses. They may also put in place the necessary infrastructure to be able to offer products referencing the ARR. Continued efforts to sensitize clients about the transition as well as the methodology and convention changes involved in the alternatives to LIBOR will be critical in this context.

References:

RBI Circulars & LIBOR Guidelines.

PIVOTAL ROLE OF BANK'S LENDING/ CREDIT TO ACHIEVE ATMANIRVAR BHARAT



Dr.Kishor Chandra Behera,
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Ex-Dy. General Manager,
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In order to cope up successfully with the impact/ changes arising out of external and internal environments consequent upon break out of COVID 19, series of unexpected happening like Ukraine -Russia war, North Korea – South Korea conflicts etc and subsequent sufferings, it became inevitable for our country to redefine our development process without much dependence on others by focusing on activating internal strength. The recent book, "Gandhi: The Years that changed India ", by Ramachandra Guha, indicates that while other patriots had used Swaraj to signify national independence, Gandhiji made India aware of its true meaning, Swa-Raj, or Self-rule Swaraj from political angle could not always translate in to economic Swaraj because of insufficient urbanization, industrialization, financialization, formalization and skilling of vast human resources. The Atmanirbhar Bharat policy announced by our honorable prime minister with the Slogan 'vocal for local to make it global' is a timely important move in meeting the crisis arising on unforeseen development in the globalized world as well as in meeting Gandhiji's vision of individual self-reliance and recognizing poverty as the worst form of violence.

The entire policy of Atmanirbhar is based on the idea of building a strong financial system which can play pivotal role in creating a vibrant economy with best utilizing the talent pool of our country. The banks being the most important players in the financial system, drive the economic development of a country by intermediating between Savers and investors and opening opportunities for the needy to progress in their respective field, industrialization, for self-reliance.

The banking system is just like mother bringing up a child after giving birth till his/her standing in his own feet by providing the supports the child needs at different stages. She tries to understand the feeling in respect of his sleeping time, passing urine, toilets, food, play, appetite, and his psychological needs and extends loving hands

so as to develop a feeling of easiness and trust in progressive independence. The day the child is born, the mother takes sole responsibility in easing the requirements, understanding the requirements like food, timing of sleep, natural call, appetite and so on to ensure the development of the child ultimately leading towards self-reliance. Likewise, the banks play pivotal role in understanding the financial needs, in shape of taking deposits from the depositors and lending to various types of borrowers with a purpose to increase the financial capacity of the people in general and development of the economy in particular. As banks' lending is important for lubricating the wheels of the economy in any country, the developmental role helps the flow of credit to critical sectors like agriculture, heavy industry, MSME, and helps customers to enter international market.

The banks customize different products for various category of people, develop various scheme in tune with the requirements, implements government schemes to eradicate poverty, facilitates poor and marginal people, including products like foreign exchange letter of credit, guarantee, remittance, collection, acceptance, bank syndication activities to arrange, participate, and underwriting foreign currency loan, and providing short term finance etc. In order to control and ensure proper flow of money, inflation management, economic development, RBI takes timely steps through monetary and credit policy and other methods to meet any unforeseen crisis andchallenges. In situation of great global financial crisis like sub-prime and post Lehman leading to great recession (2007-2009) when banks could become risk averse, central banks came forward to provide backup lending facilities in a coordinated manner. During COVID-19 also RBI along with commercial banks made the economy running with Supporting people's problems. The have and have-nots in society require intermediator which can size the transformation by pooling small ticket deposits, lending to the large and small borrowers, raising funds and lending for various tenures, benefits the poor have-nots through different government schemes for better livelihoods. This economic empowerment is possible only through banking system like commercial banks (Public sector, Private sector and foreign banks), co-operative banks, and RRBs. Non-bank financial institutions and other developmental banks help flow of credit to some important sector for economic developments. Despite many challenges like capital raising, risk of assets becoming non-performing, government policy, unforeseen geo-political situation, natural calamities and inherent risk associated with finance, banks have shown their maturity in making the life of the people stronger in becoming self-reliance like mother developing children. The banks and financial sector contribute to economic andsocial development in the following ways:

- Mobilizes savings for safe keeping, promote saving habits, helps accumulation of financial assets which act as cushion against unforeseen situation.

- Help through providing credit to increase income and develop entrepreneurship which generate income Opportunities too.

- Financial support to consumer activities like finance for furniture, small shops, housing, Cash transaction, payment facilitation between different parties.

- Besides providing access to financial services like deposits, loans, money transfer, it sells insurance products which helps the poor and low-income groups to _ insure themselves against any future illness and loss of employments.

- Financial support for internal and external trades, providing facilities like discounting, accepting bills of exchange, overdraft facilities, finance for import and export development, Foreign currency loan for setting up industrial projects, and its diversification, expansion and modernization, promoting new entrepreneur, innovation.

- It helps in implementing monetary policy, government spending by purchasing bonds issued by department of treasury.

- Provide financial assistance to agriculture sector for development of lands, crop, irrigation, mechanization and modernization of firm, diary, poultry, horticulture etc.

The Concept and Scope of Atma-Nirbhar-:

Atma-Nirbhar which means Self-Reliance is basically relying on own self without depending upon others. Whatever we require, we can make and make them available under this policy by aiming to develop various sectors through government policies and intervention with help of banking system. At national level it is about making our economy strong enough to manage without depending on other nation's help even at the time of crisis which ultimately can face any external or internal disruption. Self-reliance should not be assessed in terms of only economic strength but reliant upon our traditional and cultural values, recognizing our own strength, and working upon our weakness, taking responsibility with sense of national mission, as a means to eradicate hunger and poverty, improvement in health and education. To encourage use of swadeshi products, our prime minister advocates always 'Vocal for Local'. Local demands which can help the Indian companies to penetrate international market and earn the global recognition. Our Prime Minister, Shri Narendra Modi use to say that every global brand was at some time a local brand. So, creating vocal for local products can make some Indian company in global map.

He announced Rs 20 lakh crore special economic package on May,12,2020 for Atmanirbhar Bharat. It is based on the wide and deep consultation with various section of society, various ministry. India has huge talent, young population, and vast resources which can be best utilised to make our supply chain stronger to become Atmanirbhar.

He outlined five pillars of Self-reliance.

- Economy, which would bring not only incremental change, but a quantum of jump.

- Infrastructure of modern time.

- System which is driven by latest technology.

- Vibrant demography. In our country, more than 65% population are below 35 years of age, which is our great source of energy to drive the development.

- Demand where our supply chain can be better utilised to its full capacity. Our population of 139 crore can be demand creator.

Conclusion-: To achieve Atmanirbhar India, we need to strengthen our banking system which works as engine of the economy. No country can think of Atmanirbhar without proper banking system and without focusing on promotion of MSME sector which require financial as wellnas technological support, and large industry. Secondly, upgradation of skill of our demography so as to reap fruitfully the huge reservoir of youth energy. Third, structural upgradation of economy by investing in power, transport, surface, water and air ways, warehouse, investment in research & development, promoting innovation and creativity etc. Reform in education system linked with | skill development, creativity and employment are essential to support this Atmanirbhar. Fourth, there is need to make awareness through publicity and propaganda to create local demand for the local products.

These measures can promote self-reliance so that domestic industry can be encouraged to compete with global competitors as well as utilise the high human resources potential.

Atmanirbhar in defence:68% of capital procurement budget earmarked for domestic industry in 2022-23 up from 58% in 2021-22.

Defence R&D opened up for industry, start-ups and academia with 25% of defence R&D budget earmarked in last budget. Earlier, ministry of finance and corporate affairs have earmarked the funds under Atmanirbhar Bharat Package for different sectors and it is now visible in many field like MSME, Farmers capital funding, NBFCs/HFCs/MEIs, Infrastructure development, and so on. The role of banks in providing financial help and services to create new endeavours, utilise resources, development of enterprises, infrastructure, and move with new ideas to bring reforms for benefits of labour, farmers, industry are very pivotal in making our country Self-reliant over a period of time. The way things are moving with strengthening of banking system, it is sure 21 st century would belong to India with all round development.

Sustainable Banking : The Future of Banking

CMA (Dr.) S. K. Gupta
Managing Director
ICMAI Registered Valuers Organization

"The greatest threat to our planet is the belief that someone else will save it."

Robert Charles Swan Co-author of "Antarctica 2041: My Quest to Save the Earth's Last Wilderness", environmentalist and the first person to walk both poles.

The Perspective

The topic of sustainability has been at the forefront of discussion among global leaders as a key component to societal progression. Sustainability principles promote an intrinsic balance among the economic, social, and ecological perspectives of business, enabled by a wise amalgamation of technology, innovation, and collaboration. Banks are emerging as a driving force in the sustainability effort. The industry is uniquely positioned to meet the challenge—and the opportunity. With the push for sustainability in business and net-zero grows across the globe, the demand for going green has hit the financial sector also. The banking and finance sector can play a driving role in mobilizing, investing and directing capital toward the Sustainable Development Goals (SDGs) and towards climate outcomes. It is high time that businesses pivoted from their policies that emphasized profit generation to prioritizing sustainable practices that preserve the natural and human infrastructure that supports them and all commerce and industries. Banks have to lead the way in this transformation since they regulate the cash flow that enables business operations.

What is Sustainable banking ?

A formal definition of sustainable banking is still being developed. At this stage, it is widely understood that sustainable banking implies carrying out banking operational and business activities, with conscious consideration for the environmental and social impacts of those activities. Sustainable banking is a strategy that refers to banking and investment practices that pursue profit, while prioritizing social responsibility and/or environmental sustainability. A new "triple bottom line" approach to banking contextualizes the relationships between profit, social equity and environmental accountability. Sustainable banking integrates environmental, social and governance (ESG) criteria into traditional banking, and sets ESG benefits as a key objective. This relatively new form of banking has changed vastly in recent years. Old notions of sustainable banking conjured sentiments of trade-offs and charity – doing the right thing used to mean doing the less profitable thing. This no longer holds true. The following are the Dimensions of Sustainable Banking

- Aligning financial flows with sustainable development goals
- Incorporating sustainability into banks' governance and culture
- Measuring and managing E&S impacts and risks
- Engaging customers, clients and stakeholders to develop sustainable financial products
- Sustainability reporting: A critical tool for enhancing corporate transparency and accountability

Sustainable banking is defined as the delivery of "financial products and services, which are developed to meet the needs of people and safeguard the environment while generating profit. Banks started to deal with sustainability during 1990s, increasing their interest in 2000s. Nowadays, sustainability is seen as an extra lever of economic growth by the banking sector. Practically, banks can stimulate sustainable development directing their financial policy towards sustainable companies. The banking industry is important to achieving sustainable development due to its unique intermediation role, which is essential for mobilizing financial resources toward sustainable goals. Sustainable banking ensures that internal and external banking activities meet sustainability requirements of internal and external stakeholders. The discernible shift that many banks have made in recent years towards addressing the environmental and social impacts of their financial services is a welcome and important first step in this direction. More and more banks realize that ignoring social and environmental issues could considerably increase their exposure to credit, compliance and reputational risks.

Objectives of Sustainable Banking

Profit at all costs ceases to be the primary objective of sustainable banking. While a healthy bottom line continues to be a goal, other objectives that will encompass environmental and social criteria start being significant considerations in selecting investments and formulating policies. The objectives of sustainable banking include:

- **Quality of life considerations:** These include investments that directly improve the standard of living. Investments in improving access to education, affordable housing, public transportation, and low-cost healthcare get priority over investments in financial instruments.

- **Promotion of clean energy:** Actively pursue and promoted investments in alternative energy instead of investments in coal, gas, and oil. They will also invest in the development and popularization of vehicles utilizing electricity and natural gas. Concurrently, invest in technologies to lower the emissions and improve the mileage of gasoline-powered vehicles.

- **Financial inclusivity:** Support responsible banking initiatives like microloans that help family-owned businesses and small businesses in economically disadvantaged communities. While returns on such initiatives are not as high as on investments in big business, the track record of similar institutions worldwide have demonstrated that microloans are indeed profitable investments.

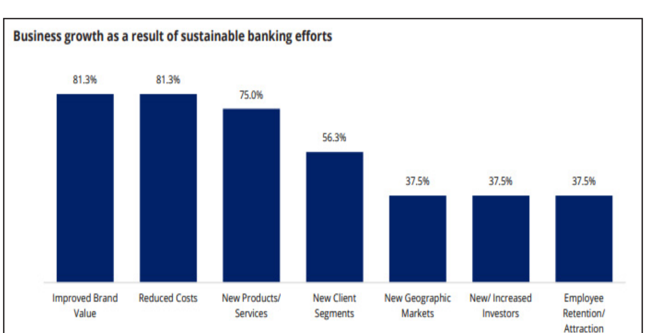
Sustainable agriculture: Support green banking policies that encourage investments in pollution-free and toxin-free agriculture. Since the production, processing, and distribution of food are foundational to human society's health and well-being, sustainable banking objectives must include sustainable agriculture.

Why is Sustainable Banking Important?

A business as usual approach to banking, that ignores the far-reaching implications of investments, will end up costing global markets an estimated $30 trillion. By limiting an investment strategy to profit only, banks are headed into the direction of not only environmental disaster but economic ruin as well. Changing course will open up an estimated $12 trillion in market opportunities. Simply put, sustainable banking just makes good financial sense. In 2015, the world recognized the urgent need to act. Setting a path for prosperity, sustainability, and equity, the Sustainable Development Goals (SDGs) aim to meet the needs of today's people without compromising the ability for future generations to meet their needs. Sustainable banking is an integral piece to achieving these goals.

Yesterday just the shareholders mattered, today it's all the stakeholders

Banks are highly committed to sustainability but need key success factors in place to realize the full benefits of their sustainable banking efforts. Improved brand value and reduced costs are the areas of greatest improvement as a result of sustainable banking efforts



Sustainable banking isn't just a philosophy – it's about action

Financial institutions must expand their missions from ones that prioritize profit maximization to a vision of social and environmental sustainability. A commitment to sustainability would require financial institutions to fully integrate the consideration of ecological limits, social equity and economic justice into corporate strategies and core business areas (including credit, investing, underwriting, advising), to put sustainability objectives on an equal footing to maximization of shareholder value and client satisfaction, and to actively strive to finance transactions that promote sustainability. Following action strategies are imperative for building sustainable Banking architecture

- **Define the role:** Banks have started defining the role they want to play in their ecosystems, which can be global and/or local. Each bank can define its own role depending on its current positioning as an investor, as a shareholder, or as a lender. This strategic exercise is key to on boarding all stakeholders in the process.

- **Redefine your mission :** A crucial landmark on the road towards sustainability is the redefinition of the bank's long term mission. This demands a profound rethinking of the reason of existence of your bank, what the bank has to offer to this world. A truly sustainable bank's mission cannot be purely defined from the perspective of the maximization of shareholder value and client satisfaction. It needs to incorporate wider sustainability goals.

- **Evaluate your portfolio :** Using the perspective of the redefined mission, the bank needs to evaluate its portfolio. Assess all direct and indirect environmental and social impacts of the financial services provided by the bank to its clients, including retail banking (saving accounts, credit, mortgages), commercial banking (company loans, trade finance), investment banking (stock issuances and trading, project finance, stock analysis, M&A and other corporate advising), asset management, private banking, trust banking and other forms of financial services.

✷ **Redefine your strategy :** The evaluation of the bank's portfolio will lead to strategic choices. To become a sustainable bank, a redefinition of the bank's strategy is inevitable. Based upon an assessment of its past experience, its present capabilities and its future ambitions, the bank needs to select the social and environmental issues it wants to assign top priority to

✷ **Develop sector and regional/country policies :** For the specific sectors and countries the bank chooses to be active in, it needs to develop concrete policies that allow the bank to deal with challenges that will inevitably arise. These policies serve a dual purpose: they define the ambitions and goals the bank wants to achieve and help promote, its vision of sustainability in concrete terms.

✷ **Build capacity, train, motivate and reward employees :** To put the ambitions formulated in specific policies into practice, the bank needs to devote considerable attention and resources to capacity building, training, motivating and rewarding its employees. All employees involved need to be trained with regard to the social and environmental issues related to the sectors, issues and countries in which the bank is active. Specific attention should be paid to internalising the bank's mission and specific goals by employees. Additionally, a sustainable human resources policy attracts, stimulates and rewards people who are able to contribute to the bank's mission and sustainability goals most effectively.

✷ **Foster innovation :** Global sustainability is not an easy goal to achieve. Radical changes are needed to use our natural resources efficiently, equitable and prudently to fulfil the needs of a growing global population, while preserving existing ecosystems and preventing climate change. At the same time, the global wealth and opportunities have to be redistributed, providing equal chances, securing human rights and a decent living to all global citizens. To achieve all these goals, we need many innovations. Banks and other financial institutions need to use all their intellectual and financial skills to help other companies nurture technical innovations and bring them to the market, to assist the poor in creating a means of living, and to set up businesses which manage resources and ecosystems in a sustainable way.

✷ **Environmental and Social Risk Management System:** To ensure that the minimum standards of the banks policies are applied to all financial services, banks need a rigorous Environmental and Social Risk Management System. This should include the following elements: Perform an initial sustainability review to identify the bank's key sustainability risks and opportunities, and to guide appropriate policy development; adopting strong and comprehensive policies is not enough; implementing a well-functioning Environmental and Social Risk Management System is of crucial importance.

✷ **Ensure fair and inclusive retail financing practices :** Take all necessary steps to ensure that the bank's retail products are equally available to all retail clients, irrespective of race, ethnicity, gender or other community characteristics, for the same interest rates. Ensure that appropriate reinvestment is made of disadvantaged communities' deposits. Take all necessary steps to avoid engaging in or enabling so-called predatory lending to retail consumers. Similarly review the lending patterns of any retail lender, particularly subprime lenders, which the bank may purchase or whose loans it may help securitize or for which it may serve as trustee.

Challenges for sustainable Banking

The move towards sustainable banking also entails certain challenges

✷ **Clear priority for sustainability in organizations' budgets:** The biggest challenge for sustainable banking, as reported by the respondents, is budget limitations. Closing this budget gap is essential to ensuring that banks have the resources needed for long term and meaningful investment in sustainable banking activities. Convincing decision makers using an evidence-based business case can facilitate the prioritization of sustainability in the organization's budgets

✷ **Data collection and analysis :** Some of the banks struggle with linking their realized benefits with their sustainable banking activities. Establishing a strong data collection and analysis culture, as well as being equipped with the tools to implement this, is pertinent to establishing such linkages.

Conclusion

Financial institutions should bear full responsibility for the environmental and social impacts of their transactions. Financial institutions must also pay their full and fair share of the risks they accept and create. This includes financial risks, as well as social and environmental costs that are borne by communities.

It is high time that businesses pivoted from their policies that emphasized profit generation to prioritizing sustainable practices that preserve the natural and human infrastructure that supports them and all commerce and industries. Banks have to lead the way in this transformation since they regulate the cash flow that enables business operations. The first step in this transformation is to realize that the old policies motivated by profits alone are short-term thinking results. Sustainability policies are born of long-term thinking. They do not hinder businesses but instead enable them to maintain healthy operations and profits well into the distant future. Sustainable banking is not for the weak; it involves creating a profound change in your business. While it may still feel that this is a choice open to individual banks (or corporations in general) to either follow or ignore, the trends in the financial world and expectations within society unmistakably point toward a obligation to take up this challenge. Banks that visualize and execute their sustainability agendas now will have first-mover advantage in the race to meet their sustainability goals.

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BANKS MUST SUPPORT START-UPS AS A NATIONAL OBLIGATION

Shri Hargovind Sachdev
Former General Manager
State Bank of India

Targeted lending by Indian Banks to Agriculture, MSME, Housing & Exports has brought miraculous results. The dedicated funding of farmers actualised self-sufficiency in food, and milk production and the MSME segment became an arterial destination for employment. Housing loans are pivoting the construction industry across the country and actualising the dreams of owning the roof. The exports have touched the $ 500 billion mark to tilt the Balance of Trade and improve forex reserves. Invariably, all banks are integral players in this growth story deserving appreciation for their valuable support.

However, the world has not heard of any significant innovation by India for a long time and eagerly awaits fresh discoveries. But there is little chance for out-of-the-box creation, as Indian banks discard supporting Startups inhibiting their potential to make India an innovative country. We continue to be a cut-and-paste manufacturing economy rendering a below-the-mark quality.

With low NPAs and improved profitability, the time is ripe for banks to support Startups. RBI should mandate banks to extend focused targeted lending and earmark a minimum share of funds to Startups as part of National Obligation.

A startup venture in the Indian context is a new business in the initial stages of operation, beginning to grow and is typically financed by an individual or small group of individuals. It is a young entrepreneurial, scalable business model built on technology and innovation wherein the founders develop a product or service for which they foresee demand through disrupting existing markets. Startups are the embodiment of ideas that manifest into commercial undertakings.

Banks should mandatorily lend a minimum of 5% equivalent of the previous year's loan book to Startups to make India an incubator for innovators. America and China have already reaped the benefits of similar efforts. Europe has empowered Startups and enhanced the GDP to reduce unemployment.

Four important facets of a startup venture help the economy grow. These are broad market acquisitions, human resources deployment, intellectual property rights registrations and efficient capital management. These features upgrade the convenience of doing business and make the country an investment destination. The success of these four pillars initially stands on low-cost domestic funds. Indian banks are still security conscious and do not lend to Startups who carry fresh but risky ideas and concepts. But even the orthodox industry has also generated substantial non-performing debts. Banks must reorient to finance Startups rather than leaving the field open to NBFCs and Private Equity funds.

Startups in the Indian scenario have tremendous scope in catering to local and niche markets that could be viable and sustainable with the early potential of revenue generation. With a small area of operations and an exemplary product /service, the success rate could be high, with a possible chance for expansion.

The most significant value of Startups is the force behind them—most of the Startups rope in highly qualified MBAs and Engineers. With a proper response from banks, fresh ideas could see the light of the day, firewalling our cities from the orthodox polluting industries that are energy guzzlers, carbon-intensive with poor job creators.

Presently, disappointed Startups enter open markets and lean heavily on private equity, which is not only short-term but also prohibitively costly. Some budding entrepreneurs leave the country, further fueling the brain drain losses.

The startup arena has a lot of challenges apart from finance. The scarcity of quality human resources at a reasonable price and the remnant constraints of the license raj hinder their sustenance. In a country with a large population, many opportunities are available for startups ranging from food, retail, and hygiene to solar and IT applications for daily use. All these are deliverable at affordable prices. Some of these startups would become unicorns and world-renowned businesses by expanding into distant geographies of developing and underdeveloped countries.

History shows that the fulcrum of prosperity shifts towards innovative nations. Banks must finance Startups to take India forward on its path to become a $ 5.0 trillion economy.

Rightly said Reliance founder Dhiru Bhai Ambani, ***"The success of the young entrepreneur will be the key to India's transformation in the new millennium".***

A GOOD BLEND OF CREDIT AND INTEREST RATE POLICY

Abstract

Indian economy is in construction phase. In this phase challenges come from all dimensions. Authoritative hands have to make many permutations and combinations to near the targeted goals. Growth of the economy is obviously at the TOP priority

Corporations solicit from banks once they set up innovative ventures. They have been one of the major credit consumers to banks, which make up substantial earnings. Loan requirement is an vital sign of new projects, venture capital and commercial pursuit in the economy. Credit is the propeller of growth.

Deposit is the base of loan. Loan capacity depends upon loan amount. The pace of the two has to be in match and in a balance.

Dr. Jyotsna Haran *(Retired)*
Presently Visiting Professor in Mumbai

Prologue

'The fish settles on the sandy ocean bottom where it blends in perfectly'.

Indian economy is in construction phase. In this phase challenges come from all dimensions. Authoritative hands have to make many permutations and combinations to near the targeted goals. Growth of the economy is obviously at the TOP priority. Along with it comes problems like inflation, unemployment, capital , finance, savings and alike to be taken care of.

One observable development is noticeable credit growth in almost all sectors of the economy; and good growth in saving deposits. We could observe an effective interest policy in practice and an effective credit policy in a good blend and being compatible with each other leaving a positive impact on the on going under construction Indian Economy.

Trend of Credit Growth

What is Credit Growth? The upsurge in call for advances is titled credit growth. In swap for the money, we deposit in the bank , banks agree to compensate us a steady interest. The lengthier the duration of our account, the greater is our interest level, because deposits are a supplier of low-cost financing for banks. It needs to pay only 4-7% on our savings account deposits. This is smaller than the 8% it pays when deriving from the RBI. Banks then offer the money for a loan at higher interest rate. This deserves banks an advantage income. The superior interest payments support banks get into income... This is a crucial gauge of economic endeavours.

Wherefor Credit Expansion Concerns:

Corporations solicit from banks once they set up innovative ventures. They have been one of the major credit consumers to banks, which make up substantial earnings. Corporations use sum of money in crores. Consequently, interest sums too run into crores of rupees. Loan requirement is an vital sign of new projects, venture capital and commercial pursuit in the economy. Credit is the propeller of growth.

Credit Growth- its Trend

Bank credit expansion speed up to 16.28 per cent for the two weeks ended September 23, as per Reserve Bank of India. The total non-food credit remained at Rs 130.06 lakh crores as on September 23 as compared to Rs 111.85 lakh crores in the year-ago phase on September 24, 2021.The deposit increase was at 8.96 per cent for the fortnight ended September 23. The total deposits stayed at Rs 174.54 lakh crores on that date as against Rs 160.19 lakh crores in the year-ago time. In Financial Year 2021-22, bank credit rose by 8.59 per cent and deposit by 8.94 per cent.

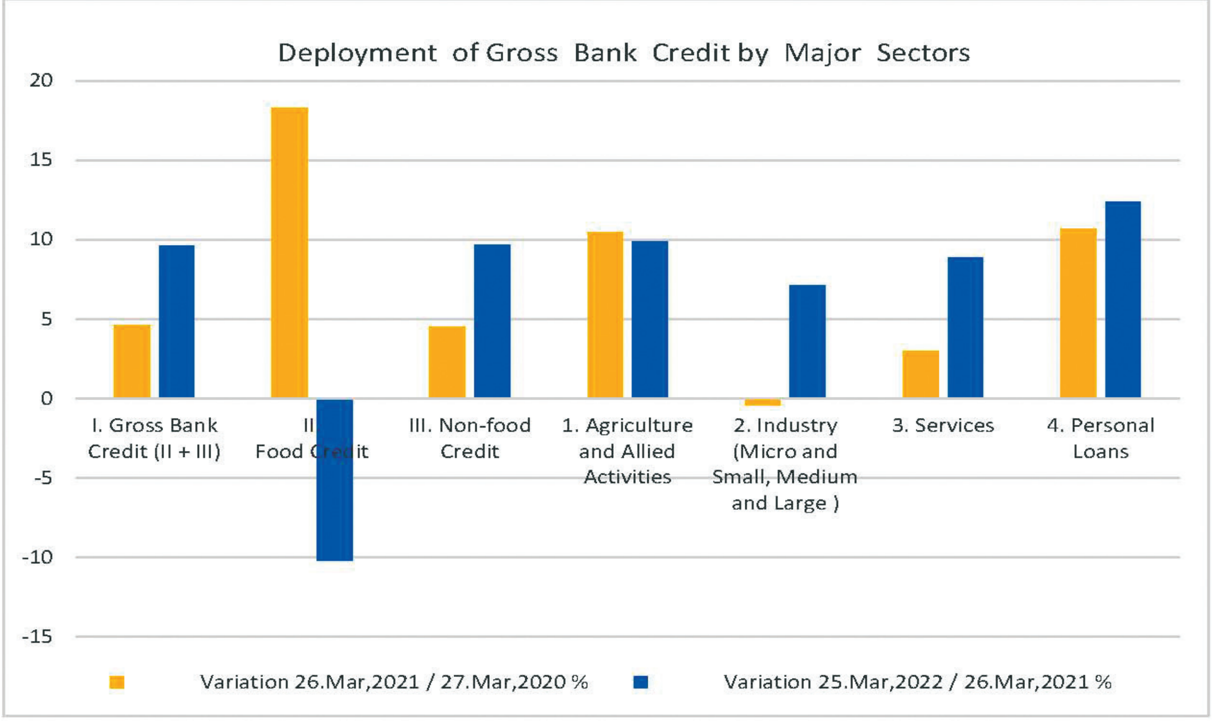
Statement 1: Deployment of Gross Bank Credit by Major Sectors

(₹ Crore)

Sector	27.Mar,2020	26.Mar,2021	25.Mar,2022	Variation 26.Mar,2021 / 27.Mar,2020	Variation 25.Mar,2022 / 26.Mar,2021
				%	%
I. Gross Bank Credit (II + III)	10370861	10847288	11890638	4.6	9.6
II. Food Credit	51764	61254	55011	18.3	-10.2
III. Non-food Credit	10319097	10786033	11835628	4.5	9.7
1. Agriculture and Allied Activities	1207738	1334022	1466514	10.5	9.9
2. Industry (Micro and Small, Medium and Large)	2973428	2962332	3171909	-0.4	7.1
3. Services	2706291	2788463	3036122	3.0	8.9
4. Personal Loans	2712688	3001645	3374876	10.7	12.4

(Source: RBI Press Release, 29 April 2022, RBI Site)

Above data reveals, over a period of three years gross bank credit has nearly doubled; though a declined in the sector of food credit. In the industry section the change is from negative to positive to the extent of 7 percent. It gives a rosy picture for the economy to proceed.



Statement 2: Industry-wise Deployment of Gross Bank Credit					
(Rs. crore)					
Industry				Variation	
	27.Mar,2020	26.Mar,2021	25.Mar,2022	26.Mar,2021 / 27.Mar,2020	25.Mar,2022 / 26.Mar,2021
				%	%
2.1. Mining and Quarrying (incl. Coal)	45224	43635	48972	-3.5	**12.2**
2.2. Food Processing	144698	156502	173530	8.2	10.9
2.3. Beverage and Tobacco	17952	17708	18266	-1.4	3.2
2.4. Textiles	194786	204521	225096	5.0	**10.1**
2.5. Leather and Leather Products	10473	10524	11491	0.5	9.2
2.6. Wood and Wood Products	12471	13778	15037	10.5	9.1
2.7. Paper and Paper Products	30710	35185	38505	14.6	9.4

Statement 2: Industry-wise Deployment of Gross Bank Credit					
(Rs. crore)					
Industry				Variation	
	27.Mar,2020	26.Mar,2021	25.Mar,2022	26.Mar,2021 / 27.Mar,2020	25.Mar,2022 / 26.Mar,2021
2.8. Petroleum, Coal Products and Nuclear Fuels	75982	67253	87615	-11.5	**30.3**
2.9. Chemicals and Chemical Products	211386	196958	214141	-6.8	8.7
2.10. Rubber, Plastic and their Products	52761	56018	72088	6.2	**28.7**
2.11. Glass and Glassware	6930	6687	6071	-3.5	-9.2
2.12. Cement and Cement Products	61360	55445	47925	-9.6	-13.6
2.13. Basic Metal and Metal Product	348465	326284	296427	-6.4	-9.2
2.14. All Engineering	161418	149191	162205	-7.6	8.7
2.15. Vehicles, Vehicle Parts and Transport Equipment	84793	86053	91364	1.5	6.2
2.16. Gems and Jewellery	66235	73291	79747	10.7	8.8
2.17. Construction	110890	100430	104700	-9.4	4.3
2.18. Infrastructure	1082987	1100774	1202694	1.6	**9.3**
2.19. Other Industries	253908	262095	276036	3.2	5.3
Industries (2.1 to 2.19)	2973428	2962332	3171909	-0.4	7.1

(Source: RBI Press Release, 29 April 2022, RBI Site)

The industry breakup [statement 2] shows a vivid scenario, obviously it cannot be the same for all. But it can guide about the different focus and attention. One obvious look says; mining, textile, petroleum & coal, Rubber and plastic and infrastructure have recorded noticeable upsurge in credit growth.

Credit expansion in the banking arrangement was at a multi-year elevated of 16.2 per cent year-on-year, for the fortnight over September 9, the up-to-date data released by the Reserve Bank of India . Previously , credit growth touched 16 per cent in November 2013.

In the existing financial year, hence far, banks have stretched over Rs 6.5 trillion in loans, showing YoY growth of 5.5 per cent. Across the same phase last year, there was a drop of 0.3 decline YoY. Experts anticipate credit requirement to continue strong because of the continuing festive term, though cash flow in the system may worsen for consumers be inclined to keep up more cash throughout this time.

Trend of Deposit Growth

Deposit is the base of loan. Loan capacity depends upon loan amount.

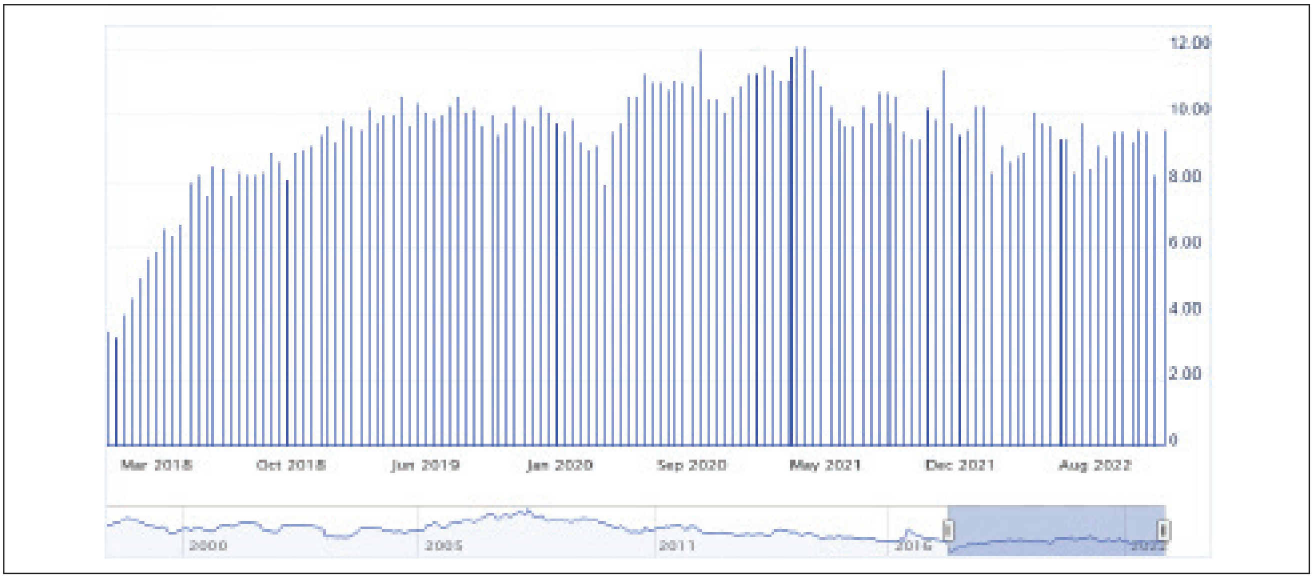
Deposit rates though is on increasing trend but not to match with credit growth.

India Total Deposit Growth was reported at 9.8 %

in Sep 2022. This records an increase from the previous number of 9.5 % for Jun 2022/India Total Deposit Growth data is updated quarterly, averaging 15.3 % from Dec 1999 to Sep 2022, with 92 observations. The data reached an all-time high of 24.7 % in Sep 2007 and a record low of 4.1 % in Dec 2017. (https://www.ceicdata.com/en/country/india, n.d.)

The following graph shows depiction of five years data to get over the idea of its trend.

India's Deposit Growth



Source: https://tradingeconomics.com/

Line graph of Deposit Growth

Source: https://tradingeconomics.com/

The greenish line in the graph shows the average trend.

The RBI in its position of economy report (November 2022 bulletin) revealed the median term deposit rates (average card rates on retail deposits) on fresh deposits grew by 48 basis points during May-October 2022. Banks have expanded their volume deposit rates higher than retail deposit rates.

Among bank groups, conduction to loaning and deposit rates of private sector banks has outstripped that of public sector banks in the current contraction period, the RBI said.

Excess liquidity in the banking system is normalising. "Therefore, banks may currently have to boost deposit rates at a swifter speed, which we are now noticing. In fact, with competition for deposits also set to intensify, some banks may have to resort to higher-cost wholesale deposits," CRISIL said in a note.

Credit & Deposit – A wide Gap

Subha Sri Narayanan, director, CRISIL Ratings, said in this high credit growth environment, whether deposit growth can keep pace is "something which we have to monitor". (Lele, 2022)

Interest rates are going up, in recent times. The U.S. Federal Reserve and other central banks all over the globe have set up higher interest rates to restrain inflation. The justification at the back of increasing interest rates is that the price of borrowing soars each time as they are grown, and the motivation to save and invest rather than spend, improves due to improved yields.

Costly loans should not hit credit growth. The pace of deposits to be governed. Many government schemes long term and short term, special schemes for senior citizens could boost deposit rates.

There is an improvement which we can witness and experience but still long path to go ahead. The effects of contractionary monetary policy on the working of the system have to be observed and accordingly move on in this direction.

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IS IBC 2016 PREFERRED LEGISLATION FOR BANKERS OVER ***SARFAESI***

The article gives brief understanding of IBC 2016 vis-à-vis of SARFAESI Act. It also gives analysis on various matters including when there are two laws come at loggerheads, which one shall prevail. What are the key differences between both the laws. Which one of the two laws is preferred for the recovery of dues and why?

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The Insolvency and Bankruptcy Code 2016 ["IBC 2016" or "Code"] got the assent of the President of India on 28th May 2016 and was made effected from 1st December 2016 in India. One of the important objectives of the Code is to bring the insolvency law in India under a single unified umbrella for speeding up of the insolvency process. As per World Bank' data published in 2016 when the said Code was approved by the Parliament, insolvency resolution in India was taking 4.3 years on an average, which was much higher as compared with the Japan (6 months), United Kingdom (1 year), USA (1.5 years) and South Africa (2 years). Average recovery rate in India was 26% as compared to Japan 90%, UK 85%, US 81%.... Also, the World Bank's Ease of Doing Business Index, 2015, ranked India as country at number 135 out of 190 countries on the ease of resolving insolvency and now India as a result of IBC 2016 earned a place amongst the world's top 10 improvers for the 3rd consecutive year as per Ease of Doing Business Report 2020.

The Securitization and Reconstruction of Financial Assets and Enforcement of Securities Interest Act ("SARFAESI Act") was enacted in 2002 in India basically for the purposes of recovering the debts and other financial assets in case of default by the borrowers.

The objectives of both the Acts are different i.e. IBC 2016 addresses the Insolvency in a time bound manner and SARFAESI is not specifically directed towards insolvency but rather financial debts that are defaulted.

In last six years, IBC 2016 has established its supremacy of markets and the rule of law in resolution of stress assets. It has provided a freedom of exit to rescuing companies in financial stress; releasing the idle resources from inefficient uses; helping creditors to realize their dues and has brought out a behavioural change amongst the debtors and creditors. The Code provides for resolution of stressed assets in two ways:

> ***In Swiss Ribbons Pvt. Ltd. & Anr. Vs. Union of India & Ors.,*** *Supreme Court held that the Code is a beneficial legislation which puts the Corporate Debtor back on its feet and is not a mere recovery legislation for creditors. The interests of the Corporate Debtors have, therefore, been bifurcated and separated from that of its promoters/ those who are in management. The defaulter's paradise is lost. In its place, the economy's rightful position has been gained.*

- first rescue the stressed companies by resolution plan; and
- failing which, by the closure of the company through liquidation process

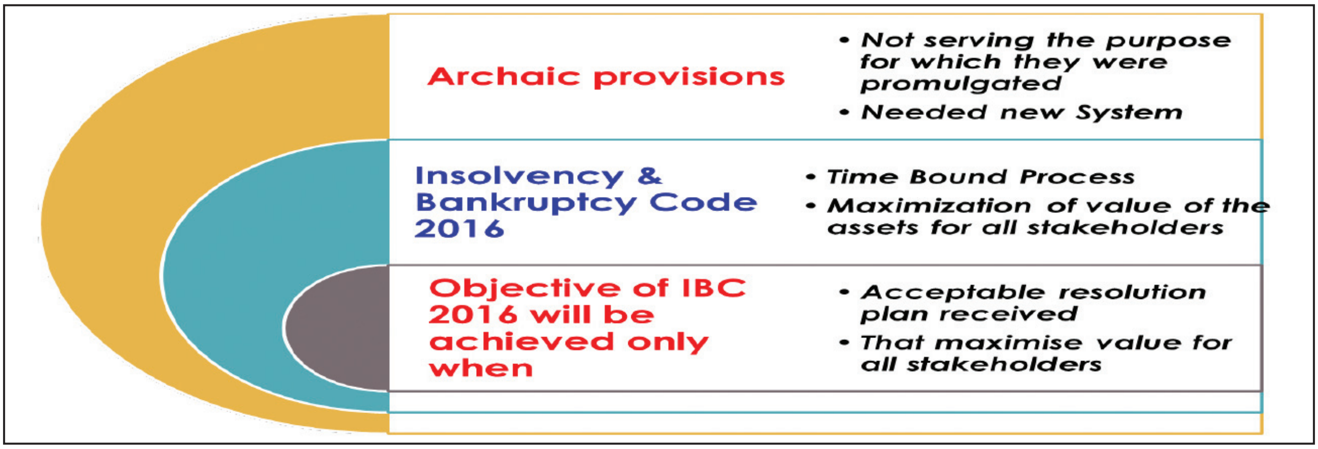
It would not be understatement that the Insolvency and Bankruptcy Code has had profound impact on the creditor-debtor relationship in India over a period of more than six years.

On the other hand, ***SARFAESI provides for the recovery of NPA*** to the banks and other financial institutions through the auction of properties of the defaulter, this includes either taking over the possession of the secured assets of the borrower (with the right to lease, assign or sell the secured asset) or taking over the management or business of the borrowers until NPA is recovered.

SARFAESI, 2002 and the RDDBFI, 1993 (that set up the Debt Recovery Tribunals or DRTs) Acts are designed to exclusively benefit secured creditors such as banks and financial institutions while limited legal recourse is available to other unsecured creditors and operational creditors in the event of insolvency of the debtor firm. The IBC seeks to resolve this issue by according the rights to all types of creditors, and not just secured financial creditors, to trigger insolvency proceedings against the debtor firm. The IBC has overriding effect over other laws.

> ***In Indian Overseas Bank Vs. M/s. RCM Infrastructure Ltd. and Anr. [Civil Appeal No. 4750 of 2021]***
> *Supreme Court held that the appellant bank cannot continue the proceedings under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI) once the CIRP was initiated and the moratorium was ordered under section 14 of the Code, which has an overriding effect over any other law.*

Insolvency and Bankruptcy Code (IBC) 2016- Why it was implemented?



Resolution Plan should balance the interest of all stakeholders, realistically drawn and suggested the measure to implement it successfully

Objective of Code

Commercial v/s. Judicial Aspect	• Code separates, commercial aspects of insolvency and bankruptcy proceedings from judicial aspects. • **Commercial Aspect-** Resolution Professional /Committee of Creditors & **Judicial Aspect-** Adjudicating Authority (AA)/Appellate.
Respective Domain	• Code empowers and facilitates: • stakeholders and Adjudicating Authority to decide matters within their respective domain expeditiously.
Rescue v/s. Closure of Firm	• Code envisages a market mechanism to rescue firms in financial distress and • facilitate closure of firms in economic distress, • in accordance with the processes under the Code and rules and regulations made thereunder ***In view of objective, it is mentioned that IBC 2016 is not a recovery Act, and as per Section 238 of IBC 2016 it has overriding effect on other laws, and this has been stated by various courts also while deciding various matters.***

M/s. Invent Asset Securitisation and Reconstruction Pvt. Ltd. Vs. M/s Girnar Fibres Ltd. [Civil Appeal No. 3033 of 2022]

The Financial Creditor filed section 7 application for a right to sue that accrued when the default occurred before February 28, 2002. The Supreme Court observed that: 'Time and again, it has been expressed and explained by this Court that the provisions of the Code are essentially intended to bring the corporate debtor to its feet and are not of money recovery proceedings as such. The intent of the appellant had only been to invoke the provisions of the Code so as to enforce recovery against the corporate debtor'.

Brief about IBC 2016

Time Bound Process	**CIRP to be completed: In case of** **Normal: within 180 days** **Fast Track: within 90 days** **As per Amended Act 2019: MUST BE Completed within 330 days including time taken in legal proceedings.**
Extension of Time	**Maximum ONE TIME EXTENSION upto 90 days Normal; Fast Track 45 days**
Adjudicating Authorities & Jurisdiction	• **NCLT-** Adjudication Authority for Corporate Persons • **NCLAT-** Appellate Authority: Appeal against NCLT orders on sufficient cause • **DRT-** Adjudication Authority for Individuals & Partnership Firms • **DRAT-** Appellate Authority: Appeal against DRT orders on sufficient cause • **Supreme Court:** Appeal against orders of NCLAT on question of Law. • **Civil Courts:** Do not have Jurisdiction
Appeal	Appeal against Adjudicating Authority (NCLT/DRT) orders can be filed to **Appellate Authority (NCLAT/DRT) - within 30 days** of such order**. Time can be extended on sufficient cause upto 15 days.** **Appeal against NCLAT/DRAT orders lies only to Supreme Court, can be filed within 45 days. Time can be extended on sufficient cause upto 15 days.**

Safire Technologies Pvt. Ltd. Vs. Regional Provident Fund Commissioner & Anr. [Civil Appeal No.2212 of 2021]

Supreme Court reiterated that the limitation period of 30 days for filing of appeal against the order of Adjudicating Authority under section 61 of the Code must be interpreted strictly and rejected the plea that the limitation period would start running from the date of knowledge of the order of the Adjudicating Authority.

What is Insolvency, Bankruptcy and Liquidation:

Insolvency	A state in which financial difficulties of a company are such it is unable to run its business at its current face.
Bankruptcy	When a person is legally declared as incapable of paying their dues and obligations
Liquidation	The process of winding up a company

Insolvency precedes bankruptcy and liquidation follows bankruptcy

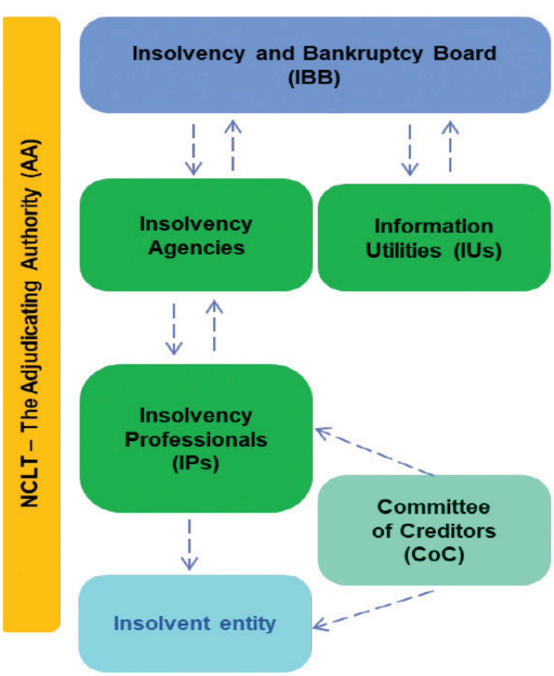
Insolvency Warnings

- *Drop in sales*
- *Delay in payments*
- *Increasing reliance on credit*

Cash Flow Test

- *When Cash Flow **"in"** is less than cash flow **"out".***

Eco-System under IBC 2016



IBB – apex body for promoting transparency & governance in the administration of the IBC; will be involved in setting up the infrastructure and accrediting IPs & IUs.

IUs - Centralised repository of financial and credit information of borrowers; would validate the information and claims of creditors vis-à-vis borrowers, as needed.

IPAs- professional bodies registered by the Board to promote and regulate the insolvency profession; these bodies will enrol Ips

IPs- Licensed private professionals regulated by the Board; will conduct resolution process; to act as Liquidator/bankruptcy trustee; appointed by creditors and override the powers of board of directors.

Adjudicating Authority (AA) - would be the NCLT for corporate insolvency; to entertain or dispose any insolvency application, approve/ reject resolution plans, decide in respect of claims or matters of law/ facts thereof.

CoC- consists of financial creditors to who will appoint and approve actions of IPs

Corporate Insolvency Resolution Process (CIRP) under Code

Default

Min. INR 1 crore; even a single day

Who can file the application?

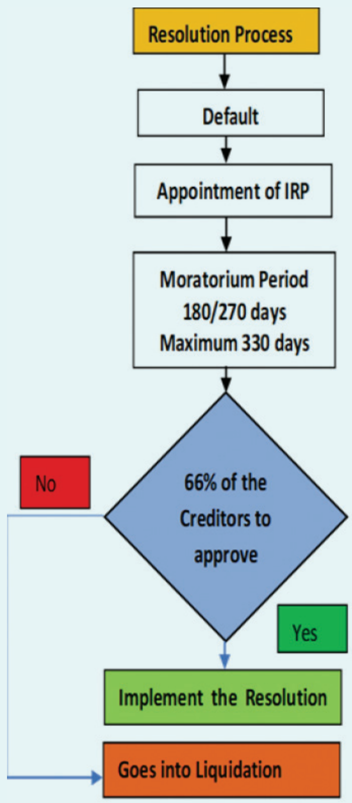
- Financial & Operational creditors (incl. Government & employees/workmen), and Corporate Debtor.

Interim Resolution Professional (IRP) Resolution Professional (RP)

- Financial creditor and/ or corporate applicant shall propose the name of an IRP in the application
- All powers of the board and management shall vest with the IRP/ RP.

Moratorium under Sec. 14 of Code

Moratorium shall prohibit:
- Institution of suits
- Transfer of assets
- Foreclosure, recovery or enforcement under SARFAESI
- Recovery of assets



Committee of creditors (CoC)

- Consists of financial creditors only, excluding related parties
- To approve several actions of RP

Resolution plan

The resolution plan must provide for:
- payment of insolvency resolution process costs
- repayment of the debts of operational creditors
- management of the affairs of the borrower after the plan is approved
- implementation and supervision of the approved plan

Voting power

- Only financial creditors have voting power in the committee in the ratio of debt owed
- All decision of the committee shall be approved by 66% of financial creditors

Fast track insolvency

- For debtors to be completed in 90 days

Kotak Mahindra Bank Limited Vs. A. Balakrishnan & Anr. [Civil Appeal No.689 of 2021]
Supreme Court held that a person, who holds a recovery certificate would be a Financial Creditors within the meaning of section 5(7) of the Code and would be entitled to initiate CIRP***, within a period of three years from the date of issuance of the recovery certificate.***

Amendments in IBC 2016

To keep the unprecedented reform abreast with the upcoming challenges, the Government has amended the Code six times during the last six years. The Insolvency and Bankruptcy Board of India (IBBI), the Regulator, has also made 84 amendments to its 18 regulations made under the Code, out of which around 22 amendments have been made in the past one year alone. **The Code has led to behavioural change in the debtor-creditor relationship.** The fear of losing control of the firm on initiation of corporate insolvency resolution process (CIRP), is nudging debtors to settle their dues with the creditors as soon as possible. Till September, 2022, 23,417 applications for initiation of CIRPs, having underlying default of Rs. 7.31 lakh crore were resolved before their admission. This is attributed to the behavioural change effectuated by the Code.

Regarding Fast track CIRP

The Central Government vide notification dated August 30, 2022 has amended its earlier issued notification dated June 14, 2017 pertaining to applicability of fast track CIRP. The amended notification provides that an application for fast track CIRP may be made in respect of a start-up (other than the partnership firm.

Personal Guarantors (PGs) to Corporate Debtors (CDs)

Central Government has implemented the provisions for Personal Guarantors to Corporate Debtors vide a notification dated November 15, 2019 with effect from December 1, 2019. To implement the provisions, the Central Government also notified the Rules & Regulations: *Adjudicating Authority for Insolvency Resolution Process for Personal Guarantors to Corporate Debtors Rules, 2019 and the Application to Adjudicating Authority for Bankruptcy Process for Personal Guarantors to Corporate Debtors Rules, 2019* on the same date.

These Rules provide for the process and forms of making applications for initiating insolvency resolution and bankruptcy proceedings against PGs to CDs, withdrawal of such applications, forms for public notice for inviting claims from the creditors, etc.

Financial Service Providers

Central Government notified Insolvency and Bankruptcy (Insolvency and Liquidation Proceedings of Financial Service Providers and Application to Adjudicating Authority) Rules, 2019. These Rules enable to seek resolution for stressed financial companies likes: DHFL (Dewan Housing Finance Corporation Limited), PMC Bank (Punjab & Maharashtra Cooperative) & IL&FS (Infrastructure Leasing & Financial Services Limited).

Then Corporate Affairs Secretary, Mr. Injeti Srinivas said: It is a special framework and an interim mechanism to deal with any exigency, pending the introduction of a full-fledged enactment to deal with the resolution of banks and other systematically important financial service providers.

Introduction of 'pre-packaged' resolution option for MSMEs

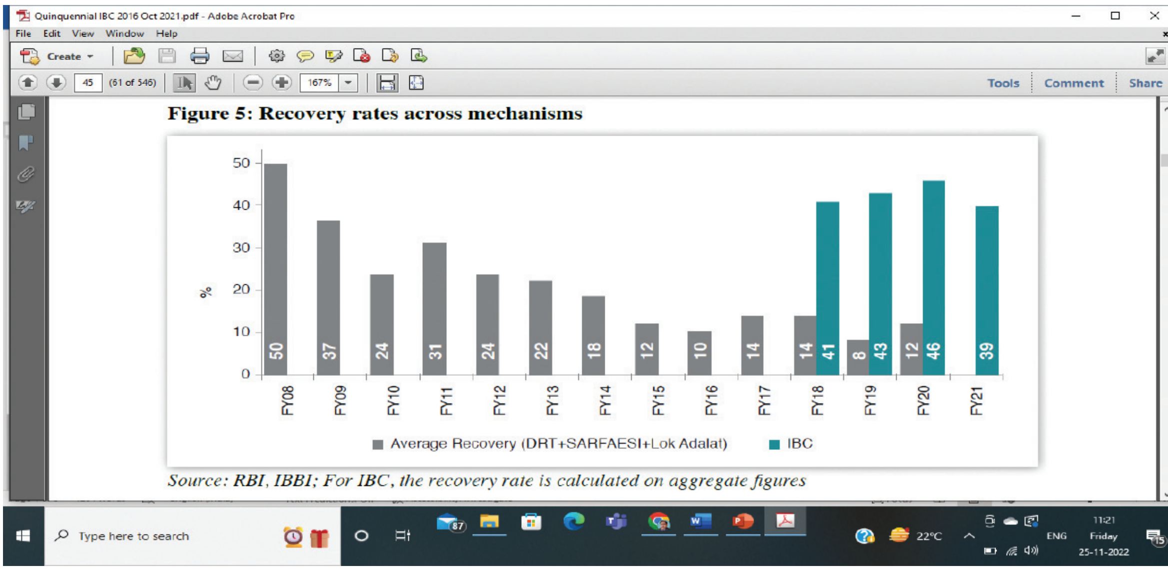
On April 4, 2021, the President of India promulgated the Insolvency and Bankruptcy Code (Amendment) Ordinance, 2021 to allow pre-packaged insolvency resolution process (PPIRP) for Corporate Debtors (CDs) classified as MSMEs with a minimum default of Rs. 10 lakh. Under this new regime, the IBC aims to provide MSMEs quicker, more cost-effective resolution than the traditional CIRP route.

As we are aware that the pandemic created multiple challenges for MSMEs, with several of them unable to continue operations. It is a major advancement towards adopting out of court workouts as the way forward for achieving faster resolution and minimum distortion of value of assets.

The PPIRP for MSMEs is based on the 'debtor-in-possession' model, wherein the CD proposes a resolution plan to the secured creditors before the initiation of CIRP and the entity continues to be controlled by the existing management rather than coming under the control of the Resolution Professional (RP). Once the proposal is approved by 66% of the creditors, it comes under CIRP wherein the timeline for resolution is 120 days as against 330 days for corporates under normal CIRP.

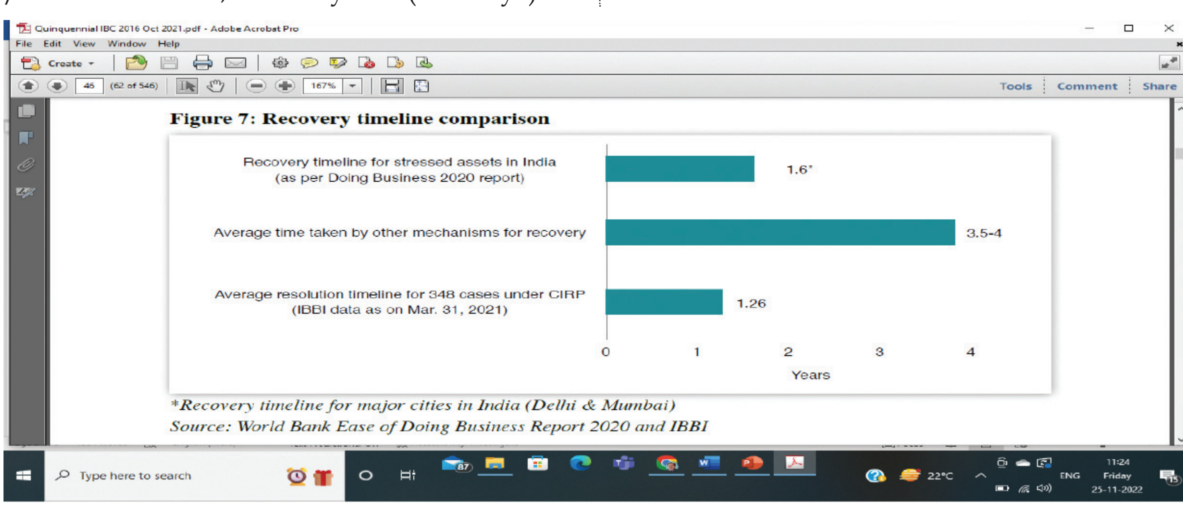
The IBC has shown better recovery rates

The recovery rate under IBC has been better than that through other channels such as debt recovery tribunals (DRTs), the SARFAESI Act and Lok Adalats, which are burdened by pending legal issues and infrastructure constraints.



IBC is also quicker, though adherence to own timeline remains a challenge

Resolutions under the IBC are undoubtedly faster compared with other mechanisms such as ARCs/ DRT/ SARFAESI Act, at 1.26 years (459 days) for resolved cases (348) as of March, 2021, compared with 3.5-4.0 years through other routes. This corroborates with the resolution timeline of 1.6 years mentioned in the World Bank's Doing Business 2020 report.



IBC gives Committee of Creditors (CoC) more powers and autonomy

Members of the CoC hold several responsibilities including invitation, receipt, consideration and approval of resolution plans under the IBC. Their conduct has serious implications for continued business of a CD, and consequently, the economy.

In a number of cases, the Adjudicating Authority (AA) has observed that the members of the CoC nominated by

lenders are not given the authority to take decisions upfront, thereby delaying the process. Moreover, conflicts are common even among secured creditors.

These aspects can result in increased conflicts of interest in agreeing to a revival plan within a stipulated period. The provision for automatic liquidation means the end of the road for companies that could otherwise have been revived.

The CoC must work dynamically with the Resolution Professional to revive the company and should be trained to handle professional challenges. Logistical challenges need to be addressed to deal with the large number of participants attending CoC meetings to have a constructive decision-oriented discussion.

Which Act: IBC 2016 or SARFEASI Act is preferred over each other

In the foregoing part of article, it is mentioned that once the CIRP has been initiated and the moratorium is ordered under section 14 of the Code, IBC has an overriding effect over any other law including SARFAESI Act, this is also provided in Section 238 of the Code-NON-OBSTANTE clause. Accordingly, where both the IBC as well as the SARFAESI Act are triggered simultaneously, IBC 2016 will be having its overriding effect over SARFAESI, this has been explained by judiciary in number of cases and some of the cases have been cited above. This preference of IBC over SARFAESI was first observed in the case of "Unigreen Global Private Limited v. Punjab National Bank" and it was held that once the moratorium is imposed under the IBC, then proceedings under Sec. 13(4) of the SARFAESI Act shall not proceed. In another case of "Rakesh Kumar Gupta v. Mahesh Bansal", it was held that the pending proceedings under SARFAESI Act shall not hinder the proceedings triggered by the financial creditor under the IBC. Therefore, even when proceedings under SARFAESI Act have already been initiated, fresh proceedings under IBC can still be accepted because of the non obstante clause.

Ever since the implementation of IBC on 1st December 2016, it has been observed that the lenders prefer it over SARFAESI Act. Even after the amendments in SARFAESI Act, lot of issues still have been left unaddressed and the Act has failed to prove its effectiveness in number of cases. As per data given above, it is mentioned that the recovery rate under the SARFAESI Act is lower than the recovery rate / resolution of insolvency in IBC 2016. Furthermore, pending cases continue to be a problem with SARFAESI Act. Therefore, mainly because of the fact that IBC provides a speedy remedy and is also efficient for reviving the business and safeguarding the interests of all the stakeholders, it is preferred over the SARFAESI Act.

Major Difference between the SARFAESI Act and IBC 2016 related to CIRP ONLY

Particulars	SARFAESI ACT	IBC 2016
Triger Point of Enforceability based on Default and Amount of Default	**Section 2(1)(j)** "***default***" *means non-payment of any principal debt or interest thereon or any other amount payable by a borrower* ***to any secured creditor*** *consequent upon which the account of such borrower is* ***classified as non-performing asset*** *in the books of account of the secured creditor.* *There is no default limit prescribed under SARFAESI Act.*	**Section 3(12)** "***default***" *"default" means non-payment of debt when whole or any part or instalment of the amount of debt has become due and payable and is not paid by the debtor or the corporate debtor, as the case may be;* *Prescribed limit of default amount in case of IBC is Rs. 1 crore and for Pre-packaged Insolvency appliable to MSME, it is Rs. 10 lakhs.*

Particulars	SARFAESI ACT	IBC 2016
Court intervention	*It empowers the financial creditors, which are generally the banks and other financial institutions, to enforce their security interests and the same is done without intervention of any court.*	*IBC safeguards the rights of all types of creditors, which have been further classified by the IBC as Financial, Operational, and other Creditors.*
Classification of Creditors & Legal Recourse	*The account is classified by the* ***secured creditor*** *as* ***non-performing asset (NPA)*** *and the borrower fails to discharge his liability.* *However, the secured creditor is entitled to exercise his rights u/s 13(4) of the Act*	*IBC provides rights to all types of creditors (Secured, Operational & Other creditors), and not just secured financial creditors, to trigger insolvency proceedings against the debtor firm.* *Under section 7(1), a financial creditor either by itself or jointly with other financial creditors may file an application for initiating corporate insolvency resolution process against a corporate debtor before the Adjudicating Authority when a default has occurred.*
Expenses	*Expenses are lesser than that of the IBC. The recovery process of SARFAESI is more cost-effective than the resolution process of IBC.*	*Expenses are much higher in IBC as compared to SARFAESI Act. However, IBC is more efficient in the sense that it works for the revival of the company. In cases where the debt burden is very high, SARFAESI can kill a business.*
ARC	*SARFAESI Act includes a provision for the setting up of ARC or Asset Reconstruction Companies. ARCs are specialized Institution for acquiring bad loans from the debtors and recovering the debts by special mechanism. It provides for securitization or asset reconstruction. However, it does not allow these ARCs to be part of the resolution process, which is a serious drawback, as it hampers the quick and easy debt recovery process.*	*IBC provides for the ARCs to submit a resolution plan and be involved in the subsequent process also.*

Particulars	SARFAESI ACT	IBC 2016
Timelines	*SARFAESI Act prescribes a maximum of 1-2 years for the investigation and proper disposal of the case.*	*IBC provides time for CIRP 180 days with one time extension of 90 days, i.e. maximum 270 days. for an ideal insolvency resolution process which begins just after the company filed for liquidation. However, the resolution must take place between 180 to 270 days. As per IBC Amended Act 2019, CIRP must be Completed within 330 days including time taken in legal proceedings.*
Waiting Time	*A financial creditor needs to wait for 90 days before it moves to Debt Recovery Tribunal for recovery.*	*A financial creditor can move to National Company Law Tribunal (NCLT) for CIRP as soon as there is a default of 1 crore and does not need to wait for 90 days which is necessary under the SARFAESI.*
Adjudicating Authority & Appellate Authority	***Adjudicating Authority:*** *Debt Recovery Tribunal (DRT)* ***Appellate Authority:*** *Debt Recovery Appellate Tribunal (DRAT)*	***Adjudicating Authority:*** *National Company Law Tribunal (NCLT)* ***Appellate Authority:*** *National Company Law Appellate Tribunal (NCLAT)*

CASE LAWS

Supreme Court

Asset Reconstruction company (India) Ltd Vs. Tulip Star Hotels Ltd. & Ors. [Civil Appeal 84-85 of 2020]- Regarding Limitation Period

Supreme Court held that entries in books of accounts and/or Balance Sheets of a Corporate Debtor would amount to an acknowledgment under section 18 of the Limitation Act, 1963. Accordingly, if there were an acknowledgement of the debt by the Corporate Debtor before expiry of the period of limitation of three years, the period of limitation would get extended by a further period of three years. Further, there is no bar to the filing of documents at any time until a final order either admitting or dismissing the application has been passed.

Sundaresh Bhatt, Liquidator of ABG Shipyard Vs. Central Board of Indirect Taxes and Customs [Civil Appeal No. 7667 of 2021]

Supreme Court observed that the Customs Act, 1962 (Customs Act) and the Code act in their own spheres. In case of any conflict, the Code overrides the Customs Act. The Code would prevail over the Customs Act, to the extent that moratorium is imposed in terms of sections 14 or 33(5) of the Code. Post assessment of tax, the customs authority has to submit its claims timely (concerning customs dues/ operational debt) in terms of the procedure laid down under the Code. The customs authority cannot enforce a claim for recovery or levy of interest on the tax due during the period of moratorium. They cannot transgress such boundary and proceed to initiate recovery in violation of sections 14 or 33(5) of the Code.

K. Parmasivam Vs. The Karur Vysya Bank Ltd. & Anr. [Civil Appeal No. 9286 of 2019]

Supreme Court, referring to its decision in the matter of Laxmi Pat Surana, held that the Financial Creditor can proceed against the guarantor without first initiating CIRP in respect of the principal borrower.

Maitreya Doshi Vs. Anand Rathi Global Finance Ltd. and Anr. [Civil Appeal No. 6613 of 2021]

Relying on its decision in Lalit Kumar Jain v. Union of India, the Supreme Court held that the approval of a resolution in respect of one borrower cannot certainly discharge a co-borrower under the Code. If there are two borrowers or if two corporate bodies fall within the ambit of Corporate Debtors (CDs), there is no reason why proceedings under section 7 of the Code cannot be initiated against both the CDs. If the dues are realised in part from one CD, the balance may be realised from the other CD being the co-borrower. Once the claim of the Financial Creditor (FC) is discharged, there can be no question of recovery of the claim twice.

High Courts

Vishnu Oil Mill Private Ltd. Vs. Union of India & Ors. [D.B. Civil Writ Petition No. 2507/2022]

The question for consideration was, whether a group of FCs can jointly trigger CIRP without adhering to the requirement of default threshold of Rs. 1 crore in individual capacity? The Rajasthan HC observed that section 7 clearly stipulates that the application for triggering CIRP may be initiated by a FC either individually or jointly with other FCs. Accordingly, it was held that a group of FCs can converge and join hands to touch the financial limit of Rs.1 crore as stipulated under the Code so as to initiate a CIRP.

NCLAT

Sudip Dutta Vs. State Bank of India [Company Appeal (AT) (Insolvency) No. 807 of 2021]

NCLAT while dismissing the appeal filed against order of AA admitting the application against the Personal Guarantor (PG), observed that the Code does not contain any indication that the PG of a CD can escape from its liability under the personal guarantee deed merely on the ground that he is now residing in another country and acquired citizenship of another country and is no more an Indian citizen, as this will allow such PGs to wash off from their obligation under the guarantee deed.

Punjab National Bank Vs. Supriyo Kumar Chaudhuri & Ors. [Company Appeal (AT) (Insolvency) No. 657 of 2020]

NCLAT held that margin money in the form of fixed deposit can in no manner be said to be a 'security interest' under section 3(31) of the Code, and the banks having appropriated the said money during the period of moratorium is justified as the amount is not an asset of the CD.

Conclusion

Though the article discusses briefly the IBC 2016 and SARFAESI Act, but the author tries to give complete understanding about the difference between both. Based on the judicial trend, the applicability and implications of both the laws and circumstances have been given. The article mentioned when both the laws clash with each other, which Act will prevail vis-à-vis non obstante clause under Section 238 of IBC 2016 read with moratorium declared under Section 14 of the Code consequent on admission of CIRP application by NCLT. Cases are still witnessed where both the laws overlap and clash with each other and delaying the proceedings. What can be concluded on the basis of this observation is that even though the legislature has made considerable efforts to bring harmony between both the laws, but lot more needs to be done under IBC 2016 to make it preferred law over SAFAESI Act.

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Quinquennial IBC 2016 October 2021
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DLOM – DISCOUNT FOR LACK OF MARKETABILITY

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The discounting for the lack of marketability has been an unanswered question for long in the field of valuation. Ashwath Damodaran dedicates an entire chapter to the study of illiquid assets. In this article, we will try to build a sense of DLOM.

The DLOM or the discount for lack of marketability is the discount on valuation of an asset because the asset may not be readily saleable or may not have a ready market available for sale. While this does not affect the intrinsic value of the asset, it does reduce the price of the asset due to the associated transaction costs. Hence, the DLOM is often also referred to as the "cost of illiquidity".

Let us understand this through an example. Let's say there's 1 acre of land and some of the most accredited valuers in the region have come to an agreement that the value of the land is ₹ 150 lacs, which is a reasonable range for an illiquid asset.

(₹ in lacs)

EQUITY AND LIABILITIES		ASSETS	
Capital	150	Land	150
Total	**150**	**Total**	**150**

Now let us say that the same land is owned by a private company that in turn, is owned by private individuals. There are no other assets or significant outside liabilities in the company. The balance sheet would simply look as described in the adjacent figure. If one were to offer you 10% equity in such a company, what would you pay for it? Would it be ₹ 15 lacs or something else? Why?

The first reason for prescribing a discount is that you now lack control – both on the company and on the land. Being a minority shareholder you will have no control over the operations of the company. The company may make frivolous expenses thereby reducing the capital of the company, which you own, thereby reducing the value of your equity.

Secondly, the company may sell the land at a significantly lower price than ₹ 150 lacs and you may not get to know of it till the next financial reporting period.

This lack of control warrants a discount. Question is, how much? Contemporary valuers often prescribe a discount of 5-25% on such illiquid or unmarketable assets for reporting purposes. However, this does not justify transactions found in the market. The discount factor for such an asset may be as high as 90% in some cases.

Case in point, we take the example of NBI Industrial Finance Company Ltd, a financial services company. The balance sheet for FY 2022 can be summarized as follows:

(Rs. in lacs)

EQUITY AND LIABILITIES		ASSETS	
Equity	2,13,853	849450 shares of Shree Cement Ltd	2,04,145
All other liabilities	6,351	All other assets	16,060
Total	**2,20,205**	**Total**	**2,20,205**
Contingent Liabilities	0		

Shree Cement is one of biggest cement manufacturers in India and a Nifty 50 constituent. In the worst case scenario, let us assume that all other assets of the company are fictitious and bogus. Hence, the total value of the company is ₹ 2,04,145 lacs. The total liabilities of the company are ₹ 6,351 lacs. Let us assume that the company has fudged the numbers and the actual liabilities are 10 times the reported number, i.e. ₹ 63, 510 lacs. Hence, the net worth of the company is

Net Worth = ₹ 2,04,145 – ₹ 63,510 lacs = ₹ 1,40,635 lacs.

This value is distributable among the 24,56,806 shareholders of the company. Hence, the value of each share is given as:

Value per share = ₹ 1,40,635 lacs / 24,56,806 = ₹5,724.

However, the share price of the company has oscillated between ₹ 1,700 – 2,500 for the last year giving a DLOM of 56-70%.

Now for the final question. Is this deep discounting of the stock from its calculated value a case of underpricing, or a genuine cause of discount for the lack of marketability?

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND CORPORATE GOVERNANCE

Abstract

International Financial reporting standards (IFRS) is a single trusted global standard and extensively adopted by around 110 countries across the globe. It is the heart of financial reporting which facilitate the lifeblood to global capital market and enable cross- border investments by providing high quality and comparable useful financial information to the primary users about the reporting entity. In other words, IFRS provide the uniform global language of financial reporting which ensure transparency, accountability, and efficiency.

IFRS is the product of international accounting standard board (IASB) which is appointed and monitored by IFRS foundation monitoring board and trustees, which consists of Conceptual framework of IFRS, International financial reporting standards (IFRS), International accounting standards (IAS), and Interpretations (both IFRIC and SIC). As on today there are 22 IAS and 14 IFRS are applicable. (IFRS-17 Insurance contract is applicable from 1st Jan 2023). Most of the IAS are either deleted or reconstituted under new name of IFRS.

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History of IFRS

The Great Depression, also called as worldwide economic depression eventuated due to crash of stock market in 1929 resulting to the collapse of world trade, bank failures and the collapse of money supply. It was then ascertained that the major cause of worldwide economic disaster was due to lack of internal trade policy, uniformity, consistency, and wide gap between the economic theories. Therefore, to revive the capital market across the globe, certain measures were undertaken expeditiously, and free trade policies were adhered consequent to which the capital market was enhanced. It was not so easy to facilitate the cross-border investment smoothly with weaken corporate governance structure and in absence of uniform financial reporting standards. Therefore, it was requisite to introduce the common globally accepted standards which led to emergence of international accounting standards. Way back in 1973, professional bodies of United Kingdom/Ireland, Germany, United States, Netherlands, Canada, France, Australia, Japan, and Mexico, formed International Accounting Standards Committee (IASC) and agreed to adopt International Accounting Standards for cross-border listings.

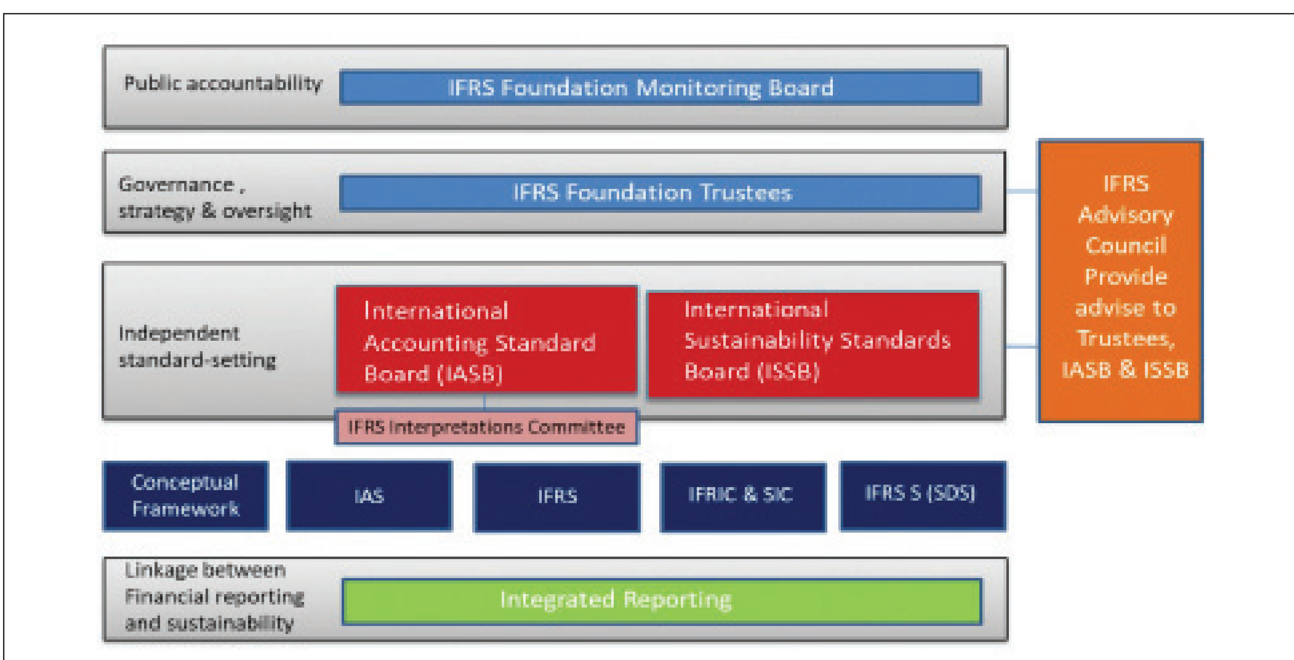
Since 1989 when first international conceptual framework was issued, till 1990 IASC issued all 31 set of international standards and later in 2000 IASC reformed under dual structure consisting mainly a foundation that appoints and funds the IASB, which is initially named as IASC foundation (later in 2010 IASC changed its name to IFRS foundation) and an independent standard setting body, the International Accounting Standard Board (IASB). Till 2000 IASC issued all 41 set of IAS which was adopted by IASB.1

Before introduction of IFRS standards world witnessed many corporate scams and collapses such as Equitable Life Assurance Society 2000, Enron scandal 2001 and World com. 2002. In 2003 first IFRS (IFRS-1 First time adoption of IFRS) was issued by the IASB and made effective since January 1, 2004, since then IASB has issued 17 IFRS by deleting few IAS and start publishing standards by name of IFRS.

Regulatory Framework

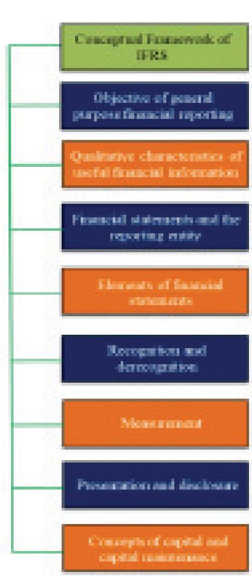
IFRS foundation is a not-for-profit (NPO) organisation established to develop high-quality, enforceable, understandable, and globally accepted accounting standards, which promote & facilitate adoption of the standards. IFRS are issued by standard setting body i.e., IASB with the help of IFRS advisory council and IFRS interpretations committee. IASB oversee by the IFRS foundation through its trustees. IFRS foundation trustees reflect the world's capital market and diversity of geographical and intellectual professional backgrounds from different part of the world which consist of 22 members out of which six trustees represents Europe, six from the Americas, six from Asia/Oceania region, one from Africa and rest three can be from any other region.1

In 2021 IFRS Foundation Trustees announce the formation of the International Sustainability Standards Board (ISSB). The Trustees also publish a revised Constitution which provides the framework for the formation of the ISSB under the regulatory structure of the IFRS Foundation. In 2022 IFRS foundation announced the fully consolidation of Climate disclosure standard board (CDSB) along with Value reporting Foundation (VRF) to support the work of newly established International Sustainability Standard Board (ISSB). IFRS Foundation is regulating IFRS standards (which include IAS, IFRS, Conceptual framework and IFRIC & SIC), IFRS S (IFRS- Sustainability Disclosure Standards) and Integrated reporting (provides linkage between financial reporting and sustainability related financial disclosures).



Conceptual Framework of IFRS

Conceptual framework is the backbone of IFRS, which form the theoretical basis for determining which event should be accounted for i.e., recognition, how they should be measured i.e., measurement and how they should be communicated to the primary users of financial information i.e., Presentation & disclosure. In other words, conceptual framework is based on generally accepted theoretical accounting principles which form the frame of reference for financial reporting. IFRS are based on generally accepted theoretical principles (GATP).3 All existing standards were issued before the revised conceptual framework was issued in 2010 (except IFRS-16 & 17). Conceptual framework is not an IFRS standard and does not override the requirement of IFRS standard. Therefore, there may be inconsistencies between the IFRS standards and the conceptual framework in terms of the definitions and other criteria used. Conceptual framework of IFRS is used as reference in interpretation of IFRS. The purpose of conceptual framework is to assist the IASB to develop IFRS standards, assist prepares of financial statements to develop accounting policies in case where there is no IFRS applicable to particular transaction, or where a choice of accounting policy exists and assist primary users of financial statements to understand and interpret IFRS standards.



✷ Objective of general purpose financial reporting

The objective of financial reporting is to provide financial information about the reporting entity that is useful to primary users of financial statements in making decisions about providing resources to the entity. i.e., existing, and potential investors, creditors, lenders, and other creditors.[2]

✷ Qualitative characteristics of useful financial information

Relevant information, Materiality and Faithful representations are the main qualitative characteristics of useful financial information. Information is more useful if it enhances qualitative characteristics which are maximised by verifiability, comparability, timeliness, and understandability.

Relevant information: The information is relevant if it can make a difference in decisions made by the users if it has predictive value, confirmatory value, or both.

Materiality: Information is said to be material if omitting, misstating, or obscuring it could reasonably be expected to influence the decision of primary users of financial statements which are based on those financial statements, which provide financial information about a specific reporting entity.

Faithful representation: Financial representation reflects economic substance rather than legal form and it said to be faithful when it has complete set of information necessary for understanding, it is neutral i.e., unbiased, and free from error.

✷ Financial statements and the reporting entity

Financial statements provide information about an entity's assets, liabilities, equity, income, and expenses that's useful to the users of financial statements in assessing the prospects for future net cash inflows and management stewardship of an entity's economic resources which an entity is require or choose to prepare.4 As per the requirement of IAS-1 a complete set of financial statements comprises:

- Statement of financial position (SOFP) for the year end with comparative
- Statement of profit or loss (SOPL) for the period
- Statement of other comprehensive income (OCI) for the period
- Statement of changes in equity (SOCE) for the period
- Statement of cash flows (CFS) for the period
- Notes, comprising material accounting policy information and other explanatory information with disclosures

The elements of financial statements

Assets: A present economic resources controlled by the entity as a result of past events. Economics resource is defined as a right that has the potential to produce economic benefits (cash flows such as return on investment, exchange of goods or reduction or avoidance of liabilities).2

Liability: A present obligation of the entity to transfer an economic resource as a result of past events. Obligation is defined as a duty or responsibility that the entity has no practical ability to avoid. A present obligation exists as a result of past events only if the entity has already obtained economic benefits or taken an action and as a consequence the entity will or may have to transfer an economic resource that it would not otherwise have had to transfer.1

Equity: Residual interest in the assets of the entity after deducting all its liabilities i.e., net assets.2

Income: Increase in assets or decrease in liabilities that result in increases in equity, other than those relating to contribution from holders of equity claims.[2]

Expenses: Decrease in assets or increase in liabilities that result in decrease in equity, other than those relating to distributions to holders of equity claims.[2]

Recognition and derecognition

An item is recognised in the financial statement if the item meets the definition of an element (asset, liability, income, expenses, or equity) and recognition of that element provides users of the financial statements with information that is useful i.e., with, relevant and faithful representation of the element.[3]

Derecognition normally occurs when control over an asset is lost and there is no longer a present obligation for a liability.

Measurement

The conceptual framework describes the different measurement bases used in IFRS standards and the factors to consider in selecting a measurement basis. IFRS standards use a mixed measurement approach, which means that different measurement bases are used for different classes of elements. IASB believes that a mixed measurement approach provides the most useful information to primary users of financial statements.

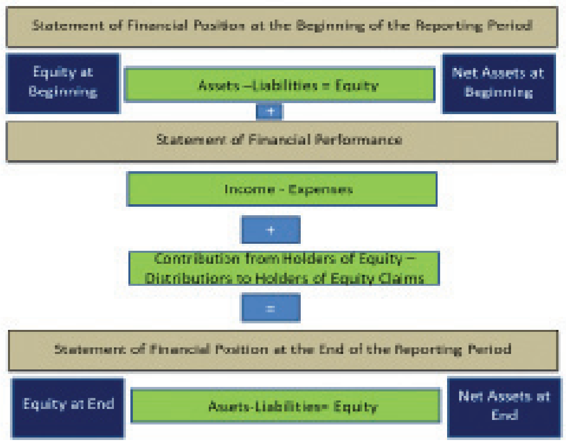
Individual IFRS standards specify which measurement basis should be used in most circumstances. However, prepares of financial statements can use the measurement principles to help them choose a measurement basis where a choice is offered in a standard.

There are mainly two measurement bases such as Historical cost and current value (which includes fair value, value in fulfillment value and current cost)

Presentation and disclosure

Financial statements should present true and fair view of the financial position, financial performance, and cash flow of an entity. IAS-1 prescribes the complete set of financial statements (as discussed above). Financial statements should be presented and disclosed such as it fulfills the qualitative characteristics of useful financial information with regards to relevant information, materiality, comparability, faithful representation, verifiability, timeliness, consistency, and understandability.

- All relevant IFRS standards must be followed.
- Compliance with IFRS standards should be disclosed.
- Selection and application of relevant accounting policies and estimates with reasons for deviation if any.
- Additional disclosures where required.



List of IFRS and IAS

IFRS	Title
IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 2	Share-based Payment
IFRS 3	Business Combinations
IFRS 5	Non-cash Assets Held for Sale and Discontinued Operations
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures
IFRS 8	Operating Segments
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 13	Fair Value Measurement
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases
IFRS 17	Insurance Contracts

IAS	Title	IAS	Title
IAS 1	Presentation of Financial Statements	IAS 24	Related Party Disclosures
IAS 2	Inventories	IAS 27	Separate Financial Statements
IAS 7	Statement of Cash Flows	IAS 28	Investments in Associates and Joint Ventures
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	IAS 32	Financial Instruments: Presentation
IAS 10	Events after the Reporting Period	IAS 33	Earnings per Share
IAS 12	Income Taxes	IAS 34	Interim Financial Reporting
IAS 16	Property, Plant and Equipment	IAS 36	Impairment of Assets
IAS 19	Employee Benefits	IAS 37	Provisions, Contingent Liabilities & Contingent Assets
IAS 20	Accounting for Government Grants and Disclosure of Govt. Assistance	IAS 38	Intangible Assets
IAS 21	The Effects of Changes in Foreign Exchange Rates	IAS 40	Investment Property
IAS 23	Borrowing Costs	IAS 41	Agriculture

Corporate Governance – Introduction

In a layman language the word 'Corporate' means Company and the word 'Governance' means how to control or direct. If we club the same together, we can construe it as the techniques or the methods by which a company is directed or controlled. In other words, it is a continuous process in which the best management practices are applied and law is adhered in true letter and spirit.

History of Corporate Governance

Different practices were being followed by different nations. There was lack of transparency and uniformity. Many scams were witnessed leading to huge losses of investors. This was the time when there was a need of strict laws, uniformity in laws, transparent disclosures etc. It was important that the trust should be built within stakeholders, and this could only possible if everything is supported by a strong law framework. Corporate governance was first introduced in United States in the Year 1970. This brought various reforms in the Legislation.

UK was the first country to introduce the code of Corporate Governance in 1992. This code was published by the Cadbury Committee. According to the Committee the ultimate responsibility to govern the Company is on board of directors. The shareholders should have an opportunity to choose the directors and auditors.

Emergence of Corporate Governance in India

The system in India was fragile due to undesirable corporate practices, lack of accountability, transparency and disclosures which leads to corporate frauds and ultimately broken the trust of the investors. India is a developing Country where foreign Investors play an especially important role in growth of economic development which leads to enormous benefits such as increased productivity and employment opportunities. Indeed, it was essential to protect the investors and stakeholders for the development of nation. Therefore, after witnessing many scams it was important to reform the norms of corporate governance. It was understood that there is a direct link between protections of investors and growth of nation.

The major corporate governance initiatives channeled through various expert advisory committees since the mid-1990s.

- Confederation of Indian Industries (CII)
- Department of Corporate Affairs (DCA)
- Kumar Mangalam Birla Committee Report
- Naresh Chandra Committee
- J.J. Irani Committee Report
- Narayana Murthy Committee Report
- Central Coordination and Monitoring Committee
- Clause 49 of the Listing Agreement
- National Foundation of Corporate Governance Establishment of the NSE Centre for Excellence in Corporate Governance.
- Corporate Governance provisions in the Companies Act 2013

Scams in India led to growth of Corporate Governance

Unethical practices or illegal activities followed by individuals for their personal motives which are undertaken to gain a competitive advantage over other corporations in the industry are corporate frauds. The occurrence of these frauds is increasing at an alarming rate which are indeed the biggest risk which companies are exposed too and are a big threat for stakeholders. The frauds shatter the confidence of investors consequent to which the stakeholders avoid investing in Indian Market. It is rightly said that "Investors buy financial instruments from people in whom they have a lot of trust, where the risk is low"

There are some major corporate frauds in India such as Satyam Computer scam which shocked the entire Nation other frauds such as Kingfisher Airlines, Jet Airways, Bhushan Steel, PNB, Yes Bank etc. Due to these frauds Government felt the exigencies tightening of regulations, reporting and governance mechanisms. Hence to avoid scams the emphasis was laid on Corporate Governance and its practices the list of these scams has been endless which is deeply criticized by the stakeholders

Conclusion – Role of IFRS In strengthening Corporate Governance

In context of corporate governance, the role of IFRS is incredibly significant. This is the key to strengthen the corporate governance mechanism for various reasons. The conceptual framework of IFRS and measurement principles is very much similar to the cost accounting principles and standards which are based on materiality, relevant cost, current value, and uniformity.

The old accounting GAAP and standards were so obsolete and unable to meet the pace of dynamic and complex business transactions which was weakening the corporate governance system. It was so easy for the entrepreneurs and the auditors to manipulate the financial statements by misusing the limitations and flaws in old GAAP by way of window dressing which led to corporate frauds.

The effectiveness of corporate governance system was very much dependent on the independency and the role of auditors which is questioned very often due to several corporate frauds all over the world, the good corporate governance had become good compliance governance and ultimately the ordinary investors paid huge cost which not only had adverse impact on the lives of investors but also put corporate into insolvency and liquidations.

Further in strengthening the corporate governance mechanism along with IFRS there is need to introduce the concept of management audit within the supervision of independent directors and the regulators.

References.

- IFRS foundation and IASB (www.ifrs.org)
- www.coursehero.com
- pdfcoffee.com
- www.aasb.gov.au
- History of corporate governance (https://en.wikipedia.org/wiki/Corporate_governance)
- List of corporate collapses and scandals

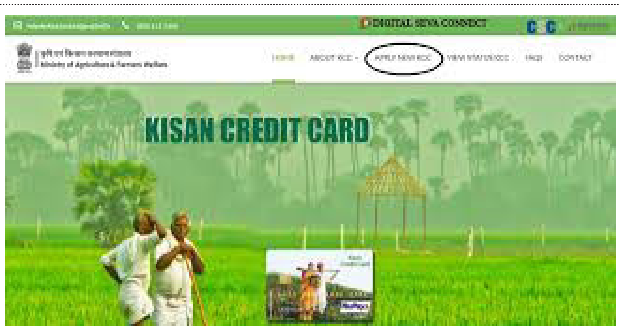
AGRICULTURE LOAN-KISAN CREDIT CARD

(Negative Rate of Interest)

Dr. P. Sai Sudha,
Hyderabad

- Interest Rates represent the Cost of Borrowing. It is expressed as a percentage of the total amount of a loan.
- They can be the Total Return lenders receive when they offer Loans.
- Nominal Interest Rate = Real Interest Rate + Projected Rate of Inflation.
- Real Interest Rate = Nominal Interest Rate - Projected Rate of Inflation.
- To calculate the Real Interest Rate, subtract the Actual or Expected Rate of Inflation from the Nominal Interest Rate.
- Consumer Price Index (CPI) data for India show that Retail Price Inflation fell to **6.77 percent** in October 2022 from a five-month high of **7.41 Percent** in September 2022.
- The **Real Rate of Interest** to be Charged by the Banks to the **Agriculturists under Kisan Credit Card** up to ₹ 3 Lakhs is (6.77% - 4%) i.e., **Minus 2.77%** (Negative Rate of Interest). It means that the Farmer is getting Interest **from the Bank** (2.77%) for the Loan availed by him under Kisan Credit Card up to ₹ 3 Lakhs.

The Kisan Credit Card has emerged as an innovative credit delivery mechanism to meet the production credit requirements of the farmers in a timely and hassle-free manner. The scheme is implemented in the entire country by the vast institutional credit framework involving Commercial Banks, RRBs, Small Finance Banks, and Co-operatives and has received wide acceptability amongst bankers and farmers.



Kisan Credit Card Scheme aims at providing adequate and timely credit support from the Banking System under a **Single Window** to the farmers for their cultivation & other needs as indicated below:

a) To meet the short-term credit requirements for the cultivation of crops.

b) Post-harvest expenses.

c) Produce Marketing Loan.

d) Consumption requirements of farmer household.

e) Working capital for maintenance of farm assets and activities allied to agriculture, like dairy animals, inland fishery, etc.

f) Investment credit requirement for agriculture and allied activities like pump sets, sprayers, dairy animals, etc.

Note: The aggregate of components a. to e. above will form the short-term credit limit portion and the aggregate of components under will form the long-term credit limit portion.

Eligibility:

i. All Farmers-Individuals / Joint borrowers who are owner cultivators.

ii. Tenant Farmers, Oral Lessees & Share Croppers.

iii. SHGs or Joint Liability Groups of Farmers including tenant farmers, share croppers, etc.

The drawing limit for short-term cash credit should be fixed based on the cropping pattern and the amounts for crop production, repairs, and maintenance of farm assets and consumption may be allowed to be drawn at the convenience of the farmer.

Scale of Finance (SOF): Scale of finance is the finance required for raising a crop per unit cultivated area, i.e., acre or hectare. The scale of finance for different crops in a district is decided every year by District Level Technical Committee (DLTC). The District Central Co-operative Bank in the District acts as the Convener of this committee and all major banks in the District, State Agriculture Department officials, leading farmers, Lead District Managers, etc., act as its members. This committee which is a sub-committee of the DCC meets once in a year and fixes the scale of finance for each crop raised in the District.

In case the revision of the ***Scale of Finance*** for any year by the district-level committee exceeds the notional hike of 10% contemplated while fixing the five-year limit, a revised drawable limit may be fixed by the Banks, and the farmer is advised about the same by the Banks.

In case such revisions require the card limit itself to be enhanced (4th or 5th year), the same may be done and the farmer be so advised by the Bank Branches. For term loans, instalments may be allowed to be withdrawn based on the nature of the investment and the repayment schedule drawn as per the economic life of the proposed investments. It is to be ensured that at any point of time the total liability should be within the drawing limit of the concerned year.

Wherever the card limit/liability so arrived warrants additional security, the banks may take suitable collateral as per their policy.

The short-term component of the KCC limit is like a revolving cash credit facility. There should be **no restriction** on the number of debits and credits. However, each instalment of the drawable limit drawn in a particular year will have to be repaid **within 12 months.**

The drawing limit for the current season/year could be allowed to be drawn using any of the following delivery channels.

a) Operations through the branch.

b) Operations using a Cheque facility.

c) Withdrawal through ATM / Debit cards.

d) Operations through Business Correspondents and ultra-thin branches.

e) Operation through PoS available in Sugar Mills/ Contract farming companies, etc., especially for tie-up advances.

f) Operations through PoS available with input dealers.

g) Mobile-based transfer transactions at agricultural input dealers and mandies.

Note: (e), (f) & (g) were introduced to **reduce transaction** costs of both the bank as well as the farmer.

Latest Guidelines of Reserve Bank of India:

The government of India has approved the continuation of the Interest Subvention Scheme (ISS) with modification for the financial years 2022-23 and 2023-24 with the following stipulations:

In order to provide short-term crop loans and short-term loans for allied activities including animal husbandry, dairy, fisheries, bee keeping, etc., up to an overall limit of ₹3 lakh to farmers through KCC at a concessional interest rate during the years 2022-23 and 2023-24, it provides interest subvention to lending institutions viz.,

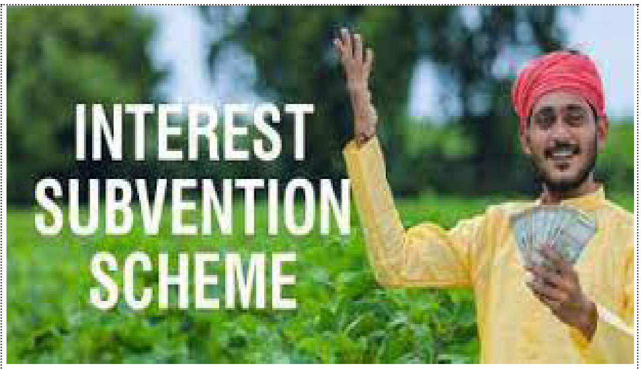
- ✔ Public Sector Banks (PSBs) and Private Sector Banks (in respect of loans given by their Rural and Semi-urban Branches only).
- ✔ Small Finance Banks (SFBs), and computerized Primary Agriculture Cooperative Societies (PACS) which have been ceded with Scheduled Commercial Banks (SCBs), on the use of their resources.

This interest subvention will be calculated on the loan **amount from the date of disbursement/drawal up to the date of actual repayment of the loan by the farmer** or up to the due date of the loan fixed by the banks, whichever is earlier, subject to a maximum period of one year.

The applicable lending rate to farmers and the rate of interest subvention for the financial years 2022-23 and 2023-24 will be as follows:

Financial Year	Lending rate to farmers	Rate of Interest Subvention to Lending Institutions
2022-23	7%	1.50%
2023-24	7%	1.50%

An additional interest subvention of 3% per annum will be provided to such of those farmers repaying in time, i.e., from the date of disbursement of the loan/s up to the actual date of repayment or up to the due date fixed by the banks for repayment of such loan/s, whichever is earlier, subject to a maximum period of one year from the date of disbursement.



This also **implies that the farmers** repaying promptly as above would get short-term crop loans and/or short-term loans for allied activities including animal husbandry, dairy, fisheries, bee keeping, etc., @ **4% per annum during the financial years 2022-23 and 2023-24**. This benefit would not accrue to those farmers who repay their Agri loans **after one year of availing of such loans**.

Interest subvention and prompt repayment **incentive benefits** on short-term crop loans and short-term loans for allied activities will be available on an **overall limit** of ₹3 lakh per annum subject to a maximum **sub-limit** of ₹2 lakh per farmer in respect of those farmers involved only in activities related to animal husbandry, dairy, fisheries, bee keeping, etc., The limit for crop loan component will take **priority for interest subvention and prompt repayment incentive** benefits and the residual amount will be considered towards allied activities including animal husbandry, dairy, fisheries, bee keeping, etc., subject to the cap as mentioned above.

In order to discourage **distress sales by farmers** and to encourage them to store their produce in warehouses, the benefit of interest subvention under KCC will be available to **small and marginal farmers** for a further period of up to **six months post-the harvest** of the crop against negotiable warehouse receipts on the produce stored in warehouses accredited with **Warehousing Development Regulatory Authority (WDRA)**, at the same rate as applicable to the crop loan.

To provide relief to farmers affected by **natural calamities,** the applicable rate of interest subvention for that year will be made available to banks **for the first year on the restructured loan amount.** Such restructured loans will attract a normal rate of interest from the **second year onwards.**

However, to provide relief to farmers affected due to severe **natural calamities,** the applicable rate of interest subvention for that year will be made available to banks **for the first three years/entire period** (subject to a maximum of five years) on the restructured loan amount.

Further, in all such cases, the benefit of prompt repayment incentive @3% per annum shall also be provided to the affected farmers. The grant of such benefit in cases of severe natural calamities shall, however, be decided by a **High Level Committee** (HLC) based on the recommendations of the Inter-Ministerial Central Team (IMCT) and Sub Committee of the National Executive Committee (SC-NEC).

To ensure hassle-free benefits to farmers under the Interest Subvention Scheme (ISS), Aadhar linkage would continue to be mandatory for availing the above-mentioned short-term loans in 2022-23 and 2023-24.

Examples for easy understanding of Interest Subvention Scheme (ISS):

Situation-a:

- Overall KCC limit-₹2.5 lakhs.
- Limit under Crop loan-₹1.5 lakhs.
- Sub-limit under Animal Husbandry and/or Dairy and/or Bee keeping and/or Fisheries-₹1 lakh
- Interest Subvention (IS) and Prompt Repayment Incentive (PRI) benefits will be available on overall ₹2.5 lakhs i.e.,

=>₹1.5 lakhs-Crop loan+₹1 lakh-Animal Husbandry and/or Dairy and/or Bee keeping and/or Fisheries.

Situation-b:

- Overall KCC limit-₹3 lakhs.
- Limit under Crop loan-₹0.5 lakh.
- Sub-limit under Animal Husbandry and/or Dairy and/or Bee keeping and/or Fisheries-₹2.5 lakhs.
- Interest Subvention (IS) and Prompt Repayment Incentive (PRI) benefits will be available on overall ₹2.5 lakhs i.e.,

=>₹0.5 lakh-Crop loan+□2 lakhs-Animal Husbandry and/or Dairy and/or Bee keeping and/or Fisheries.

Situation-c:

- Overall KCC limit-₹4 lakhs.
- Limit under Crop loan-₹1.75 lakhs.
- Sub-limit under Animal Husbandry and/or Dairy and/or Bee keeping and/or Fisheries– ₹2.25 lakhs.
- Interest Subvention (IS) and Prompt Repayment Incentive (PRI) benefits will be available on an overall ₹3 lakhs i.e.,

=>₹1.75 lakhs-Crop loan+₹1.25 lakhs-Animal Husbandry and/or Dairy and/or Bee keeping and/or Fisheries.

Situation-d:

- Overall KCC limit-₹4.5 lakhs.
- Limit under Crop loan-₹2 lakhs.
- Sub-limit under Animal Husbandry and/or Dairy and/or Bee keeping and/or Fisheries-₹2.5 lakhs.
- Interest Subvention (IS) and Prompt Repayment Incentive (PRI) benefits will be available on an overall ₹3 lakhs i.e.,

=>₹2 lakhs-Crop loan+₹1 lakh-Animal Husbandry and/or Dairy and/or Bee keeping and/or Fisheries.

Situation-e:

- Overall KCC limit-₹4 lakhs.
- Limit under Crop loan-₹3.15 lakhs.
- Sub-limit under Animal Husbandry and/or Dairy and/or Bee keeping and/or Fisheries- ₹0.85 lakh.

=>Interest Subvention (IS) and Prompt Repayment Incentive (PRI) benefits will be available on an overall ₹3 lakhs for crop loan component only.

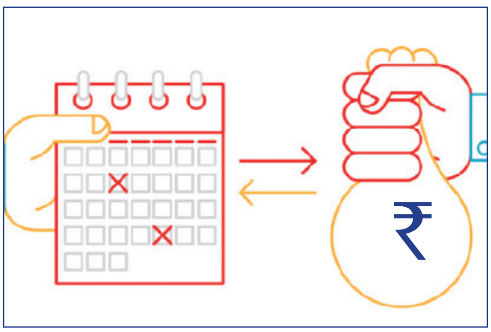
To Conclude, the Government of India is implementing the Interest Subvention Scheme to provide short-term Agri-loans to farmers at a concessional interest rate. Under Interest Subvention Scheme, farmers involved in agriculture and other related activities are eligible for a short-term crop loan of up to ₹ **3.00 lakh** at a benchmark rate of 9%. Along with this, an interest subvention (IS) of 2% and a Prompt Repayment Incentive (PRI) of 3% are also given to farmers on Short Term Agri Loan up to 3 lakhs. Thus, the effective rate of interest comes down to **4% per annum.** Since short-term Agri-loans are available for all activities, including animal husbandry, dairying, poultry farming, and fisheries, this will also result in the creation of employment. Farmers will continue to be able to access short-term agricultural finance at an interest rate of **4% annually** as long as they repay the loan on time.

References:

✷ Reserve Bank of Guidelines on Interest Subvention on KCC.

✷ Commercial Banks Guidelines on Kisan Credit Cards.

Understanding Buyer's Credit and Supplier's Credit Mechanism



CMA Nijay Gupta
Forex Expert

What is Buyer's Credit Mechanism?

- Buyer's Credit also known as Trade Credits (TC) under FEMA 1999, refers to loans for payment of capital/non-capital goods imported into India under Foreign Trade Policy of Govt of India, arranged by the importer or a financial intermediary from a bank or financial institutions outside India.
- Importer's bank guarantees the loan, mitigating the risk for the exporter.
- Buyer's credit allows the buyer, or the importer, to borrow in Foreign Currency (USD, GBP, EURO, JPY etc.) at SOFR (earlier LIBOR) rates, lower than what would be available domestically.
- With buyer's credit, exporters are guaranteed payment(s) on the due date; whereas importer gets extended date for making an import payment as per the cash flows;
- The importer can deal with exporter on sight basis, negotiate a better discount and use buyers credit route to avail financing. The importer can use this financing of trade under collections, or LCs.
- Buyer's credit allows an exporter without much complexity to execute large orders and allows the importer to obtain financing and flexibility to pay for large or even small orders.

2. Process followed to avail Buyer's Credit, Calculation of its tenor and ROI. (E.g., Can show the format of indicative pricing offer letter and documents required for verification).

1. Importer enters into contract with supplier for import of goods under LC/Collection - DA/DP.
2. Suppliers ships the goods and submits document to supplier's bank (as per agreed payment terms). Supplier's Bank in turn submits documents for importer's bank for payment as per the terms.
3. Importer requests the Buyer's Credit Bank or

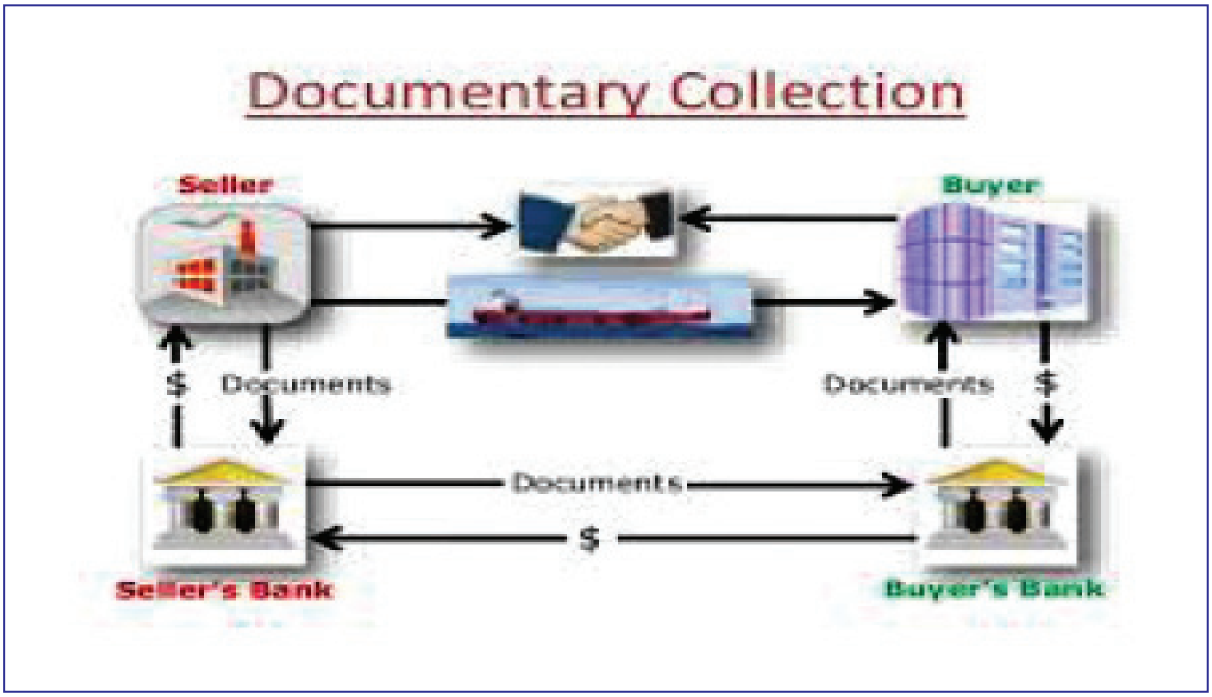
Intermediary before the due date of the bill to avail buyer's credit best quote for the required tenor.

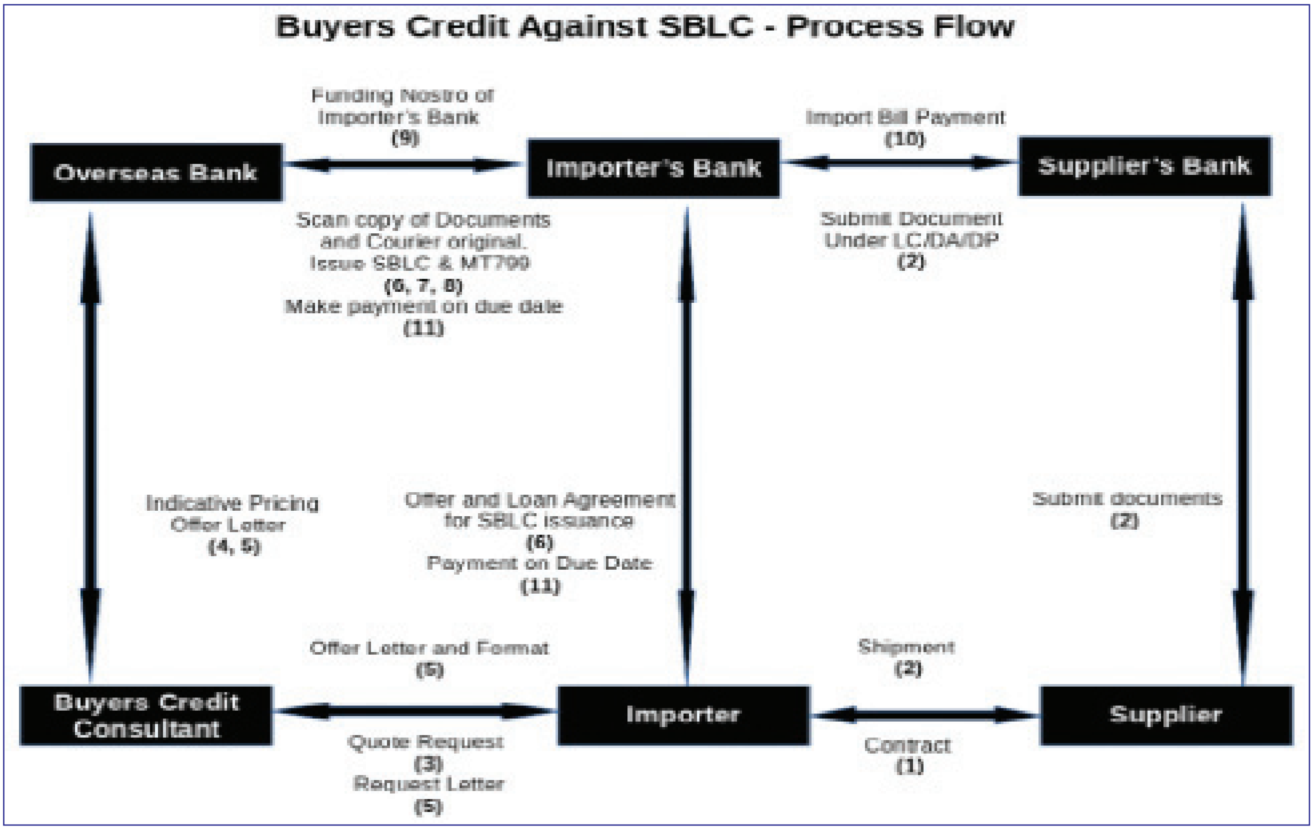
4. Intermediary approaches overseas bank for indicative pricing, which is further quoted to Importer for issuing LOU (Letter of Undertaking).
5. If pricing is acceptable to importer, overseas bank issues offer letter and shares required format for issuing LOU.
6. Importer's bank accepts of the offer letter.
7. Importer's bank issues LOU in the given format under SWIFT message format MT760.
8. On receipt of LOU overseas branches funds the buyers credit transaction to the Nostro Account of Importer's bank and sends payment details by MT799.
9. Importer's bank to make import bill payment by utilizing the amount credited in Nostro account by the Overseas lending bank
10. On due date Importer's bank to recover the principal and Interest amount from the importer and remit the same to Overseas Bank on due date.
11. Buyers Credit Facility for Capital Goods is 3 Yrs, non-capital goods 1 year, maximum USD 50 Mio per transaction.
12. Cost of Buyer Maximum LIBOR/SOFR + 300 BPS

3. Factors considered in the appraisal of importer customers by banks while analysing Buyer's Credit proposal.

1. The need for Buyer's Credit – for re-export of goods or import of goods for domestic purposes/use
2. Interest Savings SOFR Vis-a- Vis Domestic interest rates
3. Benefits and Costs involved
4. Hedging of the Forex Risk or thru natural hedge
5. The risk involved in the Buyer's Credit – Forex, Exposure on Importer/buyer, country
6. Devolvement of Non-Fund Buyer's Credit on issue of LOU to Fund Based limit at the time of payment of claim against LOU issued earlier.

We may use any of the below format for explaining Buyer's Credit.





4. Common cost involved in the process of Buyer's Credit (E.g., Interest Charges, LOU (MT760) Issuance Charges, MT799 charges, Forward / Hedging Cost, arrangement fee etc.)

The cost involved in buyers credit is as follows:

1. **Interest Charges:** SOFR/Libor + bps (agreed) for period from date of financing to the maturity/ due date.
2. **LOU (MT760) Issuance Charges:** Importer's bank will charge for issuing LOU. May vary from bank to bank from USD 50 or more onwards.
3. **MT799 charges:** Importer's bank will charge. May from bank to bank from USD 50 or more onwards.
4. **Forward / Hedging Cost:** Forward premium as per market rate ****. Explained
5. **Arrangement fee:** Fees paid to trade finance Intermediary for his service.
6. **Other Bank charges:** for releasing payment and IDPMS entry etc with A1 payment on maturity, Form 15CA and 15CB on maturity etc.
7. **Withholding Tax (WHT):** For funds arranged from foreign bank, Importer has to pay WHT on the interest amount, no WHT for funds arranged from a Indian PSU bank.

Use cases of Buyer's Credit Mechanism

1. Talk about use-cases where Buyer's credit is used.: Neerva Modi Case study given below.
2. Practical examples relating to prudential norms / key checks in the Operation of Buyer's Credit: RBI Regulations under BC/SC are given below
3. Discussion on cases related to Buyer's Credit E.g. (For the Purpose of reference https://www.

thehindu.com/business/Industry/pnb-scam-hits-buyers-credit/article22926333.ece)

1. What is Seller's/Supplier's Credit Mechanism?

Supplier's Credit is a structure of financing import into India. In this structure, overseas suppliers or financial institutions outside India provide financing to importer on SOFR/Libor linked rates against usance letter of credit (LC) issued by Importers bank in India

Suppliers Credit structure was understood as financing of import usance Letter of Credit (LC) by Overseas branches / Foreign banks where as Buyers Credit was considered as financing against LOU/ LOC till it was stopped by RBI.

Over the years Indian importers have used Suppliers Credit and Buyers Credit as two different modes of Import financing. RBI had defined them as Trade Credit under Master Direction for ECB and Trade Credit.

- **Suppliers Credit:** Supplier of goods is the recognized lender against a LC.
- **Buyers Credit:** Banks, financial institutions, foreign equity holder(s) located outside India and financial institutions in International Financial Services Centres located in India against LOU.

2. Explain the process followed to avail Seller's Credit, Calculation of its tenor and ROI.

- In TC (SC), Suppliers would ask for sight payment whereas importer want credit on the transaction. Now with buyers' credit structure not available, suppliers' credit is one of option for raising SOFR/Libor linked finance for importer at cheaper rates for import of raw material and capital goods. This eases short-term fund pressure as Importer is able to get credit and able to negotiate better price with suppliers and make payment even on sight basis
- Supplier Realize at-sight payment and Avoid the risk of importer's credit by making settlement with LC
- Importer enter into contract with supplier for import.
- With transaction details importer approaches arranger to get suppliers credit for the transaction
- Intermediary get an indicative pricing from overseas bank, which importer confirms.
- Importer approach his bank and get LC issued, restricted to overseas bank counters with other required clauses
- Overseas Bank confirms the LC and advise LC to Supplier's Bank. Suppliers Bank provides the copy of the LC to Supplier.
- Supplier ships the goods and submits documents at his bank counter.
- Supplier's Bank sends the documents to Overseas Bank (who agreed for financing).
- Overseas Bank post checking documents for discrepancies (As per UCP 600) sends the document to importer's bank for acceptance:
  - If documents are as per order, the same is discounted and money is transferred to supplier's bank.
  - In case of discrepant documents, documents are sent on acceptance basis. On receipt of Importer bank acceptance, the same is discounted and money is transferred to supplier's bank.
- Supplier receives the payment for the LC. Depending on who is bearing the interest cost:
  - If importer is bearing interest cost, supplier receives full payment.

- If Suppliers is bearing interest cost, supplier will receive LC amount – Interest.

- Importer's Bank receives the documents. Importer's bank and Importer accept documents. Importer's Bank provides acceptance to Overseas Bank, guaranteeing payment on due date.

- On maturity, Importer makes the payment to his bank and Importer's bank makes payment to Supplier's Credit Bank

- Suppliers Credit Facility for Capital Goods is 3 Yrs, non-capital goods 1 year, maximum USD 50 Mio per transaction.

- Cost of Buyer Maximum LIBOR/SOFR + 300 BPS

3. Factors considered while analysing Seller's Credit proposal:

The need for Supplier's Credit – for re-export of goods or import of goods for domestic purposes and also due to RBI's regulation of funding TC (SC/BC) under FEMA 1999

2. Interest Savings SOFR Vis-a- Vis Domestic interest rates

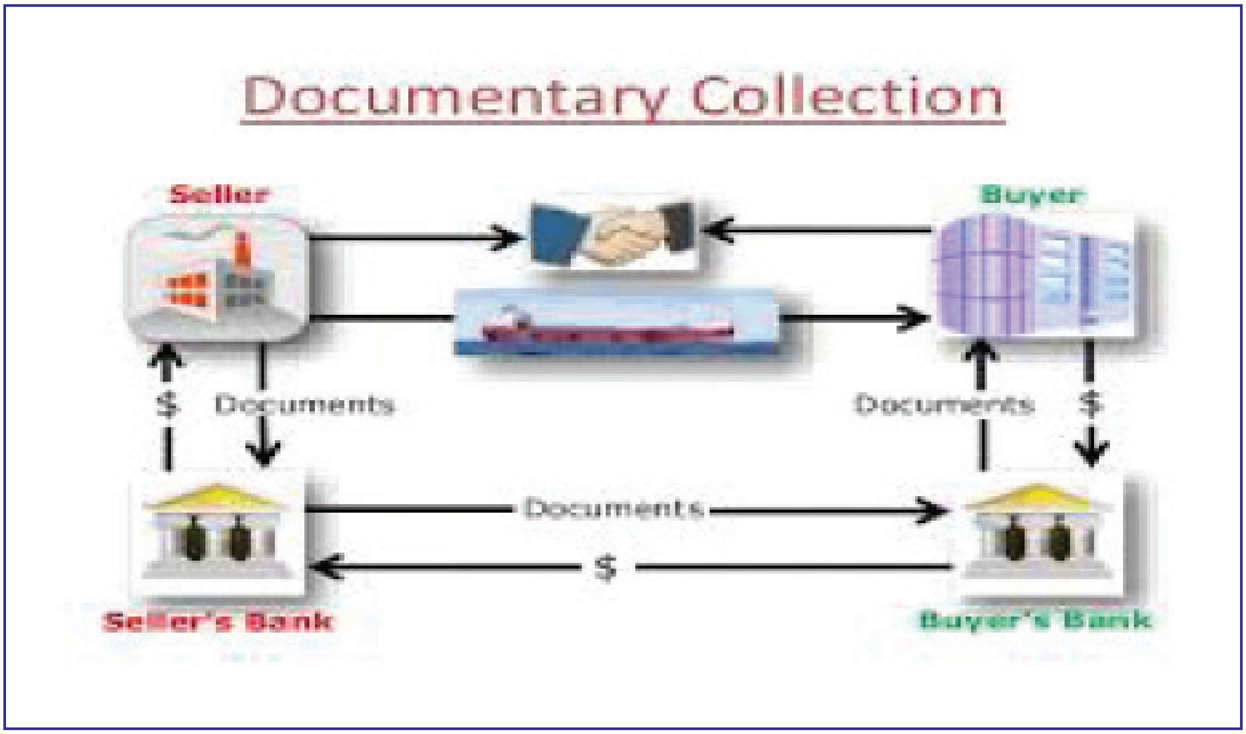
3. Benefits and Costs involved

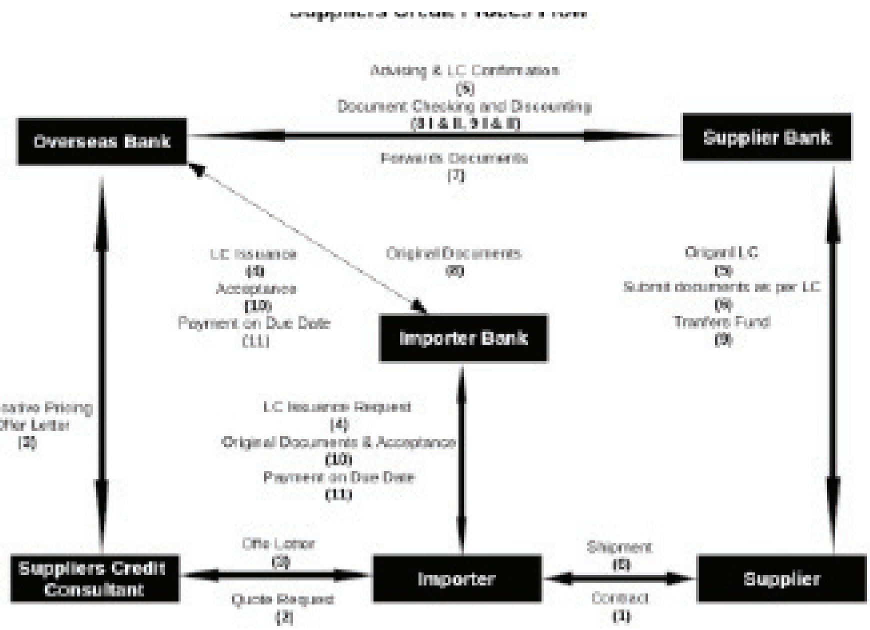
4. Hedging of the Forex Risk

5. The risk involved in the Supplier's Credit – Forex, Exposure on Importer/buyer

6. Devolvement of Non-Fund Buyer's Credit on issue of LC to Fund Based limit at the time of payment of claim against LC issued earlier.

We may use any of the below format for explaining Supplier's Credit.





4. Common cost involved in reference to Seller's Credit. (e.g., Calculation of cost involved Foreign bank interest cost, Foreign Bank LC Confirmation Cost (Case to Case basis), LC advising and or Amendment cost, Negotiation cost (normally in range of 0.10%), Postage and Swift Charges)

The cost involved in Supplier's credit is as follows:

- **Interest Charges:** SOFR/Libor + bps (agreed) for period from date of financing to the maturity/ due date or the Spread over SOFR/LIBOR may be given in the LC itself.
- **LC (MT700) Issuance Charges:** Importer's bank will charge for issuing LC. May vary from bank to bank over 1% of the LC amount.
- **LC confirmation/Advising/Amedmend charges :** The Bank adding the confirmation and provide funding may charge over 1% of the LC amount plus interest and any Advising/ amendment fee over USD 50 per transaction, bank will charge. May vary from bank to bank from USD 50 or more onwards.
- Negotiation cost (normally in range of 0.10%)
- Postage and Swift Charges
- Reimbursement Charges – if any
- Cost for the usance (credit) tenure. (Indian Bank Cost)
- **Forward/Hedging Cost:** Forward premium as per market rate ****.Explained
- **Arrangement fee:** Fees paid to trade finance Intermediary for his service.
- **Other Bank charges:** for releasing payment and IDPMS entry etc with A1 payment on maturity, Form 15CA and 15CB on maturity etc.
- **Withholding Tax (WHT):** For funds arranged from foreign bank, Importer has to pay WHT on the interest amount, no WHT for funds arranged from a Indian PSU bank.

Use cases of Seller's Credit Mechanism

1. Practical examples of relating to prudential norms in the Operation of Seller's/Supplier's Credit

All same that of Buyer's Credit given above. https://www.thehindu.com/business/Industry/pnb-scam-hits-buyers-credit/article22926333.ece

RBI's Trade Credit (used for SC/BC) are given below

- Import transaction under LC
- **Incoterms :** FOB/CIF/CFR
- Arrangement has to be done before LC gets opened. Incase of LC already opened, relevant

amendment has to done.

- LC to be restricted to suppliers credit providing bank under UCP
- **Under Payment Term:** 90 days Usance payable at Sight (mention tenure according to tenure and offer received)
- **Prepayment of Suppliers Credit**
- Technically yes, prepayment can be made to Usance LC subject to below condition is satisfied. But as there will be loss of interest for overseas banks it will not accept reduced payment. Even if they accept it will be with penal charges. Thus, practically prepayment will not be possible.

2. Discussion on cases related to Seller's Credit in terms to understand pragmatic approach towards this product.

There are many cases of defaults/devolvement of LC in Supplier's Credit on the Importer in India but not reported like that of Neerav Modi for Buyer's credit, as RBI have merged both Buyer's and Supplier's credit as TC. However, we can refer few overseas cases under this category.

https://sternbank.com/tf-case-studies/

PS:
Hedging/Forward strategy/ process remains the same as given above

Documents used for import payment etc and FEMA guidance of RBI remains same as Trade Credit instead of Buyer's Credit/Supplier's Credit

Regulatory Framework

RBI has issued directions under Sec 10(4) and Sec 11(1) of the Foreign Exchange Management Act, 1999, stating that authorised dealers may approve proposals received (in Form ECB) for short-term credit for financing — by way of either suppliers' credit or buyers' credit — of import of goods into India, based on uniform criteria.

Over the years there has been changes in norms. Summary of the same is given below and for further details please refer article "RBI Circular : Trade Credit – New Regulatory Framework"

1. Maximum Amount Per Transaction :

- $50 Million
- $150 Million for oil/gas refining & marketing, airline and shipping companies

2. Above $50 Million, RBI Approval required.

3. Recognised Lenders

- **Suppliers Credit:** Supplier of goods located outside India.
- **Buyers Credit:** Banks, financial institutions, foreign equity holder(s) located outside India and financial institutions in International Financial Services Centres located in India.

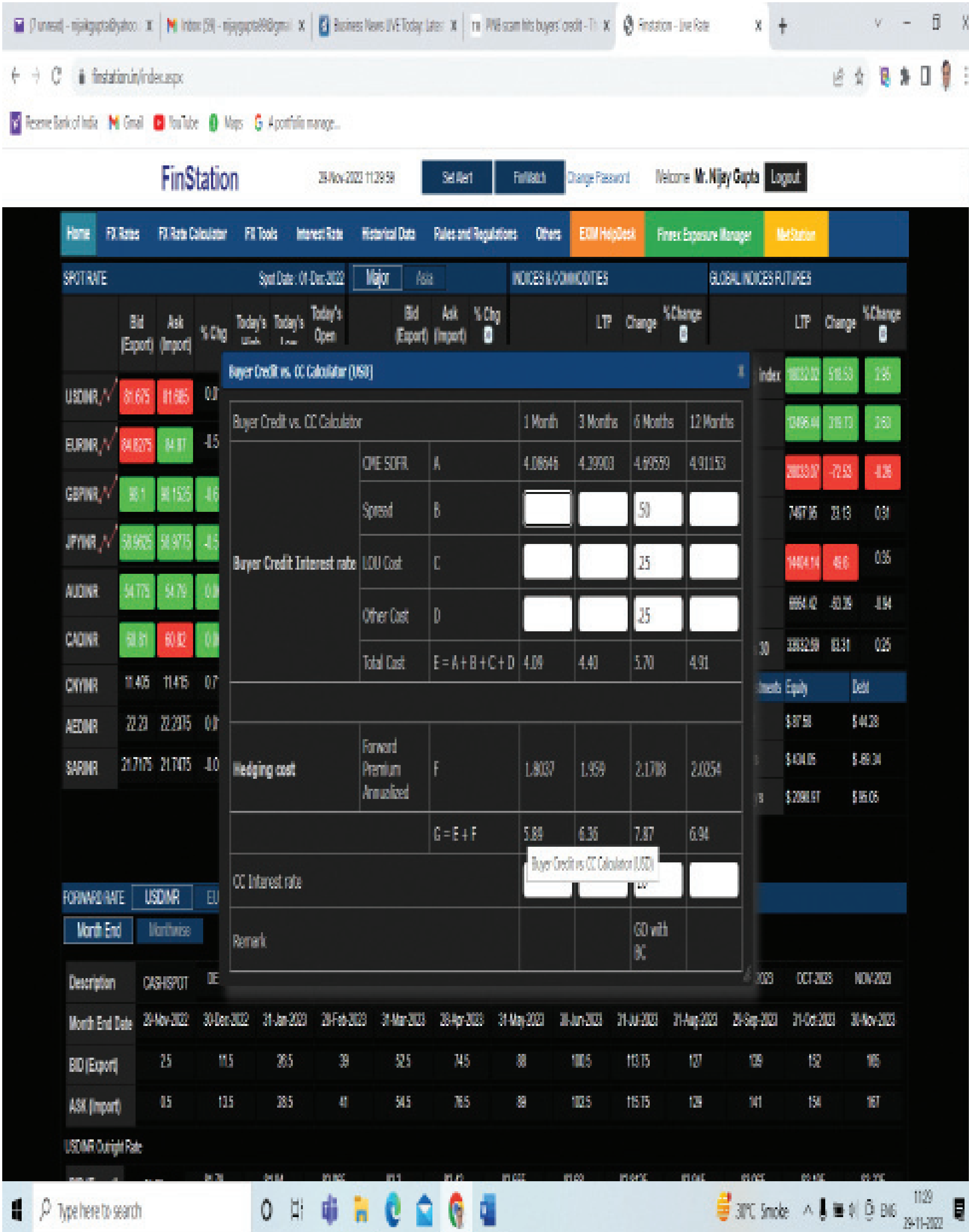
4. Maximum Period from date of shipment

- **For non capital goods :** upto 1 year or operating cycle which ever is less.
- **For Capital goods:** Upto 3 years
- For shipyards / shipbuilders: for import of non-capital goods: up to 3 years.

5.No Rollover / Extension will be permitted beyond permissible limits

6. **All-in-cost Ceilings:** 6 Month SOFR/Libor + 300 bps

7. SEZ, FTWZ, DTA units can avail trade credit.


FinStation
Set Alert
FinWatch
Change Password
Logout
Home
FX Rates
FX Rate Calculator
FX Tools
Interest Rate
Historical Data
Rules and Regulations
Others
EXIM HelpDesk
Forex Exposure Manager
MetStation
SPOT RATE
INDICES & COMMODITIES
GLOBAL INDICES FUTURES
Buyer Credit vs. CC Calculator (USD)
Buyer Credit vs. CC Calculator
1 Month
3 Months
6 Months
12 Months
CME SOFR
A
4.08646
4.39903
4.69559
4.91153
Spread
B
50
Buyer Credit Interest rate
LOU Cost
C
25
Other Cost
D
25
Total Cost
E = A + B + C + D
4.09
4.40
5.70
4.91
Hedging cost
Forward Premium Annualized
F
1.8037
1.959
2.1708
2.0254
G = E + F
5.89
6.36
7.87
6.94
CC Interest rate
Remark
CD with BC
FORWARD RATE
USDINR
Month End
Description
CASHSPOT
Month End Date
BID (Export)
ASK (Import)
USDINR Outright Rate
Type here to search

**** Forward Hedging Strategy:

SOFR – Secured Overnight Financing Rate is a secured interbank overnight interest rate. SOFR is a reference rate established as an alternative to LIBOR

Spread: The difference between the interest rate that a bank charges a borrower and the interest rate a bank pays a depositor/lender bank.

Documents at the time of Repayment of Buyers Credit

- A1 Form (for Interest payment)
- Form 15CA and Form 15CB (Incase of Foreign Bank)
- FEMA 1999 declaration

Buyer's Credit – Case Study

Neerav Modi PNB Scam Case:

The Punjab National Bank scam relates to fraudulent letter of undertaking worth Rs 10,000 crore issued by the bank.

The key accused in the case were jeweller and designer Nirav Modi, his maternal uncle Mehul Choksi, and other relatives and some PNB employees. Nirav Modi and his relatives escaped India in early 2018, days before the news of the scam became public. PNB scam has been dubbed as the biggest fraud in India's banking history.

How the 10,000-crore scam happened?

Bankers used fake Letters of Undertakings (LoUs) at PNB's Brady House branch in Fort, Mumbai. The LoUs were opened in favour of branches of Indian banks for import of pearls for a period of one year, for which Reserve Bank of India guidelines lay out a total time period of 90 days from the date of shipment.

This guideline was ignored by overseas branches of Indian banks. They failed to share any document/ information with PNB, which were made available to them by the firms at the time of availing credit from them.

Nirav Modi got his first fraudulent guarantee from PNB on March 10, 2011 and managed to get 1,212 more such guarantees over the next 74 months.

The Enforcement Directorate (ED) recovered bank token devices of the foreign dummy companies used by the fugitive diamond trader to transfer the fraudulent funds.

The probe agency found that Nehal Modi, brother of Nirav Modi had destroyed the devices and had even secured a server located at United Arab Emirates (UAE) soon after the scam broke out. These dummy firms had been receiving the fraudulent PNB LoUs and were based out in British Virgin Island and other tax havens.

The enforcement agency has so far seized movable and immovable properties to the tune of Rs 2362 crore in the PNB fraud case.

How was the Punjab National Bank management oblivious to this?

PNB employees misused the SWIFT network to transmit messages to Allahabad Bank and Axis Bank on fund requirement. While all this was done using SWIFT passwords, the transactions were never recorded in the bank's core system — thereby keeping the PNB management in the dark for years.

How did the scam unfold?

On 29 January 2018, PNB lodged a FIR with CBI stating that fraudulent LoUs worth Rs 2.8 billion (Rs 280.7 crore) were first issued on 16 January. In the complaint, PNB had named three diamond firms, Diamonds R Us, Solar Exports and Stellar Diamonds.

As of 18 May 2018, the scam has ballooned to over ₹ 14,000 crore.

Who is Nirav Modi?

Nirav Modi is a luxury diamond jewellery and designer who was ranked 57 in the Forbes list of billionaires in 2017. He is also the founder of the Nirav Modi chain of diamond jewellery retail stores.

Modi is the Chairman of Firestar International, the parent of the Nirav Modi chain, which has stores in key markets across the globe.

He has 16 stores in diverse locations such as such as Delhi, Mumbai, New York, Hong Kong, London and Macau.

He is currently in the United Kingdom and is seeking political asylum in Britain.

Sources used:

https://rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=11510#14

Google

FINSTATION

BASICS OF LIFE INSURANCE

CMA Vadapalli Srinivas
Head-Legal of one of the Leading Life Insurance Company in India

In this article, I will make an attempt to explain the basic concepts of life insurance in a simple language.

It is known that insurance is sharing of risks. Let us first understand the basic ingredients of life insurance premium.

Let us assume that based on our experience, in a group of 1000 persons aged 30, 4 persons die before they attain the age 31 [that is within one year]. Suppose, the insurance amount is ₹1000 per person, there will be 4 death claims of ₹ 1000 each and thus the Organisation has to pay ₹4000/- towards claims for this group of 1000. Thus, each member of the group [aged 30] has to contribute ₹4/- for a cover of ₹1000/- for one year. This may be technically called Mortality Rate and may be denoted as L (30-31)= 4%o [The mortality rate for a group of 1000 persons aged 30 is 4 per thousand before they attain the age of 31].

The insurance premium is always collected in advance. The Organisation thus collects ₹4000/- on day one for a cover of ₹1000/- for one year. Now, all the claims may not arise on day one or on the last day of the year and they arise at any time during the year. Let us assume that on an average, the claims arise at the end of 6 months. The Organisation invests this amount of ₹4000/- which earns some interest and for the sake of simplicity, let us assume that this amount earns an interest of ₹100/- for 6 months. Let us assume that an amount of ₹3900/- invested on day one accumulates to ₹4000/- at the end of 6 months when the claims arise and become payable. The group may be given the benefit of the interest component. Hence, each member of the group now needs to contribute ₹3.90 for a cover of ₹1000/- for one year.

To administer the scheme, the organisation incurs some expenses, say, ₹150/- [for maintaining the records and settlement of claims and so on]. Assuming that the scheme is administered on "no-loss no-profit" basis, these expenses are recovered from the group and thus the group will have to pay ₹3900/- plus ₹150/- thus a total of ₹4050/- and hence each member will have to pay a premium of ₹4.05 for a cover of ₹1000/- for one year.

To simplify, there are three basic ingredients in an insurance premium, viz., mortality rate, return on investment and the office expenses. The premium = Mortality expense - return on investment + office expenses.

Insurance is a risky business and is based on assumptions. Assuming mortality rate and return on investments over the long term is very difficult. Similarly, some of the expenses are controllable and some are uncontrollable. A catastrophe can ruin an insurance organisation. While presenting the premium calculation above, only basic ingredients are considered for easy comprehension and assuming that the mortality rate follows the normal curve over a longer duration and extreme conditions like catastrophes are not considered.

Life insurance contracts are long term contracts. So, it is further challenging to make assumptions spread over a longer period of time. The insurance organisation may not experience the same mortality rates that are generally recorded in the Census and generally, the mortality rates experienced by the insurance companies are higher than those recorded in the Census. It is logical because the healthy lives may not show much interest in insurance and thus a lot of healthy lives are either not covered under any life insurance or are not sufficiently covered. When healthy lives do not opt for insurance cover, the insurance organisation obviously suffers because it may lead to more claims than assumed/anticipated.

The law of averages works well when the sample size is very big. For example, if we toss a coin, the probability of getting a head or tail is 50%. If we toss the coin 10 times, we may get 8 heads and two tails or vice versa because the sample size is too small. If we toss the coin one million times, we may get approximately 60% heads and 40% tails [or vice versa] and if we toss the coin a few billion times, we may get approximately 50% heads and 50% tails. [I am just giving a simple example to drive home the point that if more and more lives are covered under an insurance scheme, the actuarial estimates of mortality rates may not vary much from the actual experience.] Hence, it is in the interests of the insurance Organisations to cover more and more lives.

From the above analysis, it is evident that there are primarily three critical assumptions in an insurance business, viz., assumption of mortality rate for each age, assumption of interest rates [return on investments] and assumption on expenses. If any of these assumptions prove to be erroneous, the organisation suffers immensely. Hence, the insurance companies generally adopt a conservative approach in their assumptions. The insurance companies suffered immensely because of the covid pandemic when the mortality rates were far higher than the assumed mortality rates and also around 2008 when there was a global meltdown when the investment returns were much lower than expected.

An insurance company benefits when the mortality rates are lower than those assumed [called mortality surplus]; when investment returns are higher than those assumed [investment surplus] and when the office expenses are lower than those assumed [expenses surplus]. Similarly, an insurance company may suffer where the mortality rates are higher than those assumed; when investment returns are lower than assumed and the office expenses are higher than assumed.

It is a known fact that the probability of a person dying increases with age. That is, the mortality rate increases with age. Thus the insurance premium [which is primarily dependant on mortality rate] increases with age and the insurance premium becomes very expensive at advanced ages and cannot be afforded. Thus a person is deprived of insurance cover when the person needs most. Keeping this difficulty in mind, insurance companies adopt "level premium approach" under which the premium remains the same throughout the entire term and does not increase each year.

The level premium is determined on a scientific basis. Under this scheme, the level premium charged in the initial years is more than the premium that is needed at younger ages and this surplus premium is invested to create some sort of a reserve. As the person advances in age, beyond a certain age, the level premium received is lower than the premium that is actually chargeable for a person of that age. This deficit in premium is made good by drawing from the fund that has been created in the earlier years of the policy from the excess premium collected. Thus the insured person does not have the burden of increasing premium every year as the premium remains constant during the term of the policy.

Insurance companies also want to pass on certain amount of risk to another called, "Reinsurance Company". A Reinsurer is an Insurer for Insurers. Every Insurance Company, based on its risk appetite, retains certain amount of risk and beyond this limit, passes on the risk to the Reinsurer and pays the appropriate premium to the Reinsurer, which is called Reinsurance premium. For example, if a person is insured for Rs. One Crore with an insurance company, the Insurance company retains a predetermined limit, say, for example, ₹40 lakh and passes on the risk of ₹60 lakh to the Reinsurer by paying the appropriate reinsurance premium as per the agreement between the insurer and the Reinsurer. In case of a claim, the insurance company pays the insured Rs. One Crore and gets reimbursement from the Reinsurer for ₹60 lakh. Thus, Insurance Companies mitigate their risks by having necessary reinsurance arrangements. The retention limits by the insurance companies are based on various parameters under various types of policies and under different categories of lives. It is to be noted that the Insured Person is not privy to the reinsurance arrangements and the Insurance Company is solely responsible for all insurance related services and is liable for all the contractual obligations under a policy of insurance irrespective of its reinsurance arrangements. As things stand today, an aggrieved policyholder cannot litigate against the Reinsurer for any reason whatsoever because there is no prima facie agreement between the policyholder and the Reinsurer.

At this stage, let us understand how a Cost and Management Accountant [CMA] can play an effective role in a life insurance company. We are aware that there are three basic constituents in an insurance premium, viz., mortality rate, return on investment and expenses. While the mortality rate is determined based on statistical models, a CMA can play an effective role in ensuring better returns on investments and in controlling expenses which will in turn offer better returns or better premiums to the policyholders. This is the first stage where a CMA can be actively involved in an insurance company.

Life Insurance Contracts are long term contracts and controlling expenses and getting better returns on investments over a period of time requires a lot of knowledge and expertise and a CMA is equipped to do this. As life insurance contracts are long term contracts, they do not have a Profit & Loss account but they have a Revenue Account and a Balance Sheet.

Insurance Companies undertake periodical actuarial evaluations to ascertain their solvency margins and to determine the actuarial surplus or deficit. If there is an actuarial surplus [which is, in simple terms, excess of assets over liabilities], insurance companies declare bonus after providing for various reserves. There are two types of bonus, generally. The first type is Reversionary Bonus which once declared, gets attached to each policy which is eligible to participate in bonus and is payable either at the time of maturity of the policy or at the time of payment of death claim, if earlier. The second type of bonus is known as 'Cash Bonus' which is payable to the eligible policyholders whenever declared.

Reversionary Bonus can be simple reversionary bonus or compound reversionary basis. In compound reversionary bonus, the reversionary bonus attached to a policy also earns further bonus as and when declared while in simple reversionary bonus, the bonus attached to a policy does not earn further bonus.

There are two types of policies, viz., participating policies and non-participating policies. The participating policies are eligible for participating in the bonus declarations while non-participating policies, as the very name suggests, are not eligible for any bonus. While endowment [with profit] type of policies are generally participating policies, term assurance policies are not eligible for any bonus. The reason is that the term insurance policies are purely risk cover policies and offer no return on maturity of the policy and are very low cost policies compared to endowment [with profit] type of policies where the premium is higher and there is a bonus loading component in the premium structure. However, there is another type of endowment type of policy which is not eligible for any bonus which is called 'without profit' policy. A "With Profit" Policy has bonus loading in its premium while a "Without Profit" policy does not have a bonus loading in its premium. Hence, the premiums for "with profit" policies are higher than the premiums for "without profit" policies.

It may be noted that term assurance polices are purely risk policies and nothing is payable if the insured person survives the term of the policy and sum assured is payable only in case of death of the insured person during the term of the policy. Under Endowment type of policies, sum assured is payable if the insured dies during the term of the policy or at the time of maturity if the insured survives the term of the policy. So, the premium for endowment type of policies is higher than that for term assurance policies.

Life insurance contracts are long term contracts and require regular servicing during the entire term of the policy. Servicing involves sending premium notices, collection of renewal premiums, revivals of lapsed policies, nominations, assignments, surrenders and settlement of claims. This involves a definite cost element throughout the term of the policy.

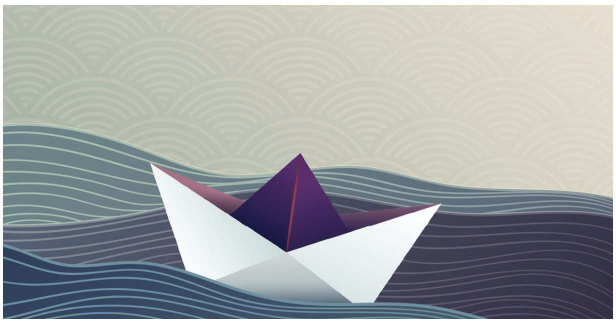
Slowly, Unit Linked Insurance Policies have gained prominence in the life insurance products. Under a Unit Linked Insurance Plan, the life risk is borne by the insurance companies while the investment risk is borne by the policyholders. The policyholder is offered a basket of funds with various combinations of equity, debt and money market instruments and the surplus premium [premium after deducting applicable expenses] is invested in the fund chosen by the policyholder. Considering the very nature of this type of investment, the policyholders get better returns under a Unit Linked Policy than those under a traditional policy provided they stay invested for a long time. However, these investments are always subject to market risks and the insurer bears no investment risks under unit linked policies.

An insurance Company has a lot of funds to invest and thus investment of funds becomes a critical portfolio of an insurance company. Return on investments and the quality of service are the major differentiators among insurance companies.

An insurance Company should have a robust strategic planning and budgeting program. Innovative product development and proper pricing of products is another challenge. Another area is to minimize adverse selection against the insurers by the insuring public. There should be an efficient underwriting department to weed out bad lives.

To check the efficiency of the operations, an insurance company conducts periodic internal audit and inspection of its operations. Certain processes are critical and require concurrent audit as well. A CMA can play an effective role in rationalizing operational expenses, proper pricing of the products, laying down sound investment strategies and in audit and inspection besides finance and accounting functions. The insurance industry is considered to be the domain of an Actuary and in my view, a CMA can also contribute a great deal to an insurance company as presented above.

UK'S SEA OF TROUBLES



Mohit Yadav
Assistant General Manager
Pension Fund Regulatory and Development Authority

***The views expressed are personal and do not necessarily represent that of the Authority.**

UK's Sea of Troubles

"To be or not to be." Yes, that's something which passed across my mind after understanding the recent developments in the UK. I am sure the feeling would be the same in the power corridors of London after the ramifications of the mini budget. While the financial pundits across the Canary Wharf gave a thumbs down to the announcement, the industry and market participants acted rather strongly with the Pension funds being the most prominent ones.

The UK pension market profoundly weighted with DB pensions, most of them occupational in nature and been running through ages. The ambiguity triggered subsequent to the introduction of mini budget. With the know factors such as Inflation rates already at all time high and unprecedented levels, the impending energy challenges due to supply shocks with the onset winter and series of interest rates hike in the recent past; the government still thought that a tax cut would be beneficial to the citizens and instead of being cognizance of the fact that it might infuse more liquidity at retail levels which would in turn fuel the inflation levels more, resulting in more need for further rate hikes in the future.

The tax cuts also came with an elucidation that the same would be debt funded which in turn questioned the future liquidity of the debt market, already reeling under stress due to rate hikes by BoE since the advent of war in Eurasia.

In a publicly issued statement on Sep/29/2022, Mr. Oliver Morley, Chief Executive of the Pension Protection Fund[1], also expressed:

1 The Pension Protection Fund (PPF) is a public corporation, set up by the Pensions Act 2004. PPF currently protects close to 10 million members belonging to more than 5,200 DB pension schemes.

"Recent market stresses will understandably have caused concern amongst pension savers. It's important that members of defined benefit schemes understand that we are ultimately here to protect them if we are needed to step in. I want to reassure members that we remain confident in our funding position – and their benefits remain fully secure. We are carefully managing our investments and closely monitoring the impact of market movements on the schemes we protect."

As per The Purple Book[2] 2021, DB Pension Risk profile, published by PPF; the net s179[3] funding position of the schemes in The Purple Book 2021 dataset at 31 March 2021 was a surplus of £46.9 billion, corresponding to a funding ratio of 102.8 per cent.

	s179	Estimated full buy-out
Total number of schemes	5,215	5,215
Total assets (£bn)	1,720.7	1,720.7
Total liabilities (£bn)	1,673.8	2,335.9
Net funding position (£bn)	46.9	-615.3
Aggregate funding ratio	102.8%	73.7%
Number of schemes in deficit	2,575	4,786
Number of schemes in surplus	2,640	429
Net funding position for schemes in deficit (£bn)	-128.5	-622.0
Net funding position for schemes in surplus (£bn)	175.3	6.8

With further bifurcation, it also shares the historical funding trends of the pension schemes on an s179 basis and on estimated full buy-out basis.

As per s179 valuations, out of the 5215 schemes; 2575 schemes were in deficit with 2640 in surplus. However, on full buy-out basis 4789 schemes were in deficit with 429 in surplus.

*The aggregate **s179** funding ratio improved by 7.9 percentage points over the year to 31 March 2021 and is higher than 100 per cent for the first time since 31 March 2010. The deficit of schemes in deficit improved from £229.1 billion to £128.5 billion over the year to 31 March 2021.*	** The aggregate full buy-out[4] funding ratio increased from 71.8 per cent to 73.7 per cent over the year to 31 March 2021, which is smaller than the increase in the aggregate s179 funding ratio. This is because of an increase in inflation expectations over the year, which is more significant for buy-out liabilities than for s179 liabilities.*

			s179 liabilities				
Year	Number of schemes	Total assets (£bn)	Liabilities (£bn)	Net funding position (£bn)	Aggregate funding ratio	Deficit of schemes in deficit (£bn)	Surplus of schemes in surplus (£bn)
2006	7,751	769.5	792.2	-22.7	97.1%	-76.3	53.5
2007	7,542	837.7	769.9	67.8	108.8%	-38.5	106.2
2008	6,897	837.2	842.3	-5.1	99.4%	-67.7	62.6
2009	6,885	780.4	981.0	-200.6	79.6%	-216.7	16.0
2010	6,596	926.2	887.9	38.3	104.3%	-49.1	87.4
2011	6,432	968.5	969.7	-1.2	99.9%	-78.3	77.1
2012	6,316	1,026.8	1,231.0	-204.2	83.4%	-231.3	27.1
2013	6,150	1,118.5	1,329.2	-210.8	84.1%	-245.8	35.0
2014	6,057	1,137.5	1,176.8	-39.3	96.7%	-119.0	79.7
2015	5,945	1,298.3	1,542.5	-244.2	84.2%	-285.3	41.1
2016	5,794	1,341.4	1,563.1	-221.7	85.8%	-273.5	51.8
2017	5,588	1,541.1	1,702.9	-161.8	90.5%	-246.7	84.9
2018	5,450	1,573.3	1,643.8	-70.5	95.7%	-187.6	117.1
2019	5,422	1,615.3	1,628.0	-12.7	99.2%	-159.8	147.1
2020	5,318	1,700.6	1,791.3	-90.7	94.9%	-229.1	138.4
2021	5,215	1,720.7	1,673.8	46.9	102.8%	-128.5	175.3

		Estimated full buy-out		
Year	Total assets (£bn)	Liabilities (£bn)	Net funding position (£bn)	Aggregate funding ratio
2006	769.5	1,376.7	-607.2	55.9%
2007	837.7	1,393.7	-556.0	60.1%
2008	837.2	1,465.8	-628.6	57.1%
2009	780.4	1,461.1	-680.7	53.4%
2010	926.2	1,469.3	-543.1	63.0%
2011	968.5	1,551.8	-583.3	62.4%
2012	1,026.8	1,840.5	-813.7	55.8%
2013	1,118.5	1,974.7	-856.2	56.6%
2014	1,137.5	1,827.2	-689.7	62.3%
2015	1,298.3	2,269.2	-970.9	57.2%
2016	1,341.4	2,293.1	-951.7	58.5%
2017	1,541.1	2,461.7	-920.6	62.6%
2018	1,573.3	2,332.0	-758.7	67.5%
2019	1,615.3	2,260.3	-644.9	71.5%
2020	1,700.6	2,369.1	-668.5	71.8%
2021	1,720.7	2,335.9	-615.3	73.7%

Liability Driven Investments (LDI) were at the core of the Pension Funds panic. In order to sustain or

2 The Purple Book, also known as The Pensions Universe Risk Profile has been published annually since 2006, giving the most comprehensive data and analysis of the UK defined benefit (DB) pension landscape. This publication tracks trends in DB scheme funding, demographics, asset allocation and more.

3 Section 179 (s179) is a Pensions Act 2004 provision which requires defined benefit (DB) pension schemes to undertake a valuation to establish the level of scheme assets and liabilities on a PPF funding basis and so determine the level of scheme underfunding that is used in the risk-based levy calculation.

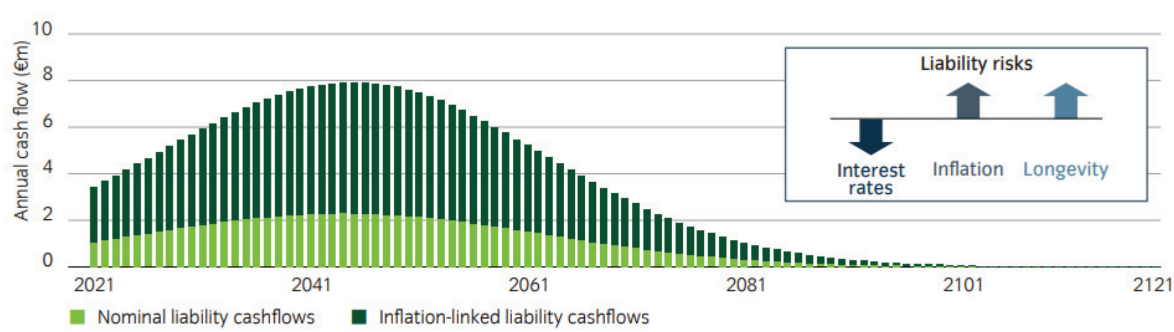
4 The cost of insuring a pension scheme in the private market.

enhance its financing position over time, a pension system will normally seek to retain or expand its assets by relying on investment returns and contributions. Changes in the value of the liabilities can also have an impact on the financial position, and LDI aims to mitigate this risk. An LDI strategy aims to raise the probability that a pension system will achieve its objectives, often by raising funding levels while lowering risk.

Pension plans prioritized their assets and paid less attention to the effects of changes in the value of their liabilities. Despite the fact that assets have typically continued to expand in recent years, funding levels have been unstable since liability values have increased significantly and have remained to be erratic because of which pension plans contemplated using an LDI strategy. Trustees have sought assets that are tied to such variables since the value of future pension payments is directly correlated with interest rates, inflation, and the longevity of a pension scheme's members. Funding level volatility can be significantly decreased if the value of the scheme's assets and liabilities respond to these events in the same way.

By separating an investment strategy into two parts—one that manages liability risks and another that strives to provide adequate investment returns—the LDI approach seeks to address this difficulty. If a pension plan is effective in achieving both goals, the volatility of its funding level will decrease, and over time, its assets will increase more quickly than its obligations. To assist in reducing liability risks, an LDI solution invests a portion of the pension plan's assets. Pension payments are made over a lengthy period of time, and the present value of such payments is closely correlated with interest rates, maybe inflation, and lifespan.

An LDI strategy invests a portion of the assets of a pension plan to match the sensitivity of the liabilities to changes in interest rates and inflation. This indicates that the funding level of the pension plan should be less volatile if interest rates or inflation forecasts change. Instead, asset and obligation values will rise or fall simultaneously. In other words, the undesirable or unfavourable liability risks of the pension plan are hedged.



In this example, future payments have been calculated and set out according to their links to inflation. Liability risks will have the following effects on a pension scheme's liabilities:

- If expectations for future inflation rise, the present value of liabilities will **rise**.
- If interest rates rise, the present value of liabilities will **fall**.
- If longevity increases, the present value of liabilities will **rise**.

(Source: Insight Investment. For illustrative purposes only)

The purpose of the hedging portfolio is to reduce the volatility of the funded status of the plan by limiting the volatility of the assets of the plan in relation to changes in the value of the specific obligation of the plan. For institutional investors with long-term responsibilities, such pension funds or insurance firms, interest rate hedging is especially important. Additionally, interest rate hedging portfolios are a crucial component of household and individual retirement investing solutions.

The pension fund is in a favourable position if nominal rates are higher than the valuation discount rate. By hedging, it can afford to "lock in" such rates without affecting contribution rates. This is a particular instance of a helpful general principle: the fund can de-risk at no additional financing cost when gains on hedging instruments surpass the valuation rate. To meet its needs for long-term growth, it is no longer dependent on the higher returns from riskier assets.

In 2008, DB schemes averaged hedging levels of 20–30% of pension fund obligations. However, the Hedging ratios were substantially higher in 2020, ranging from 70% to 80%.

The cost to pension managers was already rising due to the effect of global interest rate increases on 30-year swaps. These swaps reached unprecendented levels after the UK's mini-budget announcement, rising from 2% to above 4%. In response, the clearing house requested that the pension managers post extra funds as collateral.

Sharp declines in gilts and the value of the pound resulted in variance margin calls for UK pension funds that might have been up to £100 million each. As a result, their mark-to-market valuations for derivatives and leveraged repo positions got substantially skewed against them.

Following the market shock, LDI funds requested substantially higher amounts of collateral to safeguard against sudden changes in yields. It was anticipated that Pension plans were expected to liquidate assets worth at least 300 billion pounds to cover such collateral calls.

For Britain's £1.5 trillion in liability-driven investment funds, the decline in bond values led to panic. The majority of LDI holdings—roughly two-thirds—are long-dated gilts. As the value of the bonds declined, the LDIs needed to liquidate a sizeable percentage of their long-term gilt investments. If gilt prices had not declined too quickly, they could have done so in a timely manner. Several LDI fund managers notified the Bank that several LDI funds were expected to have negative net asset value at the current yields. It was therefore anticipated that these funds would have to start the winding-up procedure the following morning.

In that case, a sizable amount of gilts that banks that had lent to these LDI funds had been holding as collateral were likely to be sold on the market, setting off a potentially self-reinforcing spiral that threatened to severely disrupt core funding markets and lead to generalised financial instability.

In order to stabilise the economy, the Bank of England announced a two-week long-dated bond buying programme and postponed its planned gilt auctions until the end of October.

The Financial Policy Committee (FPC)[5] announced it will buy gilts on "whatever size is necessary" for a brief period of time to avoid an "unwarranted tightening of financing conditions and a restriction in the flow of credit to the real economy."

The Bank of England attempted to prevent a market collapse by supporting gilt prices through its emergency purchase of long-dated gilts and enabling LDIs to handle the sale of these assets and the repricing of gilts in a more orderly manner.

In a communication to the Parliament's Work and

5 The Bank of England's Financial Policy Committee (FPC) identifies, monitors and takes action to remove or reduce systemic risks with a view to protecting and enhancing the resilience of the UK financial system.

Pension Committee; Mr. Charles Counsell, Chief Executive of The Pensions Regulator expressed that the intervention of the central bank was required to prevent adverse impact of the event on the plan sponsor. Counsell also said "The exact outcomes for pension schemes is mixed. We understand that many pension schemes were able to continue with their LDI programmes but some may have been adversely affected by selling LDI at a low price and subsequently replacing it at a higher price."

Way Forward

The recent developments have certainly presented a case study which the economists and financial advisors can't afford to ignore. The Government(s) and Central Bank(s) shall be hopefully more cognizant of such impacts while developing fiscal and monetary policies for their citizens. At industry level, they might be forced to relook into the range(s) of the sensitivity parameters and to contemplate whether those scenarios would encompass the expected future volatility including the extreme ones in tandem with their financial metrics. Apart from the usual portfolio stress tests, the margin money requirements can be expected to go up with counterparties incorporating more risk premium for higher expected volatility and to avoid any such scenarios arising in the future. Similarly, the DB pension funds themselves might revisit the effectiveness of the LDI strategy in order to take adequate and appropriate measure to make it more optimal in terms of resource allocation and liquidity requirements.

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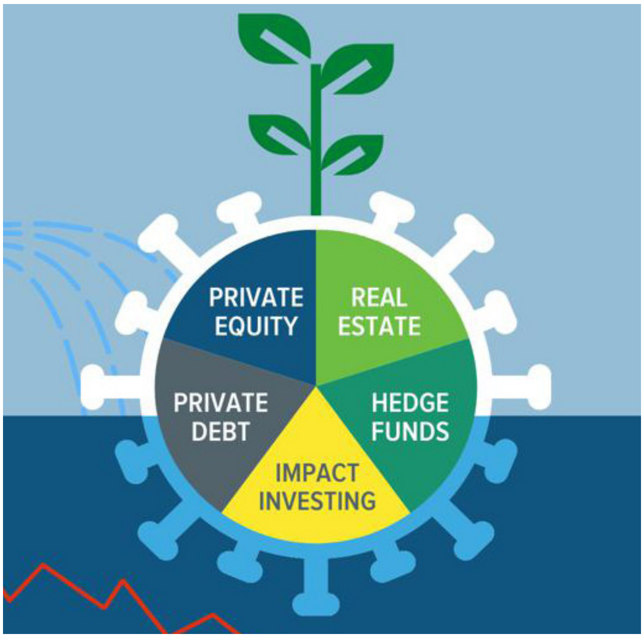
DECODING INVESTMENT STRATEGIES OF CAT III AIF IN INDIA



CMA Malhar Majumder
Personal Finance Specialist

What are alternate assets?

An alternate asset is a financial asset, not a traditional financial investment like stocks, bonds, or cash. Alternate can include Private Equity, Venture Capital, and Hedge Funds; while the conventional assets are market-linked and liquid, the alternate assets are off-market and conspicuously illiquid.

Who invests in alternate assets?

Global multi-billion-dollar funds like pension or insurance, endowment funds, investment banks, and family offices search for options beyond the traditional line of investments. The alternate asset class provides these options.

Size of global alternate market

Year	Asset Under Management in $ Trillion	Absolute % Increases
2018	9.5	
2021	13.7	44%
2027 F	23.3	70%

F - stands for the forecast.

Source – www.preqin.com/insights/global-reports-2023

Why would portfolio managers invest beyond traditional investments?

We can list out a few points to comprehend their viewpoints:

1. Portfolio managers need to improve returns to meet investors' expectations.
2. Established business models in developed countries are getting threatened, and portfolio managers are looking for alpha-generating ideas.
3. Developed economies are currently facing recessionary threats, which negatively affect capital market returns.
4. Threats coming from technological disruptions, environmental concerns, regulatory activism, and geopolitical tension.
5. Developed & emerging economies are a hotbed of growth and innovation in the sunrise sectors.
6. Investors prefer alternates for other reasons beyond high returns:

- Diversification
- Low correlation to other assets
- Reduce portfolio volatility
- Offer high-risk adjusted return.
- Act as an inflation hedge
- Provide reliable income streams

The locus-standi of Alternate Investing in India

The SEBI (Alternative Investment Funds) Regulations 2012 (AIF Regulations) define the term 'Alternative Investment Fund' (AIF) as a fund incorporated in India as a Trust, Company, or LLP. It is a privately pooled investment vehicle that collects funds from investors, whether Indian or Foreign, for investing by a defined investment policy.

The broad categories of Alternative Investment Funds in India

Particular	Category I	Category II	Category III
Criteria	Start-ups/Early-stage ventures/Social ventures/ SMEs/Infrastructure	Does not fall either under Category I or Category III/Primarily in unlisted categories.	Employs diverse or complex trading strategies/ invests in both listed and unlisted securities/Adopt 2X leverage
Types of funds	Venture Capital Funds/SME funds/Social Venture funds/ Infrastructure funds/Funds which have a positive spill-over effect on the economy.	PE / Debt Funds/Fund of Funds/Real Estate Funds.	Hedge funds/Long-only equity/Long-short equity fund
Disadvantages	Close-ended / leverage not allowed	Close-ended/power not allowed	Open or close-ended

Particular	Category I	Category II	Category III
Advantages	Are considered Venture Capital Funds under clause 23FB of section 10 of the Income Tax Act 1961	No restriction on asset allocation	2X leverage is allowed/ No restriction on asset allocation
Tax level	Pass through	Pass through	Fund level

Investment strategies of Category III AIF

The Category III AIF investment strategies in India resemble investment strategies by Hedge Funds across the globe. These Funds can take complex investment decisions and dynamic positions across asset classes using leverage, derivatives, or short positions. Investment Managers of significant hedge funds invest in non-traditional assets like Private Equity assets, Film Funds, Intellectual Property Rights, Wine Funds, Sports Leagues, Green Bonds, etc. Such investments are illiquid, with non-linear payoffs and low correlations with traditional assets.

Let us discuss the strategies that AIFs adopt in India:

i) Long-only investment strategy

The Category III AIF manager would take a long or buy position in selected stocks. However, to protect the fund against losses, a prudent investment manager may take a "hedging position" to minimize the market risk due to a decrease in the value of a stock. The managers take hedging positions by taking a Sell position in a Futures or Options contract of the store or index under consideration.

ii) Long -Short strategies

The Long-Short Equity Strategy focuses on delivering absolute returns by identifying overpriced and under-priced stocks. The investment manager will be free to take a long position, or 'Buy' position, in under-priced stocks, and a short position, or 'Sell' position, in over-priced stocks. The funds are also known as '130/30' funds, meaning the investment manager takes 130 percent long positions and 30 percent short positions as a percentage of the total investable funds. The opposite position ensures that the net exposure to the market equals 100 percent of the value of total investable funds.

iii) Market-Neutral Strategy:

Like the Long-Short Strategy, the Market-Neutral Strategy focuses on delivering an absolute return. As per the investment strategy, Category III AIF managers take an equal amount of long and short exposures in Equities through long positions in under-priced stocks and short positions in over-priced stocks. The investment manager of a Market Neutral Strategy will have to ensure that the Portfolio Beta is not significantly higher or lower than "Zero." A zero Beta, however, does not guarantee that the Strategy is not volatile or risky during economic downturns.

iv. Global Macro strategies

The global-macro strategies help funds diversify across various asset classes and manage the total risk of the fund portfolio. An investment strategy can take long and short positions across asset classes such as currencies, fixed-income securities, equities, commodities, tangible assets, and interest-rate derivatives. The fund's objective will be to earn positive absolute returns for investors by investing in multiple markets and geographies.

v) Arbitrage strategies

The fund manager exploits relative mispricing in the convertible bonds and equity shares issued by the same company in the short-term based on the Conversion Ratio offered to the bondholders.

vi) Event-based opportunities

These AIFs managers invest during corporate restructuring events to take benefits of short-term mispricing in equity or debt securities. Corporate restructuring events, such as mergers, help identify potential mispricing of equity shares of the acquiring company and the target company based on the conversion ratio announced during the union.

vi) Investing at Higher Discounts:

A strategy deployed by Category III AIFs is to invest in pre-IPO deals when a growth-stage company is about to file for an IPO. Before the IPO, the Category III AIF can support up to ten percent of its investable funds in the company's shares with the intent of selling shares at a higher premium. However, such investments are subject to a minimum lock-in period of one year, as per SEBI (Issue of Capital and Disclosure Requirements) Regulations.

vii) Activist Strategy

A Ciategory III AIF manager may implement Activist Strategy to make a significant investment in a company and benefit from a material, corporate event in that company. Material corporate events such as a change in management teams, filing for bankruptcy, or shutting down one business segment may significantly decrease the company's equity prices. A Category III AIF manager estimates that the fund can earn profits by changing the operational efficiency of an investee company that is experiencing these corporate events. The fund manager may adopt an active role in the management process by investing significant funds in such a company.

The AIF Category III investment space is grabbing the attention of Indian HNI and UHNI investors, with new schemes getting launched almost every month. As per the latest avaible data, the number and types of CAT III AIF schemes are given below:

	Tot AIF Cat III Schemes	Hedge Funds	Hedge Funds	Traditional	CTA/managed futures
		Equity Scheme	Credit Scheme		
Total Schemes	104	70	1	32	1

Source: *Preqin Pro and Preqin Performance Benchmark for India AIF. Data as of March 2021*

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EQUITY INVESTMENT STRATEGY

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'Volatile market environment should be treated as an opportunity for investors.'

Equity market volatility over the last few months has got exaggerated by weak global noise such as inflation scare, much rumored US recession, Europe energy crisis and extreme volatility in currency markets. The turmoil in Europe will continue, driven primarily by uncertainty on energy issues while the US may not outperform the way it did in the past decade. Chinese economy is expected to grow at just over 3% this year as per recent IMF forecasts, due to its zero covid policy and crack-down on excessive real estate lending.

However, when we look at India, we continue to believe that domestic growth should withstand global concerns and markets will brace this volatility or weak sentiments and eventually climb wall of worries despite currency depreciation. And there are plenty of reasons to briefly highlight as under -

1) Broad-based earnings recovery. This is being led by banks or financials, industrials & capital goods and autos. Real Estate cycle also remains robust with reducing unsold inventory levels, which is reflected in strong pre-sales and better cash flows. Even PSU banks are witnessing improvement in asset quality and loan growth disbursement. There is no material impact of rate hike on demand for home loans. Even in the first half of current fiscal, home loan outstanding of banks has registered double-digit growth rate, despite the RBI raising interest rates.

Barring cement and consumer staples, where margins have hit a temporary bottom in 2Q or the metals sector (where profitability is likely to further get impacted due to lower end-product prices), most other sectors should report good earnings growth going forward.

2) Consumption demand has exceeded even pre-covid levels and one of the best in many years. Segments like travel, hotels, restaurants are witnessing brisk business activity. Consumption demand in branded apparel, appliances or white goods, footwear, jewellery sales are all witnessing massive recovery at the retail level. E-commerce firms alone have estimated to garner sales worth $12 bn during the 9 day Navratri festive season that got concluded recently. Autos - whether electric 2-wheeler, cars, commercial vehicles or tractors sales are all showing strong momentum.

3) Inflation appears to be peaking out with broad softening of commodity prices, though Europe led crisis is still creating some near term shortages of energy-intensive commodity chemicals. Average prices of metals like Aluminium, copper, steel, pvc, cotton and rubber prices have declined by anywhere 11% to 30% though oil & gas and coal have sustained rising trend due to geopolitical issue. Bulk of raw material and freight cost pressures are behind, with an expected improvement in profit margins.

4) Gross collection of direct taxes for FY23 so far in the current fiscal (till about 1st week of October) grew by almost 24% to about Rs 9 lac cr, which is 52% of the budget estimates for the full year of tax collection target. Also, GST collection shows no major let up in demand and consumption.

5) Banks are reflecting an uptick in loans and advances with lower NPA's. There is increased momentum of new credit disbursements from both banks and NBFCs. Credit growth is a pre-cursor to better economic growth going forward.

6) Corporate capex outlook is looking up after many years driven by with increased localisation trends. Earnings of capital goods companies are at cyclical lows and can improve significantly as there are all indications of higher order backlogs. Capex cycle is picking up driven by renewables, automation and PLI schemes. Even Govt's capex is accelerating in large infra projects including defence and railway sectors with thrust towards indigenisation of procurement and modernisation efforts.

Equity Investment Strategy

Remain positive on Indian manufacturing companies with cost competence and driven by import substitution, shift from unorganised to organised or green energy led growth. Additionally, we like engineering & **capital goods** (led by capex recovery), banks/financial services (worst of asset quality issues behind and higher disbursement growth) and **real estate plays** (legacy land monetisation/building products). **Cement and select mid cap technology,** despite near term cost pressures, look attractive post correction given longer run-way to growth. **Select consumer companies in retail, travel & hospitality** will benefit from post covid opening of economy. Besides, we continue to like **specialty chemicals** due to china + 1 shift and sustainable growth outlook, including certain energy-intensive **commodity chemicals** that will benefit from Europe-led energy crisis. Some of these segments are witnessing stronger product prices that should get reflected in forward earnings.

Capital Goods - will be driven by capex cycle recovery. There is **healthy enquiry pipeline and broad-based capex recovery across the sectors such as Railways, metros, cement, power** (waste heat recovery and waste to energy), mining, sugar and ethanol, water treatment, chemicals, including EVs and data centers etc. We expect the execution of all EPC and capital goods companies to improve on a strong order book. We expect profit margins to start getting the benefit from the recent moderation in commodity prices, while the full impact will be visible from 2HFY23. Defense PSUs are doing extremely well and there is long run way to growth due to reducing import content with restricted list by Indian govt and more localisation efforts.

Infrastructure - Within EPC players, we are selective and prefer those who have better cash flows, lower

WC cycles and execution capability.

Banks and Financials - worst of asset quality issues are behind. Banks are reflecting an uptick in loans and advances with lower NPA's. There is increased momentum of new credit disbursements from both banks and NBFCs in auto, home, sme or micro finance. Higher lending rates are seen as providing a cushion for bank margins with higher interest rates passed on almost immediately. This may help revive economic and business growth. 2q earnings of banking sector grew by close to 23 to 30% with improvement in asset quality, which is a healthy performance. As a choice, one should be quite positive on **housing finance companies** on the back of **strong real estate demand, low interest rates and better asset quality**. We expect NBFCs to continue to report strong performance, reflected by accelerating loan. Despite the run-up, overall valuations in the sector are in favor.

Building products segment should see higher volume growth as real estate cycle is coming back after multi year lows. When real estate sector revives, it creates a multiplier effect on the economy - be it **cement, steel, tiles & sanitary-ware, kitchen appliances, pipes and other building products.** We are positive on residential demand while commercial space is also gradually coming back. Importantly, this is one sector where we are witnessing the biggest shift in demand from un-organised local builders to A grade developers.

Consumption - Segments like travel, hotels, restaurants, branded apparel, appliances or white goods, autos, footwear, jewellery sales are all witnessing massive recovery at the retail level. **Hotel sector is witnessing best of a decade occupancy and room tariff increases**. Selective exposure can be taken in a few companies that will benefit from such a strong business revival.

Technology - IT sector currently faces relatively higher attrition and salary costs. Besides, deal wins are likely to be muted given global backdrop. A large part of stock price correction has happened in this sector and valuations have once again turned turned attractive.

Textile sector has been impacted by high cotton prices in the recent past (lower prices now is a welcome relief to the industry). However, export demand is expected to be weak. In the entire value chain, apparels and garments players are better placed due to pricing power or ability to pass on higher costs.

Pharmaceuticals - One needs to be cautious on investing in pharma companies given raw material cost pressures. There is still US generic price erosion. In the US, there have not been any meaningful new launches in 2QFY23 for many large companies. Selective API or contract manufacturers or domestic players are however better placed than generic companies relying on US exports.

New-age digital companies - while they are disruptive companies, many are still in cash burn stage and valuations despite correction are ahead of time and offer little margin of safety. It is possible that some of disruptive businesses can themselves get disrupted and only a few will survive or make it big. Despite meaningful correction over last one year, valuations are still rich and the path to profitability miles away. The segment will continue to lead to capital losses and hence our cautious stance.

High macro and global concerns only act as a distraction to own individual companies on their respective business merit. One need not succumb to this noisy environment and focus on long term investing. It is good that we are currently passing though weak sentiments, largely driven by global issues, which means that prospective returns in Indian markets are going to be much better.

While Indian large cap index is reflecting resilience and touching newer highs amidst global stress, broader market is still subdued. We expect small and mid-cap companies to participate in subsequent stages of the market rally. Overall strategy should be to stay invested in good Indian businesses and ride the global storm.

DEPOSIT INSURANCE AND CREDIT GUARANTEE CORPORATION (DICGC)

Sudhakar Kulkarni
Certified Financial Planner CFP

Frequently we learn about liquidation/ cancellation of banking license of one or other bank, mostly about small cooperative banks in general and exceptionally of commercial private sector bank. Such news creates panic not only amongst the depositors of the concerned bank but amongst depositors of such types of banks. Recently we have seen this incase of Yes Bank and PMC Bank. In order to create trust in banking system government has given proper thought to give comfort to bank depositors by creating DICGC. Common man has very little knowledge about the DICGC, hence we will see what is the structure of DICGC, it's working and purpose.

DICGC is specialized division of RBI which is under the jurisdiction of Ministry of Finance, Government of India. It was established on 15thJuly1978 under deposit Insurance & Credit Guarantee Corporation Act,1961for purpose of providing insurance of deposits and guaranteeing of credit facilities.

The authorized capital of the Corporation is 50 crores, which is fully issued and subscribed by the Reserve Bank of India (RBI). The management of the Corporation vests with its Board of Directors, of which a Deputy Governor of the RBI is the Chairman. As per the DICGC Act, the Board shall consist of, besides the Chairman, (i) one Officer (normally in the rank of Executive Director) of the RBI, (ii) one Officer from the Central Government, (iii) five Directors nominated by the Central Government in consultation with the RBI, three of whom are persons having special knowledge of commercial banking, insurance, commerce, industry or finance and two of whom shall be persons having special knowledge of, or experience in co-operative banking or co-operative movement and none of the directors should be an employee of the Central Government, or the RBI or the Corporation or a director or an employee of a banking company or a co-operative bank, or otherwise actively connected with a banking company or a co-operative bank, and (iv) four Directors, nominated by the Central Government in consultation with the RBI.

The Head Office of the Corporation is at Mumbai. An Executive Director is in overall charge of its day-to-day operations. It has four Departments, viz. Accounts, Deposit Insurance, Credit Guarantee and Administration, under the supervision of other Senior Officers.

DICGC insures all bank deposits, such as savings, current, recurring, fixed deposits up to the limit of ₹ 5 lakh of each depositor in one bank. Earlier this limit was up to ₹ 1 lakh only which has been increased to ₹ 5 lakh on 4th February 2020.

In short DICGC is wholly owned subsidy of RBI which provides deposit insurance that works as a protection cover for bank deposit holders in case the bank goes into liquidation. In such case DICGC insures individual's deposits in single bank up to ₹ 5 lakh only (including interest) if it exceeds ₹ 5 lakh.

DICGC protects depositors' money in all types of banks such as Public Sector Banks, Private Sector Banks, Foreign Banks working in India, all types of Coop Banks, Regional Rural banks, Small Finance Banks, Payment Banks provided they have opted for DICGC cover and paid required premium in time. The insured banks are required to pay a premium to the Corporation on their deposits. The rate is fixed by RBI. The premium needs to be paid by the bank twice a year on the outstanding deposit amount (rounded to nearest thousand) on 31st March & 30th September of each year with in two months i.e on or before 31stMay and 30Th November of the year respectively. If it does not pay on or before the stipulated date the premium payable by it or any portion thereof, it is liable to pay interest at the rate of 8% above the Bank Rate on the amount of such premium or on the unpaid portion thereof, as the case may be, from the beginning of the half-year till the date of payment. Interest is calculated on this basis for the actual number of days of default, taking 1 year as 365 days. The premium paid on deposits is to be borne by the bank and not to be recovered from individual customers.

Once a bank registers with the subsidiary, it is issued a certificate that states the registration and the information regarding the protection offered to the depositors of the bank. If the depositors have doubts, they can contact the bank officials for more details.

However, DICGC doesn't cover following types of deposits

- Deposits of the central and state governments.
- Deposits from foreign governments.
- Inter-bank deposits.
- Deposits received outside India.
- State land development banks depositing with state cooperative banks.
- Other funds exempted by the prior permission of the RBI.

The Corporation has the power to cancel the registration of an insured bank if it fails to pay the premium for three consecutive half-year periods. However, the Corporation may restore the registration of the bank, which has been de-registered for non-payment of premium, if the concerned bank makes a request in this behalf and pays all the amounts due by way of premium from the date of default together with interest.

Registration of an insured bank stands cancelled if the bank is prohibited from receiving fresh deposits; or its licence is cancelled or a licence is refused to it by the RBI; or it is wound up either.

If a bank goes into liquidation, DICGC is liable to pay to the liquidator the claim amount of each depositor up to Rupees five lakhs within two months from the date of receipt of claim list from the liquidator. The liquidator has to disburse the claim amount to each insured depositor corresponding to their claim amount."

If a bank is reconstructed or amalgamated / merged with another bank: The DICGC pays the bank concerned, the difference between the full amount of deposit or the limit of insurance cover in force at the time, whichever is less and the amount received by him under the reconstruction / amalgamation scheme within two months from the date of receipt of claim list from the transferee bank / Chief Executive Officer of the insured bank/transferee bank as the case may be."

While settling the claim, same are segregated as deposits held in the same capacity and same right; and deposits held in different capacity and different right, for e.g. Mr. Mehta is having following accounts with Bank ABC Ltd and the bank goes into liquidation and liquidator lodges the claim, the claim settlement will be as following

Type of Account	Savings	Current	FD	Total Deposits	Eligible for Claim
Mr. Mehta Individual account	288500	102000	165000	555500	500000
Mr. Mehta (Partner of Mehta Trading	-	378000	100000	478000	478000
Mr. Mehta (Director of MNC Pvt Ltd		273000	150000	423000	423000
Mr.Mehta (Guardian for Mis.Riya	276000	-	240000	516000	500000
With Mrs Mehta in joint account as second holder	148000	-	300000		448000

However, if Mr. Mehta is having proprietary business firm and current account balance in said firm ₹ 235000 it will be considered in his individual accounts which already more than 500000 hence will not be eligible for claim. Secondly if any of these entities have availed loan from ABC bank then respective amount will be deducted from eligible claim amount. For eg, Mr. Mehata's firm has taken car loan and out standing loan amount is ₹ 235000+25000 interest then claim amount for this account will be ₹ 478000 -26000=218000 only.

In conclusion we can say DICGC helps to boost the trust in banking system and thereby helps the banks to mobilise fund which are further deployed for the overall growth of our country.

A TRYST WITH FINANCIAL DERIVATIVES

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Introduction:

A financial derivative is a financial contract entered into between two or more parties to link the value of the contract to the value of some other underlying variable(s) which may be value of other assets, prices, rates, spread, index which change overtime /space in a seemingly indeterminate manner. The value of the contract is derived from the value of the underlying defined objectively in the contract. Therefore, such contracts are termed as derivatives. For instance, when one purchases currency futures, he enters into a contract to take delivery of a given quantity of specified currency at some agreed future date, at exchange rate determined at the initiation of the contract. Evidently value of this contract will fluctuate with change in currency's exchange rate over the time till the due date of the delivery. Here the exchange rate is the underlying from which the value of the future contract is derived. As the exchange rate on due date would not be known a priori with certainty, the value of the contract at any time up to the maturity date can only be anticipated, or estimated. Mostly, unlike debt contracts, no principal amount is advanced upfront to be repaid later in derivative contracts. A derivative contract trades the risk embedded to the underlying risk factors/ assets for a price or mutual benefits to the parties thereto. Good derivatives products intend economic exchange of benefits among the buyer and the seller optimally redistributing the risk among them.

There are a bewildering variety of financial derivative contracts in use in the financial markets all over the world! However, although some derivatives instruments may be complex in structure all of them can be sliced and diced into the basic building blocks of options or forward contracts or some combination thereof! While Option contracts give only rights to the holder without any obligation to honour, forward contracts on the other hand confers and casts both right and obligation on the parties to the contract! Using these basic building blocks derivatives instruments may be so structured as to effect transfer of various financial risks to parties who are more able and more willing to bear, or better suited to take or manage them.

Types of Derivatives

There are well over hundred varieties of derivatives. To mention a few are Caps, Floors, Collars, Swap-options, Inverse Floaters, Knock-outs, Step-ups , Binaries etc. Rapid progress and developments in modern information technology and computer/ software capabilities enabled mathematicians and even physicists to create some more complex financial derivative instruments. Derivatives are found hidden in mortgages and debt instruments known by the name of structured notes. However, in its purest form derivatives include forward contracts, future, swaps and options.

a. Forwards and futures

Forwards are financial contracts between two parties in buying and selling an underlying asset at a specified pre-agreed price and future date wherein buyers have obligation to buy from the seller and seller has obligation to sell to the buyer at agreed upon price regardless of what might be the then fair market price. The terms of the contracts are the quantity of underlying being bought/sold, date and price at which the exchange will be done. The position implying the buying of the underlying is called the **long** and the position to be sold is called **short**. Both long and short position holder in forward have no option but to receive and deliver the contracted assets at contracted price on the contracted date and time. Forwards are customisable catering to the specific requirements of the buyers and seller. These contracts are typically traded in OTC market and are tailored to the specific needs of the parties involved. Forward contracts enable the user to take positions equivalent to cash market positions in the underlying without any upfront payment by any of the parties by setting the contract value at zero at the initiation. The forward contract can thus be interpreted as having leverage. The leverage creates credit risk. In the absence of any upfront payment the speculative long position holder might default in taking the delivery of the underlying assets particularly when the value of the assets fall sufficiently at maturity date.

Futures are standardised, negotiable forward contracts traded on organised exchange providing central location where buyers and sellers of standardised contracts trade. The standardisation is in regard to minimum quantity of commodities/ value of assets, issue/delivery dates and time for each contract for being eligible for buy and sale through the exchange platform. Therefore, it is easier for a trader to close out a future position than forward position. However, being of standard size, futures may be less precisely suited to the needs of some hedgers giving rise to basis risk. Future contracts are designed to minimise the credit risk for all counterparties. After each transaction is confirmed the clearing house of the exchange interposes itself as buyer to seller and as seller to buyer assuming the counterparty risk on to itself to ensure performance of the contract. The process is called novation. To monitor the associated counterparty credit risk the clearing house marks each contract to market and settles the gain/loss on each contract on a daily basis. While the daily marking to the market and settlement of profit/loss takes care of past loss, to provide buffer for the future expected losses margin representing posting of collateral to fall back upon in the eventuality of any of the parties to the contract ,is collected. Initial margin to be provided at the initiation of the contract and additional margin to be posted to maintain the required margin as per clearing house stipulation depending upon the volatilities of in value of the contract. Less volatile instruments or hedged positions require lower margins.

b. Options

Option contract also involves future sell and purchase of assets at a predetermined price. Options give the buyer (holder) of the contracts only right, but not the obligation, to purchase or sell the underlying asset at a predetermined price. Depending on the type of option, the buyer can exercise the right on the maturity date (European options) or on any date prior to the maturity (American options). American option includes right to exercise the option on maturity also and therefore, they must be as valuable as the European Options. It may however be noted that value of early exercise feature is small in practice. Investors may generally receive better value by reselling the option in the market without exercising the option. Since options confers rights, not obligations, they will be exercised only when they generate profit. Options can be traded both on OTC and exchange platforms.

There are two kinds of option contracts viz., Call option and Put option. An option contract is defined by two parameters viz., Strike price and expiration date. Strike price is the price determined a priori at which the option pay off will be worked out on settlement. While call option gives right to buy put option confers right to sell to the buyer of the option. The counter party to the buyer of the option is called the writer of the option. For example, let A buys a call option on 100 equity shares of ITC at strike price ₹300.00 to be exercised after expiry of three month from the date of contract (European type) or any time within three month time (American type). Here the writer of the option has, in lieu of option premium paid to him upfront, granted a right to 'A' to buy from him 100ITC shares at a price of ₹300.00 irrespective of what might be the market price of this share that would prevail at the time of his exercising his right. If the market price, then happens to be lower than ₹300.00 holder having no obligation will not exercise the option but if the price exceeds ₹300.00 on exercise of the option the holder will book a profit to the extent of difference. It may be noted that when option would be exercised by the holder, profit accruing to him will be the loss sustained by the option writer subject to adjustment of premium paid by the buyer and received by the writer.

In the case of put option the buyer gets the right to sell and option writer is under obligation to buy at the agreed price. If one buys a put option on equity share of ITC for example at strike price of ₹295/- if market price at the time of excising the option is below the strike price the holder gets a profit by exercising the option. But if the ruling market price is more than the strike price the holder will not exercise the option and would allow it to expire.

When a call option or a put option is exercised the positive cash flow emanates to the holder if and only if the spot price of the underlying exceeds or fall below the exercise price respectively. Such options are said to be in the money option. When the spot price is equal to the exercise price the option is said to on the money. But option will not be exercised by the holder of a call or a put option when the spot price of the underlying is below or above respectively of the strike price as it would amount to a negative cash flow to the holder. Options in such state are called out of the money option.

Option premium comprises two components intrinsic value and time value. Intrinsic value of an option is the amount by which the option is in the money i.e., the amount an option holder will realize before adjusting for the premium paid if the option is exercised immediately. Therefore, at the money or out of the options will have no intrinsic value.

Time value is the difference between premium and intrinsic value if any of an option.ATM and OTM will have only time value. Time value of an option tends to zero as the option approaches expiry date.

It may be pointed out that option is a valuable asset ,as buying options generates only profit (at worst zero) at expiration. This implies upfront payment would be entailed on the buyers of option. This upfront payment is known as option premium. The pay offs on options must take into reckoning this cost (for long option,) or benefit (for short position).

Options can be written on noncash instruments like futures. When exercising the call the holder becomes long the future contract. Conversely, exercising a put leads to a short position on the future contract.

Value of an option contract fluctuates in its life cycle due to fluctuations of price of underlying assets or index as the case may be. The five causative factors triggering such fluctuations are identified as under.

i. Spot price of the underlying asset

ii. Strike price of the option(K)

iii. Volatility of underlying asset price

iv. Time to expiration(T)

v. Risk-free Interest rate prevailing(r).

By virtue of associated pay off structure call options will become more/less valuable as the as the underlying stock price increases/decreases. The put options conversely becomes more/less valuable as underlying stock price declines /increases.

Other factors remaining unchanged the value of a call option/ put option declines/ increases with increase in strike price.

As time to expiration increases both call and put options become more valuable.

Value of both call and put options increase with increase in volatility of underlying asset price or index. Volatility is a measure of elements uncertainty perceived about future values of the underlying asset or index in so far as the option is considered.

Risk free interest rate affects the price of options in a less clear-cut manner. Increase in risk free rate tend to increase the expected return required by stock owners . Besides the discounted present value of future expected flow of cash flows tends also to declines. The combined effect of these two would increase the value of call options and reduce the value of put options. It may be pointed out here that in our above analysis we are assuming all other variables are held unchanged. However, as interest rate increases/decreases stock price tends to fall/rise. Therefore the net effect of interest rate rise may be to decrease the value of the call options and increase of put option. Likewise with the fall in interest rate triggering increase in stock prices might increase/ decrease the value of call /put.

Pricing of a call option and put option having same strike price and same period to maturity bears an interesting relationship emerging from the assumption that any efficient market will be arbitrage free lest exploiting the arbitrage arising out of mis pricing of instruments investors will lock in riskless profit which cannot continue indefinitely. Let us assume we have two portfolio of assets A &B. 'A' comprises of one European Call + Cash(=$K*e^{-rT}$) B' comprises one European put option + one underlying share. Both these portfolios are of same value= Max(ST , K) at expiry. Therefore the following equality must hold good otherwise arbitrage will arise.

Call price+ $K*e^{-rT}$ = Put option price +So

Option Combinations

Options may be combined in several ways. It can be combined with each other as well as with the underlying assets. Combination of a long position in the underlying asset and selling a call option thereon collecting the premium is known as covered call. Similarly a long position in the underlying stock when combined with purchase of put option to protect the downside is known as protective put. Option can also be combined with the underlying position to limit the potential upside as also the downside. Such strategies are called collar. Let us take an example to explain. Let a stock trading at ₹1100.00 . Let us buy a put at lower strike price say ₹ 85.00 and sell a call to partly finance the call, at high strike price say ₹ 120.00. If we ignore the net premium payment (pay while buy call and receive while selling call) , highest potential gain would be and maximum potential game would be ₹ 20.00 while worst loss will be ₹ 15.00.

Call and put options can be combined with same or different strike prices and maturities. A combination of long call and long put options with strike prices and maturities of the both are the same is called a long straddle. This combination expected to benefit from large price fluctuation upward or downward. Similarly selling of both call and put of same strike price and maturity is termed as short straddle. When the strike prices are different the combination is known as strangle.

Another class of combination options called spreads are of two kinds viz., Calendar or horizontal spread and Vertical spread. Butterfly spread involves combination of more than two kinds of options with same maturity but different strike prices. For example long call of strike price say K 1 may be combined with two short calls at higher strike price say K2 and a long call position at a higher strike price K3 with the same spacing. This combination is expected to benefit if the underlying asset price stable close to K2.

Special category of options

Above are standard and vanilla type of options. Many other types of options having special features have been developed and are in use. Binary Option/digital option pays a fixed amount say M if asset price ends up above a given strike price. Barrier options have pay outs on asset price heating a barrier during certain period of time. A knock -out option extinguishes if the underlying asset price hits a specified level during its life time. A knock-in option comes into existence when the asset value hits certain barrier.

Another widely used option is Asian Options or average rate options. This kind of options generate payoffs that depend on the average spot price of the underlying during the life of the option. Since average is less variable than the final value at the end of the period these options are cheaper than regular options due to lower volatility.

c. Swaps

Swaps are a species of OTC derivative contracts envisaging exchange of a series of cash flows between two parties according to specified terms. The underlying assets which may be interest rate, an exchange rate, equity, a commodity price or any other index, The agreement defines the dates on which the cashflows would be exchanged and the manner in which they will be calculated. While a forward contract is equivalent to exchange of cashflow on just one future date, in SWAP contract cash flow exchanges occur on several future date. So Swap can be viewed as a bunch of forwards and therefore SWAP may be valued using forward valuation formula. Swaps are generally for periods longer than forwards and futures. One of the basic utility of swaps is to put up hedge for risks. For example, interest rate swaps provide hedge against interest rate variations, and currency swaps can be used for hedge against currency exchange rate volatility.

The most popular types of swaps are plain vanilla interest rate swaps and fixed for fixed currency swap. Plain vanilla interest rate swap involves payment of cash equal to interest at pre-determined fixed rate on a notional principal for a number of years and receive in return interest at a given floating rate on the same notional principal for the same period of years. For example, in a five-year simple interest rate swap in which one party pays simple interest at 8% of the notional principle of say ₹100 million at the end of each quarter in exchange for receiving an interest payment on the same notional indexed to a floating rate. Since both the payments are on same notional and in the same currency and on same date there is no need to exchange any principal at maturity. A seven-year currency SWAP may involve an agreement to exchange every year 7% in pound sterling and 4% in USD next seven years. The principal amount amounts say are 15million USD and 10-million-pound sterling. It may be noted that currency swap agreement requires principals in each currency to be specified and the principal amounts are exchanged at the beginning and at the end of the life of the contract. The currency SWAP may be viewed as combination of seven forward contracts of various face values, maturity dates and rates of exchange.

Swaps may be used to transform a floating rate loan to fixed rate loan and vice versa. Similarly, it can be used to convert a fixed rate earning asset to floating rate earning asset. The entities having different perception in regard to interest rate change might engage in swap transactions for fulfilling their specific financial needs. Normally the two contracting entities do not get in touch to enter into swap contract. Instead, each deal with a financial intermediary like bank or other financial institution. The intermediary enters into two offsetting swap transaction with the parties. It is however, unlikely that two entities would contact simultaneously a financial intermediary needing to take opposite position in exactly same swap. For this reason large financial institutions acting as market makers show preparedness to enter into swap contract without waiting for a offsetting swap party to arrive.

Fixed income investors use interest rate swap for speculations and market making . The interest rate swap can be used as an effective portfolio management tool. It helps in mitigating the risk associated with interest rate volatility. For deploying long-duration strategy, the long-dated interest rate swaps would be working handy in increasing the overall duration of the portfolio.

Swap Rate a popular term used in the swap market. It is the market determined rate of the fixed leg quoted by various banks for interest rate swap deals. This fixed rate is demanded by the receiver of fixed cash flow by way of compensation for exposures to uncertainties embedded in the floating leg of the transactions. The curve drawn by plotting the swap rates across all available maturities is known as the swap curve. Swap rate is indeed a good indicator of market perception about interest rate , market liquidity, bank credit movement and therefore the swap curve serves as important interest rate benchmark. In developed markets, the swap curve has supplanted the treasury curve as the main benchmark to price and trade corporate bonds and loans. It works as a primary benchmark in certain situations as it is more market-driven and considers larger market participants.

The difference between yield curve and the swap curve is known as 'swap spread which generally tends to be positive reflecting higher credit risk with the banks compared to a sovereign.

Mechanics of derivative trading

Derivatives are traded in private and decentralised market called over-the counter (OTC) markets or on recognised exchanges. Derivative dealers (may be banks and financial institutions etc) buy and sell derivatives. Major issues involved in derivative trading is counterparty risk. A counterparty is opposite side of a financial transaction. Counter party risk refer to the risk of failure of the opposite party in transaction to meet their obligations in full or in time as envisaged in the relative contract.

For a long time, derivatives market was largely left to its own systems. During this period only the parties to the contracts were aware as to who owed what to whom, and where in the system the traded risk stood transported or how much collateral had been posted to cover potential losses. These limitations of the system were convincingly manifested in the chaotic days of the 2008 global financial crisis when the insurance giant AIG found to its utter surprise and dismay that it owed billions on subprime-mortgage bets to several large banks of the world but did not have enough cash to pay up. Taxpayers had to provide $182 billion to salvage the company to avert a greater collapse.

The Global Financial Crises (2007-08) brought forth the need for improved transparency and stricter regulation of the OTC derivative products and the market participants for limiting excessive and opaque risk taking. OTC derivative transactions have potential to escalate systemic risks. In that backdrop Group of Twenty (G20) initiated a reform programme to mitigate the systemic risk from OTC derivatives. The reform programme envisaged that all standardised OTC derivatives should be traded on exchanges or electronic platforms, where appropriate and all standardised OTC derivatives should be cleared through central counterparties (CCPs) and reported to trade repositories besides subjecting the non-centrally cleared derivative contracts to higher margin/capital requirements. Both capital and margin perform important and complementary but distinct risk mitigation functions. While margin is "defaulter-pay" capital is "survivor-pay." Greater reliance on margin will help market participants to better internalise the cost of their risk-taking, because they will have to post collateral when they enter into a derivatives contract.

Global regulators have brought in clearing house to stand between trades and to keep track of obligations of the parties and to ensure that everyone puts up enough collateral. In the eventuality of a customer going bust, the clearing house would be responsible for making good on debts to other customers. The clearing house imparts confidence to the participants to engage in trading without worrying about creditworthiness of the counter parties. However, in a crisis clearing houses not having enough resources to fall back upon by way of collateral, guarantee funds and shareholder equity can easily turn into a propagator of contagion instead of being a source of stability. Solvency of clearing houses are therefore of concern to the regulator. The clearing houses should have enough skin in the business and collateral emergency funding support from the lenders of the last resort.

Size of Global Derivatives Market

Globally the notional value of outstanding over the counter (OTC) derivatives contracts stood at $632 trillion as at end-June 2022 as against $598 trillion as at the end of December 2021. This number works out to be several times the world GDP estimate at $ 95 trillion In 2022! The notional amount is indicative of equivalent position in cash market. Notional amount however does not reveal the true position of risk associated with the position. The risk of these derivative exposures is best measured by a value at risk. The gross market value of derivatives contracts – a measure of amounts at risk – stood at $18.3 trillion at end- June 2022 as against $13.0 trillion as at the end of December 2021 led by increases in interest rate derivatives. The value of some commodity derivatives surged against the background of rising food and energy prices.

Open interest of exchange traded futures stood at $38 trillions while that of options at $52trillons as at the end of September 2022.

Derivative trading in India

In India exchange trade of derivatives commenced in June 2000 when SEBI permitted BSE and NSE to introduce equity derivative segments. To start with SEBI approved index future contracts based on Nifty and Sensex in June 2000. Later index option contract was introduced in June 2001 while trading in individual stock option started later in July 2001. However future contract on individual stocks had to wait till November 2001 to begin trading in the bourses. Metropolitan Stock Exchange of India Ltd., trading in derivatives products much later in February 2013.

Advantages of Derivatives

Derivatives provide several advantages and convenience to the financial markets players most significant ones are enumerated below:

i. Means to hedge risk exposure

As mentioned above value of the derivatives is derived from the value of some underlying asset. The derivative contract whose value moves in direction opposite to that of the underlying can be used to offset the loss in the value of the underlying assets by the profit accruing to the derivative contract. For example, an investor having holding of 1000 shares of ITC is perceiving a decline in the value of the shares below a level of ₹270.00 in coming three months. He has the choice of selling the share now and buy it back later at a lower price if at all the price actually fall which is uncertain. Such transactions involve transaction cost. But without selling the shares he can hedge his risk by buying a put option at strike price ₹ 270.00 paying a premium. In the event of share price falling below ₹ 270.00 say to ₹ 250.00 he can exercise the put option to get a profit of ₹ 20.00 per share protecting the value of his ITC holding. Here the value of the contract increases with the decrease in the value of the underlying. He can use future contract to hedge his potential risk. He can sell a future on ITC stock at ₹ 270.00 per share. If on future expiry date the price of the underlying share drops to ₹ 250.00, he would make profit of ₹ 20.00 per share while his actual portfolio value will lose ₹ 20.00 per share keeping his overall position of the holding risk free.

ii. Price discovery of the underlying assets

Price discovery is the process of gauging the possible and likely fair spot price of an asset, security, commodity, or currency. In simple terms it is the price at which a willing and informed buyer and a seller agree to transact business. The process of price discovery involves taking into consideration several tangible and intangible factors like supply demand dynamics, relevant and emerging economic and geopolitical trends as also the risk appetite of the investors. Price discovery is a central function of any market be it financial or commodity. The market forms an institutional arrangement which brings potential willing buyers and sellers together to interact to establish a consensus price. The buyers and sellers bring along with them information sets concerning the assets they intend to trade. Those who are privy to freshest and high-quality information would be at comparative advantage to negotiate and bargain to strike the deals at their desired level. In an efficient market, information would be available without any asymmetry to all the participants. In an efficient market any new information immediately on arrival would get reflected in spot and futures prices by triggering trading activity simultaneously obviating any possible systemic lagged responses. But, in reality markets are far from being efficient

Important information about prices of financial assets flow in the financial derivative market. The financial market facilitates a mechanism for collation analysing information held by heterogeneous pool of traders having different beliefs, knowledge, risk appetite and trading strategies. Ideally the market should enable aggregation of varied information to form good knowledge about the rational and fair price. However, with investors having high risk appetites or a high degree of rationality, it might be difficult for the market to effectively perform the price discovery function.

Derivatives are frequently used to determine the price of the underlying asset. For example, the spot prices of the futures can serve as an approximation of a commodity price. Futures, forwards, and swaps are valuable source of information about the prices of the underlying assets. Options disseminate information on the price volatility of the underlying assets.

iii. Market efficiency

Market efficiency refers to ability of markets to get fed with and collate maximum relevant price sensitive information providing maximum opportunities to buyers and sellers of securities to effect transactions without increasing transaction costs. It is widely believed that derivatives trading tends to increase the efficiency of financial markets. By using derivative contracts, it may be possible replicate the payoff of given assets. Thus, the prices of the underlying asset and the related derivative would tend to be consistent to eliminate arbitrage opportunities.

Trading within derivatives markets revolves within the network of large financial entities known as "dealers" playing the market making role. These dealers quote two-way prices (buy/sell) to other traders on the basis that they are willing to take either side of a trade. Dealers thus forms the primary liquidity sources within derivatives markets. This market-making role places dealers in an advantageous position to aggregate market information and, to share this information in self-interest with other traders. These features of derivatives markets introduce information and other problems not generally emanating within conventional stock markets.

iv. Market Completion

Derivatives can help organizations to get access to otherwise unavailable assets or markets. By employing interest rate swaps, a company may obtain a more favourable interest rate relative to interest rates available from direct borrowing. Derivatives may help replicating the risk return profile of any given asset by combination of other required kind of instruments if available in the market. In this sense ideally when market has ability to synthetically mimic the payoff of any asset by combining various kinds of contracts available in the market, the market may be called a complete market. While no market can be called fully complete, presence of derivatives contracts tends to make the market attain near completeness. Complete market facilitates discovery of precise price of any financial instruments more efficient eliminating arbitrage opportunity to a great extent.

Disadvantages of Derivatives

Despite the benefits that derivatives bring to the financial markets, the financial instruments come with some significant drawbacks. The drawbacks resulted in disastrous consequences during the Global Financial Crisis of 2007-2008. The rapid devaluation of mortgage-backed securities and credit-default swaps led to the collapse of financial institutions and securities around the world.

High leverage and risk

Leverage may be viewed as means of funding to make investments. Leveraged positions are potentially more profitable but entails very high risk. While leveraged positions if works out favourable as per anticipation a very high rate of return would accrue, but in the event of underperformance even the entire amount of initial outlay might be lost. By engaging in derivative trading an investor can exercise virtual control over large positions with little outlay of funds. An entity having no enough capital may shift its bets from financial market to derivatives market. Funds outlay needed for taking positions in derivative instruments is generally much less than that needed to take outright positions in bond or stock market. One may extend the imagination a little to see derivative trading similar to buying stock on margin. In options, big position can be leveraged paying comparatively much smaller amount by way premium. In the case of futures, margining system enable leveraging comparatively big positions. Investors leverage both gains and losses in future and option future contracts.

Derivatives are financial contracts entailing high leverage which make their upside as also downside disproportionately large therefore are sharp instruments to be handled with great circumspection to avert bleeding of financial losses.

For example an investor anticipating rise in prices of equity share of TCS bought a call option contract for 500 TCS shares at strike price of Rs 4000/- per share for delivery in next three month paying premium of ₹ 40/- per share. The cost incurred by the investor upfront ₹ 20000/-. If the market price of TCS shares increase to ₹ 4080/- by exercising the option the investor will book 100% profit of ₹40000/-. Please note here that the investor has access to the economic benefit of holding 500 whose market price was ₹ 2000000/- by investing only ₹ 20000/-. The derivative instrument provided a huge leverage multiple of 10. The rate of return worked out to as high as100%. However, had the market price declined to say ₹ 3920/- per share the option would have been worthless and 100% loss of 20000 would have accrued to the investor. The high volatility of the price of the underlying exposes the derivative to potentially huge losses.

ii. Speculative features

Derivatives are widely regarded as a tool of speculation. Derivatives can be used to assume risk in anticipation of gain rather than for hedge against real risk exposure. Large speculative position taking could be possible at nominal cost using derivatives in anticipation of large gain. But if the bet turns unfavourable, the attended loss might be huge. Due to the extremely risky nature of derivatives and their unpredictable behaviour, unbridled and excessive speculations in derivative trading have potential to sustain huge losses.

iii. Counter-party risk

Although derivatives traded on the exchanges generally go through a thorough due diligence process on counterparties, some of the contracts traded over-the-counter do not include a benchmark for due diligence. Thus, derivative contracts are prone to counter-party default. Derivatives contracts have inherent expectation of performance of obligations by the parties thereto over a potentially significant period. The time element involved herein brings in the prospect of counterparty default. 'This idiosyncratic counterparty credit risk also contributes to the economic and legal heterogeneity of many derivatives contracts.

Conclusion:

Derivatives have important role in a financial system. The derivatives market act as a channel of risk mitigation and redistribution. It performs a significant role in providing means to smooth hedging and facilitates risk management. Derivative instruments can be tailored to suit the specific risk-return preference of different actors viz, hedgers or spectaculars. It helps price discovery and acts as a price stabilizer. Use of derivatives facilitates diversification of portfolio. Derivatives provides scope for increasing leverage to magnify returns and concomitantly the attendant risks too. The derivatives market adds to the flow of financial and price sensitive information to the market facilitating informed price discovery and decision-making the market players.

However, derivatives also have negative impacts on financial systems. Derivative trading has potential to sow the seeds of various unpredictable systemic destabilisation , crisis dynamics and contagion. Derivative instruments are complex to understand. It is often hard to workout the precise value of the underlying contracts . The contracts are prone to counterparty risks. Derivatives tend to amplify and propagate risks and losses in markets. Given limited hedging demand derivative trading tend to shift to speculative applications escalating risks. Use of exotic options having potential to amplify leverage increasing gains and losses from small price moves or remote events. Customer knowingly or unknowingly assume additional risks by taking position in structured derivatives carrying esoteric names often without understanding the latent risk-return implications.

History is replete with the events of malpractice in derivative trading that wreaked havoc on derivative end-user and dealer institutions. These call for exercise of stricter vigilance not only on market and counter-party risk but also operational risk in their use for risk management and proprietary trading. Clear lessons accrued to us from the different derivative triggered fiascos call not only for a tighter but also "smarter" control system of derivatives trading by financial managers, bankers, traders, auditors and regulators who are directly or indirectly exposed to financial derivatives.

Whether derivatives should be dreaded "as financial weapons of mass destruction" or welcomed as financial innovations which through efficient risk transfer are truly adding to the Wealth will depend largely on motivations of the users of this sharp tool of risk management. Risk of derivatives remains a "known unknown" in a future financial crisis.

IN SEARCH OF PORTFOLIO PERFORMANCE…!!

Dibyendu Mukherjee,
Personal Finance Professional

Empirical evidence demonstrates that no particular asset class consistently outperforms the other in the short period of time. The relative outperformance (or underperformance) arising out of the rapid price movements of different assets propel investors to try timing the market by juggling between various asset classes (also, different sectors). This strategy, seemingly lucrative, may prove to be highly counter-productive in terms of portfolio performance.

CALENDAR YEAR	GOLD	CRISIL ST BOND FUND	S&P BSE SENSEX	S&P BSE MID-CAP	S&P BSE SMALL-CAP
CY21	-4%	4%	22%	39%	63%
CY20	25%	10%	16%	20%	32%
CY19	18%	10%	14%	-3%	-7%
CY18	-1%	7%	6%	-13%	-24%

CALENDAR YEAR	GOLD	CRISIL ST BOND FUND	S&P BSE SENSEX	S&P BSE MID-CAP	S&P BSE SMALL-CAP
CY17	13%	6%	28%	48%	60%
CY16	8%	10%	2%	8%	2%
CY15	-12%	9%	-5%	7%	7%
CY14	0%	10%	30%	55%	69%
CY13	-27%	8%	9%	-6%	-11%
CY12	8%	9%	26%	39%	33%
CY11	9%	8%	-25%	-34%	-43%

Exhibit. 1

The above chart shows calendar year performances of different asset classes and market segments. Ideally, an investor would have preferred to stay invested in Bonds, Mid-Caps and Small-Caps in CY 2015 to maximise portfolio performance. For CY 2011, the preference would be only Gold & Bonds and no Equities. However, timely shifting of capital across asset classes based on their short-term price fluctuations, and thereby creating the "best" portfolio consistently in short-term, is beyond the realm of possibilities of any investor. Financial markets are impacted by host of variables in the short-term, and predicting the interplay of those variables for arriving at a winning portfolio all the time is a near utopian idea contrary to what we would be inclined to believe.

The Strategic Way

Attaining differential advantage through market timing is, largely, an elusive concept. A workable alternative is to allocate capital to different asset classes in proportion consistent with the investors' investment objective, risk tolerance and time horizon of investment. This idea forms the core of Strategic Asset Allocation (SAA) Strategy. Portfolio is diversified using SAA by investing in different assets having low or negative correlation to balance risks and returns simultaneously. The asset-mix is "static" in nature, wherein capital is allocated across Debt, Equity, Gold, and also across various sectors/capitalisation within the equity asset class on the basis of predetermined proportion. SAA entails that the same allocation mix is stuck to, irrespective of the market movements. Any deviation of the "actual" asset-mix from the "planned" mix arising out of market price fluctuations of the constituting assets is quickly rebalanced through buy/sell transactions to restore the planned proportion of capital allocation. Discernibly, SAA brings about a discipline in the investment management process by keeping greed and fear at bay considerably.

Example of a common and simplest Strategic Asset Allocation strategy is 2-asset model where debt and equity are blended in the ratio of 60:40.

YEAR	RETURNS		VOLATILITY		RETURNS/VOLATILITY	
	BSE 500	BSE 500 (60%) + CRISIL ST (40%)	BSE 500	BSE 500 (60%) + CRISIL ST (40%)	BSE 500	BSE 500 (60%) + CRISIL ST (40%)
1 YEAR	8%	6%	16%	10%	53%	60%
3 YEARS	15%	11%	37%	23%	39%	49%
5 YEARS	11%	9%	41%	25%	27%	37%
7 YEARS	11%	9%	46%	28%	23%	33%
10 YEARS	14%	11%	52%	32%	26%	35%
15 YEARS	10%	9%	82%	50%	12%	18%

Exhibit. 2

In the above chart, BSE 500 index is taken as a proxy for Equity, while CRISIL Short Term Bond Index represents Debt. BSE 500 is mixed with CRISIL ST index in the ratio of 40:60 to represent a Hybrid strategy which is consistent with the 2- asset class model used in our discourse. Returns and volatility of returns are studied for both the asset classes, namely, Equity and Hybrid over different time periods.

We observe that a hybrid strategy of debt and equity ensures mitigation of risk and optimisation of returns as against a single asset exposure, namely, equity. In a 15 year timespan, hybrid strategy has generated almost similar kind of returns as against "only equity" with a lower volatility of 50% compared to 82% in equity. Consequently, on a risk-adjusted basis (Return divided by Volatility), the Hybrid strategy has out-performed equity by a margin of 6% (18% as against 12% in BSE 500). This conforms to the proposition that SAA created by mixing multiple assets yields a better risk-return trade-off compared to investors trying to chase returns by switching capital speculatively across asset classes in the short-term.

The Tactical Way

While futility of "market timing" in short span is well documented, augmentation of portfolio performance by tactically taking over/under exposure to specific asset classes, stand well appreciated in the theories of Finance. An "active" investment management strategy that takes advantage of the market anomalies and mispricing, or takes a tactical position in a particular market segment that throws opportunities, can go a long way in generating additional returns (alpha) over a period of time.

This introduces us to the concept of Tactical Asset Allocation (TAA) Strategy. In contrast to SAA, TAA is not a "passive" strategy and incorporates considerable dynamism in the investment management process. TAA is an improvement upon SAA as it is more flexible, and allows investor to deviate from the long-term SAA to take advantage of the market opportunities. For example, our 60/40 debt-equity model requires us to maintain 60% in debt and 40% in equity. However, at certain points of time, market data may suggest a strong equity momentum in the short-term. Accordingly, we can tactically increase the equity allocation to 80% (say) temporarily. The extra 20% allocation to equities aids boosting returns if market plays out as anticipated in the short-term.

Incidentally, it is important to rebalance back to the target SAA once the market opportunity has run its course. From Exhibit 1, we observe that for CY21, an overweight in equity against debt had augured well for an investor. On the other hand, in CY 2011, an investor would have been better off being under-weight in equity as a tactical move to enhance portfolio performance.

Relative valuations of different assets act as a guiding factor for tactical positions undertaken. Overweight or underweight positions in Debt and Equity will be dictated by the valuation parameters of the respective assets. Data on PE ratio, Earning Yield of equity, and Yield to Maturity (YTM) of Debt serve as good starting point towards figuring out the degree of over/under valuation of both equity and debt. Thus, asset allocation is done on the basis of a scientific foundation, thereby eliminating any element of arbitrariness or speculation.

Growing complexities in the arena of investment management call for sound implementation of both Strategic and Tactical approach to bring about clarity in the investment management process and also achieving superior investment outcomes. The search for portfolio performance is not too difficult to seek !!

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The article is for academic purpose and should not be construed as any advice/recommendation from the Author.

Cut-off date for data used is June, 2022.

Data Sources : Various business dailies, websites and journals.

ROLE OF 'CMAS' IN MSME SECTOR IN INDIA

(Suitable Professionals for Financial Audit of ₹ 5 Crores and above Turnover of MSME Sector)

"The MSME Sector is Backbone of the Indian Economy. It Accounts for 30 Percent of the Economy and Created 11 Crores Jobs so far"

– Shri Nitin Gadkari, Minister for Road Transport & Highways, Government of India.

CMA Manmohan Sahu
MSME Consultant & Financial Advisor,
Hyderabad

Abstract:

'Small is Beautiful' *is aptly symbolised by MSMEs and Small Medium Practitioners (SMPs) like Individual CMAs / Cost Accounting Firms both are being the Backbone of Indian Economy and CMA Profession. MSMEs (SMEs) play a Significant Role in most Economies and are recognised as Engines of Growth Globally.*

MSME Sector represents around ***90% of Businesses Globally*** *and is an important Contributor for Economic Development and Employment Generation.* ***As per an IBEF Report****, it* ***Contributes 6.11% of the Country's Manufacturing Gross Domestic Product (GDP) and 24.63% of the GDP through Services Activity****.*

MSMME Sector Accounts for about ***33.4%*** *of India's* ***Total Manufacturing Output****. It employs more than* ***120 Million People in the Country*** *and is the* ***Second Largest*** *employer in Rural India* ***after Agriculture.***

Development of the MSMEs Segment is paramount to achieve the Vision of ***Aatmanirbhar Bharat****, Rural Economic Development, Employment Generation and for Poverty Reduction in the Second Largest Population Country in the World.*

Similarly, ***Small and Medium Practitioners (SMPs)*** *are the* ***Backbone*** *of the* ***Cost Accountants Profession*** *empowering the MSMEs across the Country by providing or extending various types of Services and also play a Vital Role to provide Services to Industrial, Agriculture and Service Sector (Three important Sectors) of Indian Economy.*

A considerable portion of ***'Cost Accountants'*** is spread across the Country, practicing as Members in Practice. The Cost Accounting Profession has a Deep reach and connects to the MSME Sector as Practitioners are the Trusted Financial Consultants / Cost Advisor of MSMEs / Cost Auditor by providing a Variety of ***Services / Advices / Consultancy Services / Audits including the following services:***

- Project Financing: For New and Expansion Programme of MSME Entities.
- Working Capital Management: Like Fund Based from Banks and also Commercial Papers and Non-fund-based requirements like LCs/BGs etc.
- Due Diligence Certificate: In respect of □ 5 Crores and above borrowing from FIs/Banks by MSME Corporates.
- Cost Audit: For specified Industries / Service Entities as defined by GoI.
- Guidance to Insurance: Area like Coverage of all Assets of the Entity and also Goods Transported from one place to another including Exporting of Goods to other Countries through ECGC.
- Insurance Litigation: I.E., Settlement of Claims from the Insurance Companies.
- Risk Assessment: Implementation of Best Practices to Mitigate the Various Risks of MSMEs.
- Performance Measurement Services: Through Various Budgetary Control Systems / Financial Ratios including Industrial Standards or Bench Marks / Productivity Ratios etc.
- Business Performance Improvement-Develop Strategies to Expand the Market Share and Business Expansion.
- Long term Strategic Partner: Particularly Long-Term Funds Domestic (Debt / Equity) and ECBs.
- Arbitration and Conciliation: In case of Disputes with various Stake Holders.
- Information Technology and Computer Software: Related Services-Latest Technology including Cloud Computing Audit / IS Audit etc.
- Services for Carbon Credit Mechanism: To avail the various benefits through reduction in Environmental Issues.
- Services like Environmental Laws: Implementation of Pollution Act (Air, Water etc.)
- Implementation of Labour Laws / Code: Factories Act, Workmen Compensation Act, Labour Code etc.
- Services like Foreign Exchange Management: Pre-shipment and Post Shipment Forex Loans.
- Asset Management: Inventory Management / Debtors Management etc.
- Export Promotions Advice: Explore the Potentialities of Export Business in various countries.
- Budgetary Forecasts: Master Budgets, Flexible Budgets, Capital Expenditure Budgets etc.
- Financial Modelling: ERP etc.
- Preparing Standard Operating Procedures (SOPs): Manufacturing Processes / Standard Costing etc.
- Assessing the Design and Operative Effectiveness through Internal Controls / Internal Checks.

Besides Regular:

- ✔ Development of Cost Accounting System / Cost Audit / Stock and Book Debts Audit etc.
- ✔ Internal Audit Guidelines / Risk Mitigation Measures
- ✔ GST / Taxation Services and
- ✔ Support Services for Re-structuring of Loans, Subsidies provide by the Government of India / State Government and also advisory services like

The Small Medium Practitioners (**SMPs**) of CMAs are Working Across the country with MSMEs to improve their Competitiveness, Capacity to bring them at par in the Global Markets, by enabling them to Adopt Best Management Practices, Leverage Government Schemes and bring in innovations to **Make India a Global Production Hub**. The Cost Accountants are Closely Associated with the MSMEs to help them **connect their True Potential by providing Customised Solutions**.

SMPs in Tier-II and Tier-III Cities are Supporting the MSMEs in these areas to enable the Growth of these Businesses and Consequently Drive the Development of Region and Economy towards **Greater Heights**.

With the objective of Capacity Building of MSMEs & Start-up, The Institute of Cost Accountants of India is responsive to the emerging challenges of MSMEs & Start-ups and effectively meeting Newer Challenges with the following terms of reference:

- ✔ To address the Issues & Challenges faced by MSMEs & Start-ups, review the Barriers and to suggest Measures/Changes in this regard for Strengthening and Developing the Capacity of MSMEs & Start-ups enhancing their Competence and Improving their Visibility amongst the Business Community and to Develop & Provide the Capacity Building Measures for the enhancement of the Portfolio of the MSMEs & Start-ups.
- ✔ For this purpose, the Institute Created to address the Issues / Challenges of MSME Sector through:
- ✔ **"MSME & Start-up Promotion Board" and**
- ✔ **Utilizing/ Advisory Services from the MSME Sector on the Board like:**
  - ✪ Nominee from National Institute for MSME.
  - ✪ Nominee from MSME Chamber of Commerce
- ✔ To promote the MSMEs & Start-ups by way of encouraging collaboration amongst the Professionals/Experts in the relevant fields and establishing the Bridge among the Appropriate Authority & MSMEs/Start-ups by means of various Endeavours in Capacity Building & other Measures from time to time.
- ✔ To conduct / arrange the Workshops / Conferences / Seminars/ Brainstorming Sessions/ Interactive Sessions/ MDPs/EDPs /Training programme etc.
- ✔ To prescribe/recommend the Guidelines/ Consultative Paper/Working papers & any other papers/documents/matters with respect to MSMEs & Start-ups.
  - ✔ The Institute published ***"Aide Memoire on Lending to MSME Sector (Including Re-structuring of MSME Credits)"***. This Hand Book is useful to the following stakeholders and the same was Appreciated by the MSME Ministry, Bankers, MSME Cluster Association Presidents, MSME Promoters, Start-up Entrepreneurs etc. etc.
  - ✔ Consultants who are providing various services to the MSME Clients.
  - ✔ Bankers who are lending to the MSME Units (Pre-sanction, Sanction, Post Sanction

- Process including Re-structuring of MSME Loans).

- Promoters of MSME (Existing and New) to have a full knowledge about various Legal, Financial and Statutory aspects of MSMEs including Re-structuring of Loan Process of Financial Institutions etc.

- To Interact/Network with MSME/Other Ministries/ National entities & MSMEs/Start-ups and organize the programme with them for MSMEs & Start-ups to enable them to carve out opportunities available for them.

- To develop ways & means for Empowerment of MSMEs & Start-ups through various focused endeavours undertaken by the Committee for them from time to time.

- To carry out such other matters relating to MSMEs & Start-ups.

To catalyse the Growth of **SMP**s at the Institute of Cost Accountants of India, efforts are being made to develop strategy for the improvement of SMPs by developing Networking Guidelines to make them Bigger and extend their Niche and Outreach. Simultaneously the Institute of Cost Accountants of India is Striving to Empower the SMPs with various Technical and other Resources, and Working towards getting Digital Audit Tools for the SMPs for their Technological Empowerment.

The Institute of Cost Accountants of India, which regulates the Profession of Cost and Management Accountancy, provides Coaching Facilities to the Students, and undertakes Research Programmes in the field of Cost and Management Accountancy, has over **5 lakh Students** and more than **90,000 Members. All these stakeholders of the Institute are directly or indirectly contributing / supporting to the MSME Sector of Indian Economy.**

The institute had submitted a Memorandum in April this Year to the Finance Minister Smt. Nirmala Sitharaman seeking permission for conducting the "Financial Audit of MSMEs".

Seeking to Ensure Competition as well as parity among Cost and Management Accountants, and other Professionals, the Institute has also represented the government to allow its Members to do various activities, including the Tax Audit under the Income Tax Act, 1961.

The Institute of Cost Accountants of India made a request to Government to allow CMAs to conduct Financial Audit of MSMEs.

The Government of India, had earlier given relief to MSMEs in Audit-related Compliance. In the 2020 Budget, Finance Minister Smt. Nirmala Sitharaman had announced that MSMEs having Turnover up to ₹ 5 Crore will not require Auditing of their Accounts in Comparison to the Previous ₹ 1 Crore Limit.

Conclusion:

In view of the above, my perception thinking goes that CMAs are most suitably and fit to handle "Financial Audit of MSME Sector" for Turnover of ₹ 5 Crores and above.

CELEBRATION OF "THE WORLD INVESTOR WEEK (WIW) 2022" BY THE BANKING, FINANCIAL SERVICES AND INSURANCE BOARD OF THE INSTITUTE

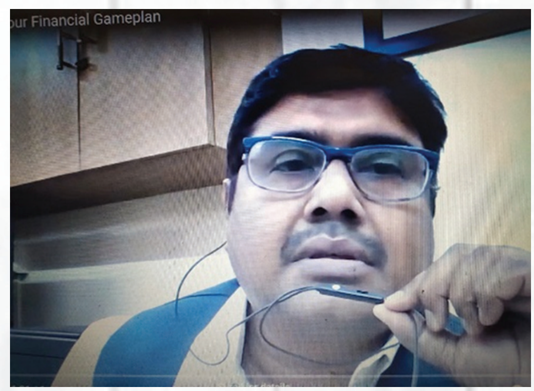
1st Webinar:

'What's Your Financial Game plan'

held on 13th October 2022

Speaker: CMA Malhar Majumdar, Wealth Management Consultant

The World Investor Week (WIW) 2022 is a global campaign which is being celebrated under the aegis of IOSCO and SEBI, from October 10th to 16th, 2022, to raise awareness about the importance of investor education and protection. The Banking, Financial Services and Insurance Board of The Institute of Cost Accountants of India in its objective of knowledge dissemination had conducted the World Investor Week (WIW) between 10th and 16th October 2022 to benefit all stakeholders for spreading the message of proper investor education. The first webinar 'What's Your Financial Game plan' took place on 13th October 2022 with the Chief Guest and Speaker CMA Malhar Mujumdar, Wealth Management Consultant. CMA Chittaranjan Chattopadhyay, Chairman, BFSIB of ICAI addressed the august presence and said that India is celebrating "Azadi Ka Amrit Mahotsav" to mark the 75th year of independence with great fanfare and enthusiasm. The Indian securities markets have seen a phenomenal transformation and have channelized savings to assist economic growth. He expressed his hope that the program would help to enlighten many facets of investment management. The speaker emphasized that an individual has to delineate his/her portfolio for maximizing returns and minimizing risk to make sure he has the capability of working in isolation or in team. He urged the necessity of subscribing for a liability protection. The speaker deliberated the safe, flexible options such as Savings account, Fixed Deposits, Provident Fund and Pension Funds, National Pension Scheme and Annuities. He furthermore discussed the market related, whether it be equity, bonds or Portfolio Management Services. He pointed out that these products contain market risk that can go up or come down with the tide of the economic graph. The entire portfolio will not grow in line with inflation. The Speaker highlighted the goals determination such Retirement, higher education, marriage of children, investment in house, car, international vacation, taking up entrepreneurship and philanthropy. The Speaker enumerated various lucid and elaborate practical examples with a analogy of a football team. There was active participation from the members who clarified the doubts. There were Q &A session and the speaker elaborately discussed in details of the Questions raised by the attendees.



CMA Malhar Majumdar, Wealth Management Consultant deliberating in the webinar on "What's Your Financial Gameplan" organised by the Banking, Financial Services and Insurance Board on 13th October 2022

2nd Webinar:

India Equity View Amidst Global Turmoil'

held on 15th October, 2022

Speaker: CMA Dhiraj Sachdev, Managing Partner & CIO, Roha Asset Managers' LLP

The second webinar 'India Equity View Amidst Global Turmoil' took place on 15th October 2022 from 4-6 pm with the Chief Guest and Speaker being CMA Dhiraj Sachdev, Managing Partner & CIO, Roha Asset Managers' LLP. The learned Speaker started the Webinar with a contemporary gist of the world economic and geo-political purview. At the outset he discussed about volatility and how volatile the world market has been during the various debacles and how the market corrected itself afterwards. He said that volatility should be treated as an opportunity and not as a risk. The risk is basically the perceived risk on stock markets on a daily basis. The historical perspective one should not be deterred away from investing into equities and historically it has been proved whenever the markets have been volatile it has been an investment opportunity for investors, the example is the bubble bursting in 2002. CMA Sachdev also cited many real life examples to explain the volatile world market and how India stands out clearly among its contemporaries. The reasons for such outperform being the domestic growth, broad based earnings recovery, robust consumption demand, peaking out inflation, strong gross collection of direct taxes, uptick of loans in banks and upward corporate capex outlook. The Speaker suggested to lucrative opportunities for investment in India. The first one he pointed out is the manufacturing companies as he had witnessed a substantial shift from unorganized to organized sector green energy lead growth and a lot of these capital goods companies will be driven by focus on the manufacturing cycle in India. The other lucrative sectors analysed by the speaker being – Banks and NBFCs, Real estate, speciality chemical, cement, IT or technology. He also shed some light on the areas to be avoided and the reasons for such avoidance for investing. The areas being metals industry, pharmaceutical industry, the new age digital companies. CMA Sachdev laid stress on ESG and explained how the market is bullish on the ESG and corporate governance issues. He said that the coming 4 to 5 years would be beneficial in investing in India due to Government's focus on financial reforms. The Speaker concluded that macro and global concerns only act as a distraction. Any investor should be focused to own individual companies on their respective business merit and not succumb to such a fearful noisy environment which can make them moribund. He furthermore reiterated to focus on long term investing and it's a blessing in disguise that we are currently passing though weak sentiments, largely driven by global issues, which means that prospective returns in Indian markets are going to be much better. The ultimate strategy should be to stay invested in good Indian businesses and ride the global storm. The Golden Rule in the market when the perceived risk is high the real risk is actually low and vice versa. There were Q &A session and the speaker eloquently deliberated the issues in details of the Questions raised by the attendees.

CMA Dhiraj Sachdev, Managing Partner & CIO, Roha Asset Managers' LLP deliberating in the webinar on"India Equity View Amidst Global Turmoil" organised by the Banking, Financial Services and Insurance Board on 15th October 2022

3rd Webinar:
Basic Mathematics for Financial Planning
held on 16th October, 2022

Speaker: Shri Dibyendu Mukherjee, Finance Professional

The 3rd webinar 'Basic Mathematics for Financial Planning' took place on 16th October 2022 with the Chief Guest and Speaker being Shri Dibyendu Mukherjee, Finance Professional. Shri Dibyendu Mukherjee described in detail about every angle of basic mathematics for investments and how it helps in our day to day financial planning. He stated future value of various permutations and combinations through excel formula, He explained to calculate the future value with monthly and quarterly compounding interest rates. He also stated the future value of investment in Systematic Investment Plan of Mutual Fund. He touched upon the concept of time value of money and impact of opportunity cost while taking into consideration factors like inflation and purchasing power. Shri Mukherjee introduced and explained nominal and effective interest rates and how to derive effective interest rates from nominal rates with real life examples. He gave an in-depth knowledge of PMT function and its applications. He delved on the various concepts of Annuity, CAGR, XIRR and their usage and limitations. He enumerated various lucid and elaborate practical examples to elaborate his discussion. There was active participation from the members who clarified their doubts.

Shri Dibyendu Mukherjee, Finance Professional deliberating in the webinar on ""Basic Mathematics For Financial Planning" organised by the Banking, Financial Services and Insurance Board on 16th October 2022

CAPITAL MARKET SYMPOSIUM

Topic: "Financial Freedom Through Stock Market Investing"

Date: 28th October 2022 at Hotel Hindustan International from **6 to 8.30 pm**

The Banking, Financial Services and Insurance Board of the Institute of Cost Accountants of India, under the leadership of CMA Chittaranjan Chattopadhyay, Chairman BFSIB organized a Capital Market Symposium on the topic of "Financial Freedom Through Stock Market Investing" on 28th October 2022 at Hotel Hindustan International, Kolkata from 6 to 8.30 pm. The event which was in physical mode was also live-streamed on the official YouTube channel of the Institute and saw large and active participation from members and students of the Institute.

CMA Basant Maheshwari, eminent Portfolio Manager and CMA (Dr.) Sunder Ram Korivi, Academic Head, HSNC University & Adjunct Faculty of IICA, MCA graced the program in a fireside chat and left the audience enthralled with their command and proficiency over contemporary issues of the Indian capital market.

CMA Chittaranjan Chattopadhyay, Chairman, BFSI Board, welcomed all the guests warmly and made the opening remarks. He pointed out that Indian capital markets are at par with its counterparts in many of the advanced economies in terms of efficiency, tradability, resilience and stability. He also touched upon the viable economic development of a Nation-State which also depends upon the capital markets. He appraised the participants of the various activities of the BFSIB with special emphasis on conducting various activities to equip and enhance skills of the stakeholders and members for the sole purpose of inclusive and holistic growth.

CMA Biswarup Basu, Immediate Past President, in his special address thanked the Chairman of the BFSI Board and highlighted key accomplishments of the Institute.

During the fireside chat between CMA Basant Maheshwari (the speaker) and CMA (Dr.) Sunder Ram Korivi (the moderator), the speaker when being asked that how optimistic/pessimistic one should be about investing in India, the Speaker advised the audience that one has to dream for a better tomorrow and incorporate proper skill sets and passion into imbuing the intricate art of investment for optimized returns. It is imperative for an investor as not to get caught up in the quagmire of negativity. He stated that in purview of all the Central Banks increasing rates, the Indian stock market will bottom out before the final hike is done. In spite of the China plus one strategy, economies will not simply not shift overnight and abandon the scale of their operations, notwithstanding China plus one strategy.

He also said that for retail the drawdown in March 2020 has been a blessing in disguise when the Nifty took a nosedive hit and retail investors started investing in an unforeseen scale from which they have got a taste of the markets.

The moderator asked about the Fed decision and RBI's take on it. CMA Maheshwari answered that the RBI has no other option but to follow the Fed otherwise it risks the rupee moving in a direction averse to the dollar. The Speaker felt that both the top-down and bottom-up approaches are equivalent and require analysis in various perspectives. However, if one buys online broking stocks as retailer operate mostly on online brokerages and then to zero down but broadly the balance would shift to bottoms up whenever one looks at an individual company but without a sectoral tailwind nothing gets blown in the equity market, which is a top-down approach.

CMA Maheshwari stated that the logic of buying a stock is primarily based on its Balance Sheet. He iterated that there are 90% of the efforts that goes behind buying the stock. The rest 10 to 15% of the decision-making is usually made by informal communication. It has to be remembered that every single stock has some sort of baggage. The speaker stressed that the objective of an investor will define the allocation but an individual cannot think of achieving financial freedom through stock market investing having a 40% equity allocation.

CMA Maheshwari mentioned that the Nifty in its current format is a very good underlying on its own. The struggle to figure out which Mutual Fund to invest in diminishes if one invests in Nifty, as the index is very difficult to beat. He stressed the virtues of passive investing if an investor is ready to have moderate returns.

Both the speaker and moderator praised the CMA curriculum and stated that it has enriched their comprehension of marginal costing and its real-world application in stock selection.

The fireside chat was deeply appreciated by the members of the Institute who clarified their doubts regarding certain industries of the Indian capital markets and macro-economics in general, both in the online mode as well as physically.

There were numerous questions both from the audience and also from an online forum and were impeccably answered by the speakers. The event was attended and appreciated by a large number of participants which also included dignitaries like CMA Amal Kumar Das, Past President and CMA Harijiban Banerjee, Past President.

Lighting of the Lamp: CMA Avijit Goswami, former Central Council Member, CMA Amal Kumar Das, Past President, CMA Biswarup Basu, Immediate Past President, CMA (Dr.) Sunder Ram Korivi, Academic Head, HSNC University & Adjunct Faculty of IICA, MCA, CMA Basant Maheshwari, Portfolio Manager and CMA Chittaranjan Chattopadhyay, Chairman, BFSI Board (L to R)

CMA (Dr.) Sunder Ram Korivi, Academic Head, HSNC University& Adjunct Faculty of IICA, MCA being felicitated with a plant by CMA Biswarup Basu, Immediate Past President, (L to R) with CMA Basant Maheshwari, Portfolio Manager on the dais (centre)

CMA Basant Maheshwari, Portfolio Manager, being presented with a plant by CMA Chittaranjan Chattopadhyay, Chairman, BFSI Board (L to R)

CMA (Dr) Sunder Ram Korivi, Academic Head, HSNC University& Adjunct Faculty of IICA, MCA having a thought provoking fireside chat with CMA Basant Maheshwari, Portfolio Manager (L to R)

WEBINT INFRASTRUCTURE FINANCING

The webint was organized by The Banking Financial Services and Insurance Board of the Institute of cost accountants of India on the topic Infrastructure Financing. Shri Suvendu Moitro, financial advisor and former Chief Credit Officer, IFCL, was the chief guest of the program.

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB of ICAI addressed the august presence He expressed his hope that the program would help to enlighten many facets of infrastructure financing.

Shri Suvendu Moitro set out forth with a PowerPoint presentation describing in depth the infrastructure sector in India and also its current scenario and future prospects which showed that the share of infrastructure in the portfolio mix of banks and IFCS are increasing. Owing to this growth the government has a set Ambitions Target in infrastructure investment of over 111 trillion rupees of national infrastructure pipeline till 2025 to 2030. He pointed out the special features of infrastructure finance mainly – long life, large investment, immobile, local currency revenue, higher debt equity ratio, major stake of Govt. politically sensitive tariff and non-recourse financing. Some important points he noted about infrastructure finance were, Project risks are identified and clearly demarcated and allocated to the relevant stakeholder who has the best ability to bear any particular risk, more importance to cash flows as security and Transparent Regulatory Framework.

The respected speaker explained the project appraisal process which starts with risk identification of projects, its assessment and identification and finally pricing the unmitigated risks. Talking about risks he identified risks in 3 different stages. Risk in development stage is very high and is financed with equity only, which risks in implementation phase is high and is financed with a mix of debt and equity and the operation phase witnesses lower risk and financed with international bonds. He also discussed about the different type of risks in infra projects.

While discussing about the role of Govt in infrastructure financing he said that the conflicts can be avoided by making the policy maker to be independent and transparent. He brought forward many cases where such conflicts arose.

In the construction phase, the amount after deducting the statutory dues, administrative cost and debt services from the equity and debt returns is transferred to the construction account whereas in the operating phase after deducting the expenses the balance is transferred to the surplus account.

In the field of infrastructure financing, the issues which needs to be resolved by the Govt or the regulator are – 1) streamlining regulations with International best practices, 2) streamlining long drawn dispute resolution process and shorten the time 3) early release of termination payment 4) resolution of approvals and clearances by authorities and 5) for facilitating sustainable development, new projects to be given the status of infrastructure projects.

The Speaker enumerated various lucid and elaborate practical examples to elaborate his discussion. There was active participation from the members who clarified the doubts.

The webinar was concluded by CMA Dibbendu Roy, Additional Director by giving the vote of thanks. CMA Dibbendu Roy, Dy. Secretary, BFSIB, gave the vote of thanks to CMA Chittaranjan Chattopadhyay, Chairman of BFSIB for the opening address and Shri. Suvendu Moitro for such an excellent and exhaustive presentation for the topic. He also thanked Shri. B. Raj Kumar, advisor, BFSIB and Shri Shyamal Ghosh Ray, consultant, BFSIB and also CMA Arup. S. Bagchi, Secretary, BFSIB for their support.

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB felicitating CMA (Dr.) Sunder Ram Korivi, Academic Head, HSNC University & Adjunct Faculty of IICA, MCA, at the Capital Market Symposium on " Financial Freedom through Stock Market Investing" on 28th October 2022 at Hotel Hindustan International, Kolkata (L to R)

CMA Basant Maheshwari, Portfolio Manager and Chief Guest being felicitated by CMA Biswarup Basu, Past President at the Capital Market Symposium on " Financial Freedom through Stock Market Investing" on 28th October 2022 at Hotel Hindustan International, Kolkata (L to R)

Snapshots

Ms. Madhabi Puri Buch, Chairperson, Securities and Exchange Board of India (SEBI) being felicitated on 1st November, 2022 at Mumbai by CMA P.Raju Iyer, Immediate Past President with CMA Chittaranjan Chattopadhyay, Chairman, Banking, Financial Services and Insurance Board (BFSIB), CMA (Dr) Ashish P.Thatte , Chairman, Direct Taxation Committee and CMA Vijender Sharma, President, ICAI (L to R)

Ms Madhabi Puri Buch, Chairperson, Securities and Exchange Board of India (SEBI) being presented with BFSIB publications by CMA Chittaranjan Chattopadhyay, Chairman, Banking Financial Services and Insurance Board (BFSIB) with CMA (Dr.) Ashish P.Thatte, Chairman, Direct Taxation Committee, CMA P.Raju Iyer, Immediate Past President, ICAI and CMA Vijender Sharma, President, ICAI at SEBI Headquarters, Mumbai on 1st November 2022 (L to R)

Snapshots

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB felicitating Shri Sanjib Sarkar, General Manager, Credit Monitoring Department,Bank of India on 2nd November 2022 at Mumbai (R to L)

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB, addressing the audience on Mega Career Awareness Programme organized by the Institute of Cost Accountants of India on 7th November 2022 at Mahajati Sadan, Kolkata

Snapshots

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB(centre-left) handing over renowned publication of BFSIB titled "Internal Audit of Life Insurance Companies" to CMA P. N. Murthy, Board Member of BFSIB (centre-right) with Shri CM Khurana, Former CGM of Oriental Bank of Commerce (extreme left) and CMA Somnath Mukherjee, Member, Technical Committee and Former Council Member of ICAI (extreme right) on 15th November 2022 at New Delhi.

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB felicitating Shri Arun Kumar Bansal, Executive Director and Head Treasury, IDBI Bank Limited on 17th November 2022 at IDBI Headquarters, Mumbai (L to R)

Snapshots

CMA Chittaranjan Chattopadhyay, Chairman BFSIB (Extreme Left) and CMA VIjender Sharma, President,Institute of Cost Accountants of India (Extreme Right) with the delegates of Pan-African Federation of Accountants (PAFA) at Mumbai on 21st November 2022.

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB sharing the publications of BFSIB to Shri Vikas Nawal, AGM (Head, Business Credit-East), ICICI Bank at Kolkata on 3rd December 2022 (R to L)

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB, handing over the publications of BFSIB to Shri H S Ahluwalia, GM, Indian Bank at Chennai on 6th December 2022 (R to L)

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB handing over the publications of BFSIB to Shri Rohit Rishi,GM, Indian Bank at Chennai on 6th December 2022 (L to R)

Ms. S. Srimathy, Executive Director, Indian Overseas Bank being handed over the publications of BFSIB by CMA Chittaranjan Chattopadhyay, Chairman, BFSIB and CMA Rajesh Sai Iyer, Treasurer, SIRC of ICAI at Chennai on 6th December 2022 (R to L).

Shri K Swaminathan, MD & CEO, REPCO Home Finance Ltd. being presented with the publications of BFSIB by CMA Chittaranjan Chattopadhyay, Chairman, BFSIB and CMA Rajesh Sai Iyer, Treasurer, SIRC of ICAI at Chennai on 6th December 2022. (R to L)

Snapshots

CMA Rajesh Sai Iyer, Treasurer, SIRC of ICAI and CMA Chittaranjan Chattopadhyay, Chairman, BFSIB felicitating Dr. N. Kamakodi, Managing Director & CEO of City Union Bank at Chennai on 6th December 2022. (L to R)

CMA Chittaranjan Chattopadhyay felicitating CMA Gaurav Bhandari,CGM India EXIM Bank at Mumbai on 8th December 2022. (L to R)

Snapshots

Dr. M.Damodaran, Former Chairman, SEBI visited the stall of the Institute on the BS Insight event held at Mumbai on 21st December,2022.CMA Chittaranjan Chattopadhyay and CMA Debashis Mitra flanked beside him at the stall.

INDIA @ 100 – GROWTH TRAJECTORY FOR BANKS

*CMA P.Raju Iyer, Immediate Past President of The Institute of Cost Accountants of India addressing the audience during the inaugural session at '**India@100-Growth Trajectory for Banks**' at Chennai on 23rd December 2022.*

The BFSIB of ICAI in association with SIRC of ICAI, IPA of ICAI and The Madras Management Association organized a Seminar on India @ 100 – Growth Trajectory for Banks on 23rd December'22 at Madras Management Association Hall.

CMA Vijender Sharma, President, ICAI, CMA S. Krishnan, MD & CEO, Tamilnad Mercantile Bank, CMA Raju Iyer, IPP, ICAI, Shri D. Lakshmi Narayan, MD., Sunadaram Home Finance, Shri S. Radhakrishnan, CGM, SBI, Shri Ramesh Babu MD & CEO of Karur Vaisya Bank, Shri Mahesh Bajaj ED, Indian Bank, Smt. Nalini Padmanabhan, Part time, non-official Director, Canara Bank, Shri Arun Bansal, ED & Head of Treasury, IDBI Bank, CMA Murali Ramaswamy, Former ED and Member of BFSIB of ICAI were the eminent guest speakers.

Gp. CaptR. Vijayakumar, (Retd), ED,MMAgave the welcome address to the august presence.

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB, ICAI, introduced the topic. He briefed the activities and the courses of the BFSIB of ICAI to the audience and how the BFSIB has been sensitizing about the importance of banking sector to the young talent pool of the country.

(L to R)
Gp Capt R Vijayakumar (Retd.), ED, MMA, Shri B Ramesh Babu, MD & CEO, Karur Vyasa Bank, CMA S Krishnan, MD & CEO, Tamilnad Mercantile Bank, CMA Vijender Sharma, President,Institute of Cost Accountants of India, CMA P. Raju Iyer, Immediate Past President, Shri D.Lakshminarayanan, MD, Sundaram Home Finance and CMA Chittaranjan Chattopadhyay, Chairman, BFSIB displaying the latest publication of the BFSIB "HANDBOOK ON STOCK AND BOOK DEBTS AUDIT" (Revised and Enlarged 2nd Edition) which has been released in the Seminar

what started as a mere exercise inestimating the cost later developed into a moment for efficiency and optimumutilization of scarce resources in a world of unprecedented disruption and market turbulence with the transformation of today which revolves around the need to generate a new value. It willunlock new opportunities to drive new growth to deliver new efficiencies. He said once branded a third world country India is now the fifth largest economy of the world and as per the prediction of Morgan Stanley the country is slated to double the growth rate in the coming decade and would be the third largest economy by 2027 as the country to be a U.S dollar five trillion economy by 2025.

CMA P. Raju Iyer IPP, ICAI addressed the gathering and expressed his thrill for such a seminar. He also mentioned the various activities undertaken by the ICAI.

CMA Vijender Sharma, President, ICAI, welcomed the gathering. He discussed the role played by banks and also mentioned that the CMAs can play a pivotal role in this.

Shri Ramesh Babu MD & CEO of Karur Vyasa Bank at the outset said that TheInstitute of Cost Accountants of India is doing a tremendous work positioning the cost andmanagement accountancy function as a powerful tool of management control inall spheres of economic activities since 1959. He stated that

Over the years the Indian government has introduced manyinitiatives to strengthen the nation's economy over recent decades India'srapid economic growth has led to a substantial increase in the demand forexports India has risen to 46th position in the global innovation index and hasemerged as the third largest ecosystem for start-ups after the U.S and Chinawith around 84 active start-ups in India attaining the status of unicorns between2018 and 2022. He stated that also as a jewel in the crown India assumed presidency of G20. The last two decades of the banking theIndian banking industry witnessed the rollout of innovative banking models like payments and small Finance banks inaddition to many outreach programs for an inclusive growth major banking sectorreforms like digital payments Neo bankingand the riseof

CMA Chittaranjan Chattopadhyay,Chairman, BFSIB, The Institute of Cost Accountants of India giving the introduction of the theme'India@100-Growth Trajectory for Banks' at Chennai on 23rd December 2022.

technologies which was just zero ten years back. He also mentioned thatthe services offered by CMA Professionals in the areas of forensic audit, concurrent audit, due diligence audit, stock audit credit audit ,revenueaudit,performancemanagement and audit of project laws in preparation of cost feasibility report are really beneficial to the BFSI sector as both organizations are financial service providers and they can work together to take our nation into the next level of individual and industrial growth.

Shri D. Lakshmi Narayan, MD., Sunadaram Home Finance, briefed the 25 years' history of the banking industry and said that the biggest threat for banking as for any other industry currently isthe emerging global trend and the new challenges often from different Industries and from the kind of cross industry Indian NBFCsand FinTech's have significantly enhanced India's Financial inclusion and helping torefuel the credit cycle in the country. This also stresses the requirement ofpartnership between Banks and FinTech's to improve their distribution network of the digital payment system in India which has evolved the most among the 25 countries India's UPI has also revolutionized the realtime payments and strive to increase its Global reach in recent years while API application programming interface has enabled accessof seamless banking to the customers. UPIand other enabled payment system has brought in a dramatic shift inconsumer behaviour and usage as around 400 million people who tap into thesedigital

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB and CMA Vijender Sharma,President,The Institute of Cost Accountants of India felicitating Shri R. Radhakrishna, Chief General Manager,State Bank of India at Chennai on 23rd December 2022. (R to L) platforms such as Amazon Flipkart Google and others which have a vastly superior economic model and a funding capability which the banking sphere is facing in the future marked by fundamental restructuring. He stated that we can also assume that the banks that will navigate through this will become better and more profitable and will grow fasterin the next era. Credit rating Investment Banking loan recoveries and every other activity that Bankers are doing would be driven by block chain cloud computing and analytics with less human intervention to achieve better accuracy this would also to some extent protect the bankers from cyber-related attacks which are very critical at the moment. Secondly there would be very few brick and mortar bankaddition in the next decade.

Shri Arun Bansal, Executive Director & Head of Treasury, IDBI Bank being felicitated by CMA Vijender Sharma, President, The Institute of Cost Accountants of India and CMA Chittaranjan Chattopadhyay, Chairman, BFSIB at Chennai on 23rd December 2022.(L to R).

CMA S. Krishnan, MD & CEO, TamilnadMercantile Bank and the Chief Guest deliberated on how the banks have travelled in the past, what was its Journey, what were the challenges that the banks were facing particularly in India. He mentioned about ABCD where A is for artificial intelligence B is for block chain C for cloud and D for data, this is the order of the day and the banks are fully geared to take plenty of opportunities in the coming years.

CMA Vijender Sharma, President,The Institute of Cost Accountants of India addressing the audience during the inaugural session of the seminar 'India@100-Growth Trajectory for Banks' at Chennai on 23rd December 2022.

The inaugural session ended after the speech followed by the inauguration of the handbook on stock audit and book debts (Revised and Enlarged 2ndEdition) by ICAI.

The technical session started with Shri. Arun Bansal the Executive Director and head of Treasury of IDBI Bank to address on the topic liquidity management and role of Treasury in Bank. He discussed the various treasury functions being – CR Ratio, Statutory Liquidity ratio, Liquidity Management, other non SLR Investments, Interest rate risk management, Derivatives and Debt capital raising. He mentioned banks' role as an intermediary for liquidity and rate transmission. He ended up saying that the future of Indian Banking system handholding with the CMAs is definitely in a better shape.

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB felicitating CA Nalini Padmanabhan, Part-time Non-Official Director, Canara Bank at Chennai on 23rd December 2022 along with Shri Mahesh Bajaj, ED, Indian Bank (L to R)

Shri S. Radhakrishnan, CGM, SBI,shared his thoughts based upon the topic. He discussed about the technological advancements and how it has enriched the banking system. The fintechs, the internet technology from 2G to 5G has contributed immensely in the growth of the banking system. The eminent speaker identified digital mediation as a challenge but also said that thenopportunities for the banks will multiply immensely while they must be very competitive as the online platforms. He touched upon the food crisis and global warming and how it is a challenge to the growth if not taken care of.

Shri Mahesh Bajaj, Executive Director, Indian Bank being felicitated by CMA Chittaranjan Chattopadhyay, Chairman, BFSIB at Chennai on 23rd December 2022. (L to R)

CMA Murali Ramaswamy, Former ED of Bank of Baroda and Member of BFSIB of ICAI deliberated on 'stressed assets in banks – role of professionals'. He discussed about NPAs and their financial and non-financial

Shri B. Ramesh Babu, MD and CEO of Karur Vyasa Bank addressing the audience at the seminar of 'India@100-Growth Trajectory for Banks' at Chennai on 23rd December 2022.

reasons, types of restructured loans, written off assets and special mention account. CMA Murali threw light on the resolution of stress under IBC and duties of interim resolution professional.

CMA Vijender Sharma, President, ICAI summed up the technical session. He while speaking in his presentation iterated that how CMAs have become successful in identifying many areas including personal guarantee for realisation of Banks dues under IBC.

Shri Mahesh Bajaj ED, Indian Bank, Smt. Nalini Padmanabhan, part time, non-official Director, Canara Bank were present for the valedictory session.

CMA Chittaranjan Chattopadhyay,Chairman,BFSIB (extreme right) and CMA Vijender Sharma, President, The Institute of Cost Accountants of India (centre-right) felicitating Gp Capt R Vijayakumar (Retd.), ED, MMA (centre-left). Shri B.Ramesh Babu, MD and CEO, Karur Vyasa Bank (extreme left) and CMA S.Krishnan, MD and CEO,Tamilnad Mercantile Bank (centre-left) are also present in the frame.

CMA S Krishnan, MD and CEO, Tamilnad Mercantile Bank and Chief Guest of the Seminar addressing the audience at the seminar of 'India@100-Growth Trajectory for Banks' at Chennai on 23rd December 2022.

Shri Mahesh Bajaj touched upon how the banking industry and its functioning has changed due to technological advancement and digitization. While talking about he payment ecosystem the best which we have done in the last seven or eight years in the country is the UPI which is touching 7.3 billion volumes of transactions with amount is 12 trillion INR. He touched upon the impact of CBDC, Digital platforms, Fintechs and start-ups on the banking business and also warned about the threat of data privacy and how we are going to take care of it.

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB felicitating CMA Vijender Sharma, President, The Institute of Cost Accountants of India at the seminar 'India@100-Growth Trajectory for Banks' at Chennai on 23rd December 2022 (R to L). CMA P.Raju Iyer, Immediate Past President,ICAI (extreme right) and CMA S.Krishnan,MD and CEO,Tamilnad Mercantile Bank (extreme left) are also present in the frame.

Smt. Nalini Padmanabhan introduced the new concept of digital currency. She explained how the CBDC is going to boost the economy and discussed about CBDC Retail and CBDC Wholesale and the denominations. The eminent speaker wrapped up after mentioning various FAQs for explaining the topic in details.

The seminar was wrapped up by the vote of thanks by CMA Rakesh Shankar, Member of CASB.

SOCIAL STOCK EXCHANGE - ROLE OF PROFESSIONALS

CMA Vijender Sharma, President, The Institute of Cost Accountants of India deliberating the Presidential address to the audience for the seminar on 'Social Stock Exchange – Role of Professionals' at the Indian Chamber of Commerce, Kolkata on 24th December 2022.

The Banking,Financial Services and Insurance board of The Institute of Cost Accountants of India organized a hybrid seminar on Social Stock Exchange and Role of Professionals on 24.12.22 at the Indian Chamber of Commerce. The Chief Guest for the Seminar was Shri Jeevan Sonparote, Chief General Manager of Securities and Exchange Board of India. The Seminar had CMA Ram Babu Pathak, Company Secretary of Eastern Coalfields Limited as the Speaker of the day.

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB, ICAI, deliberated a brief on Social Stock Exchange and the Role of CMAs and expressed his delight and thankfulness for the presence of the esteemed Chief Guest and the Speaker for the Seminar.

CMA Amal Kumar Das, Former President, ICAI welcomed the guests and highlighted the role of CMAs in the various sectors.

CMA Vijender Sharma,President, ICAI expressed his gratitude to the Chief Guest for his constant support to the CMA fraternity

CMA Ram Babu Pathak, Company Secretary of Eastern Coalfields Limited and Chairman, Asansol Chapter, ICAI made a presentation on ESG and explained its importance for sustainability and CSR. He emphasized that Social Stock Exchange

CMA Rambabu Pathak,Speaker,Company Secretary, Eastern Coalfields Limited and Chairman, Asansol Chapter of The Institute of Cost Accountants of India deliberating upon the topic of "Social Stock Exchange-Role of Professionals" and the indispensible role of Cost and Management Accountants.

CMA Vijender Sharma, President, The Institute of Cost Accountants of India (centre-Left) presenting to Shri Jeevan Sonparote,Chief Guest and Chief General Manager, Securities and Exchange Board of India (centre-right) with a plant.CMA Chittaranjan Chattopadhyay , Chairman, BFSIB (extreme left) and CMA Rambabu Pathak, Speaker,Company Secretary, Eastern Coalfields Ltd. and Chairman, Asansol Chapter, Institute of Cost Accountants of India (extreme-right) are also in the frame.

cannot be weighed, studied or cannot be understood in absence of CSR, social audit, ESG framework or in absence of impact investing or donation funding. He stated that social stock exchange is an electronic fundraising platform under the regulatory Ambit of SEBI for listing social Enterprises and voluntary organizations working for social welfare, while discussing about the need of Social Stock Exchange he said that SSE will aim at mitigating the economic damage caused by Covid 19. It will also help to improve visibility and knowledge among the stakeholders about the contributions of the social enterprise in the society. They would enable and establish procedures to standardize social finance and develop the social capital. The Social Stock Exchange act as a link between the social entrepreneurs in need of capital and investors prepared to put their money into them. CMA Pathak also explained the concept of Social Stock Exchange in other countries like, Canada, UK, Brazil.

The concept of Social Stock Exchange in India was of a donation based funding platform with a feature of trading the donations by linking them with a security instrument. He said that the SSE will operate as a separate segment in the existing stock exchanges and the enterprises entitled to list in the SSE are social enterprises. He also stated the eligibility criteria of the social enterprise. While discussing about the modes of raising funds in the SSE the speaker explained ZCZP Bonds, social impact funds, development impact bonds, donations through mutual funds etc. and their related regulations. He said that the entire concept of social Stock Exchange revolves around CSR, social audit, ESG and sustainable developments and the ultimate aim the social Stock Exchange that will develop India. CMAs will play a pivotal role in implementing this entire concept

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB addressing the audience and introducing the topic of the seminar 'Social Stock Exchange – Role of Professionals' at the Indian Chamber of Commerce, Kolkata on 24th December 2022.

Lighting of the Lamp: CMA Rambabu Pathak, Speaker,Company Secretary,Eastern Coalfields Ltd. and Chairman, Asansol Chapter, The Institute of Cost Accountants of India, Shri Jeevan Sonparote,Chief General Manager,Securities and Exchange Board of India , CMA Amal Kumar Das, Past President, CMA Vijender Sharma, President , The Institute of Cost Accountants of India and CMA Chittaranjan Chattopadhyay, Chairman, BFSIB. (L to R)

of social Stock Exchange.

Shri Jeevan Sonparote, Chief General Manager of Securities and Exchange Board of India, at the outset said that the association of ICAI and SEBI has been short but it is deep and he wished to continue the bonding and association. He said that CMAs are ace in numbers and SEBI is looking for social audits from ICAI. He urged that the council of ICAI and its members to contribute and design the social audit standards and to come out with an impact assessment report. Shri Sonparote also said that SEBI is planning to place those standards in the September 2023 and pitch it in the G20 summit. He said it is a unique experiment as this task of SSE has been placed on the security market regulators. He stressed that none of the countries the social Stock Exchange has been given to a Securities Market regulator so while that has been given to the Securities Market regulator in India it is SEBI's responsibility to ensure that the money that is attracted towards this is invested in a time-bound fashion and to the purpose that it is intended. He stated that since people are not clear that the money somebody is giving is being put to use that it has been intended for so that is the biggest challenge will be and that is where the Institute and the CMAs

Shri Jeevan Sonparote,Chief Guest and Chief General Manager, Securities and Exchange Board of India deliberating the technical aspects of Social Stock Exchange and the role that SEBI and the Institute of Cost Accountants of India has to deliver for the benefit of the stakeholders on 24th December 2022 at the Indian Chamber of Commerce, Kolkata.

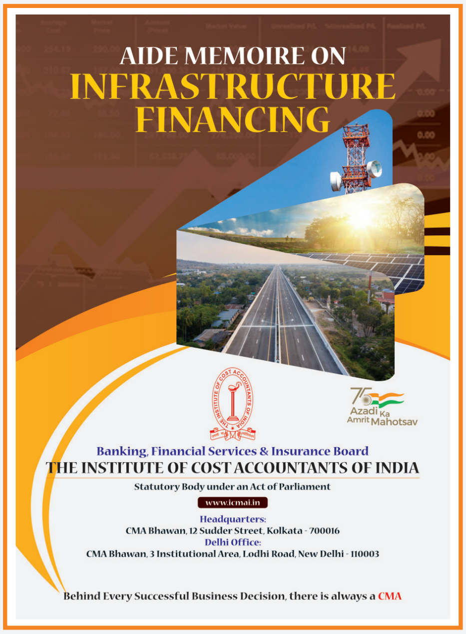
will have to play a crucial role and that is why in the design the Social Stock Exchange the SEBI had kept in mind. He stated that with that premise the Social Enterprises are raising money and the donors are assured that their money is going to be at the place that their heart is in it is not going to work and the social Auditors to set up is to put in place exactly to assure that donor that whatever money has been put in is now being certified and validated by a social auditor and done by these high-ranking professionals and that is whom you can trust. So the entire design of the social Stock Exchange is to bring some kind of accountability, credibility and transparency for any purpose of Charity so that we are all used to having transparency accountability where with respect to the finance. Social impact or social impact assessment is going to be the one of the key challenges that the social Stock Exchange will is going to face. So it's all up to professionals like CMAs based on which SEBI will be able to decide whether the social Stock exchange would be a good or a successful experiment in India. He assured that Chairperson SEBI is looking into the matter as to whether CMAs can be included for forensic audit and he also mentioned of placing the technical guidance on KPIs by the Institute. He stressed on doing something on digital assurance and said we want to be in a technologically developed environment and that's where the digital assurance guide will help.

After an interesting question answer session, the seminar was wrapped up by a vote of thanks by CMA Kaushik Banerjee, Secretary, ICAI.

Aide Memoire on
INFRASTRUCTURE FINANCING

Infrastructure is the backbone of any economy. It is a well recognised fact that Infrastructure has a multiplier effect on the holistic development and rapid sustainable growth.

A Robust Infrastructure Finance mechanism therefore assumes utmost importance in the entire Eco system.



Synopsis-Salient Features of the book

- A one stop, single reference point, in the niche area of Infrastructure Finance.
- The book covers the basic theoretical concepts as also the real nitty gritty of processes & procedures and nuances involved in Infrastructure Finance with all the relevant topics which inter include the following:-
  - Definition of Infrastructure sector-Harmonised master list of infrastructure sub -sectors, as notified by Department of Economic Affairs, Ministry of Finance, Definition under Companies Act 2013 and under Income Tax Act 1961.
  - Elements of Financing Infrastructure.
  - Types of Public Private Partnership (PPP) models.
  - Formation of the Special Purpose Vehicle (SPV) and Key project documents/structure for Infrastructure Finance.
  - Financing mechanism consortium/syndication.
  - Credit appraisal process-covering management appraisal, economic appraisal, marketing appraisal, technical appraisal and Financial appraisal.
  - In depth analysis of cost of project and means of finance with specific reference to Infrastructure projects, including interest during construction (IDC), Debt Service Reserve Account (DSRA) etc.
  - Key performance indicators including financial indicators and non financial indicators. This includes detailed discussion on all financial ratios for long term funding like DSCR, IRR, BEP and concepts like ESG compliances.
  - Detailed discussion on the intricacies involved in appraisal and sanction, including various aspects of concession agreement, Power Purchase agreement, Escrow agreement, Fuel supply agreement Inter creditors agreement etc
  - Assessment of various Risks involved in infrastructure finance like sponsor risk , construction risk,market risk, financial risk etc and mitigation thereof.
  - Detailed Case studies on the following projects
    - Road sector -Hybrid annuity (HAM)model -New Project
    - Road sector- Toll Operate Transfer (TOT) model-Funding against existing project as a part of Asset Monetization Plan.
    - Renewable Energy sector - Solar Power Plant-New Project.
  - Case studies on Credit Risk Mitigation
    - Waste to Energy Project
    - Water supply management project.
    - Railway station Redevelopment project.
  - Project monitoring and performance audit of infra projects
  - Restructuring, management of weak accounts and NPA accounts.
  - Infrastructure thrust by Government of India- National Infrastructure pipeline , National Monetization Pipeline, NABFID and Atmanirbhar Bharat
  - Alternate sources of funding including InvITs, IDFs, Securitisation, Credit, Enhancement etc
  - Methodology for pricing of loans
  - Preventive vigilance

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Warm regards
CMA Chittaranjan Chattopadhyay
Chairman
Banking, Financial Services & Insurance Board

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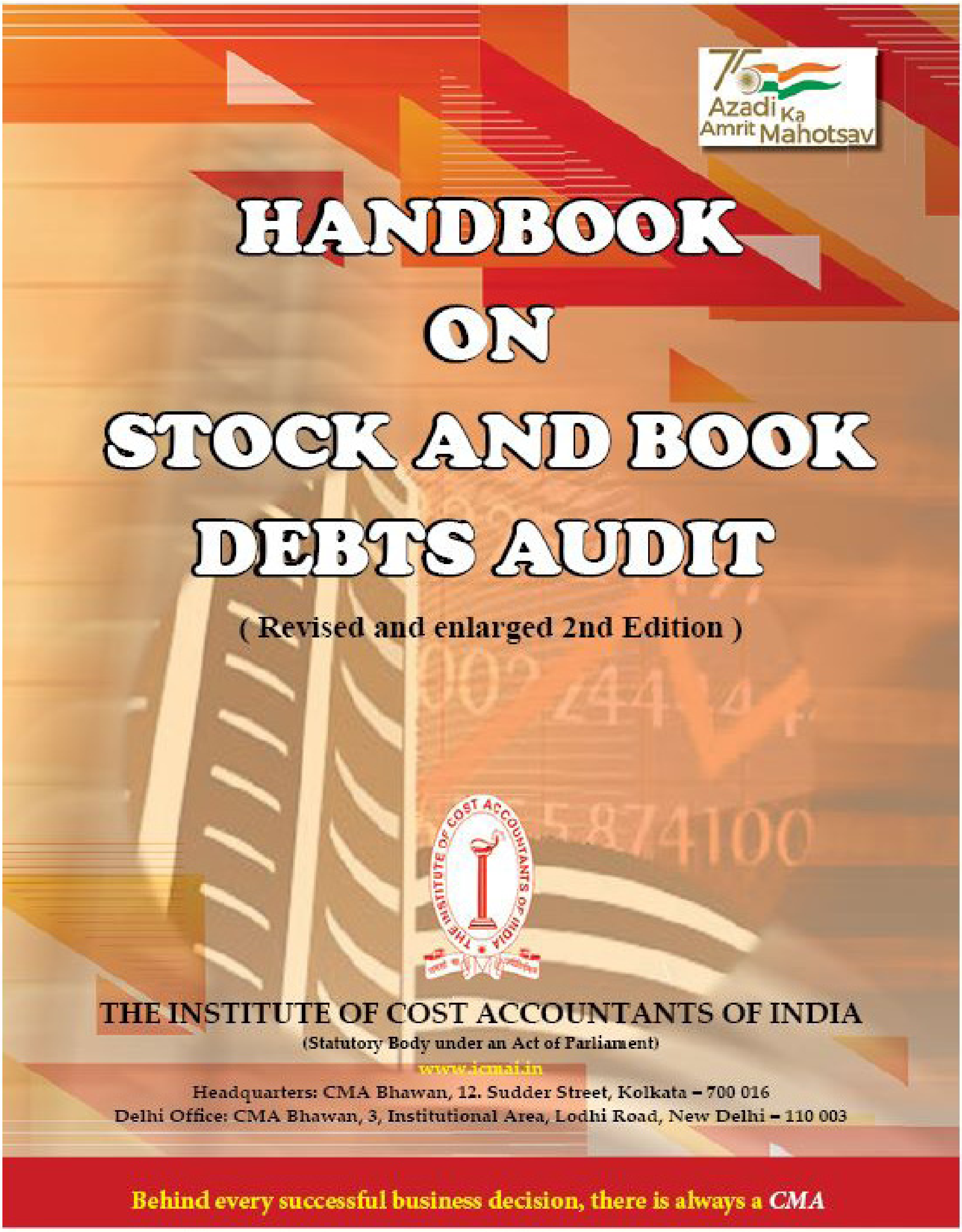

It has already been published on BFSI portal

ACTIVITIES OF THE BFSI BOARD

The Banking, Financial Services & Insurance Board of the Institute and the BFSI department continued to chalk out and continue its various activities and initiatives during the quarter of October to December 2022 under the active leadership of CMA Chittaranjan Chattopadhyay, Chairman of the BFSI Board, a synopsis of which is presented herein under -

A. Observance of World Investor Week (WIW) 2022 (October 10th to 16th, 2022).

The World Investor Week (WIW) 2022 is a global campaign which was celebrated under the aegis of IOSCO and SEBI, from October 10th to 16th , 2022, to raise awareness about the importance of investor education and protection. To commemorate the campaign, the Banking, Financial Services and Insurance Board (BFSIB) of The Institute had organized a series of webinars to observed the World Investment Week from 11th October, 2022 to 16th October, 2022 for the benefit of all stakeholders and spreading the message of proper investor education.

The following are the three events conducted by the BFSI Board for the World Investment Week.

13.10.2022
Webinar on the topic 'Whats Your financial Gameplan', where the speaker was CMA Malhar Mazumder, Wealth Management Consultant.

15.10.2-022
Webinar on the topic 'India Equity View Amidst Global Turmoil', where the speaker was CMA Dhiraj Sachdev, Financial Advisor.

16.10.2022
Webinar on the topic "Basic Mathematics for Financial Planning " where the speaker was Shri Dibyendu Mukherjee, Personal Finance Professional.

For those who missed the events due to preoccupation, all such presentations are uploaded in the BFSIB portal as a part of knowledge sharing endeavour of the Board.

B. Webinar on Infrastructure Financing held on 21st October, 2022

Shri Subhendu Moitra, Financial Advisor and Former Chief Credit Officer, IIFCL took a webinar on the topic of 'Infrastructure Financing' on 21st October, 2022 and presented the various infrastructure projects and the mechanism of financing covering the challenges and opportunities.

C. Capital Market Symposium on 28th October, 2022 at Kolkata.

A mega Symposium on Capital Market on the topic 'Financial freedom through Stock Marketing Investing' was organized at The Hotel Hindustan International, Kolkata and also streamed online from 6-8:30 pm. The event was a ground breaking fireside chat between CMA Basant Maheshwari, Portfolio Manager and an icon of the profession and CMA (Dr.) Sunder Ram Korivi, Member of the BFSI Board, ICAI and renowned academician who is presently Adjunct Professor Indian Institute of Corporate Affairs (IICA), established by the Ministry of Corporate Affairs, Government of India.

The event was participated in person by various professionals, members of the Institute and dignitaries, including CMA Harijiban Banerjee, Past President ICAI; CMA Amal Kumar Das, Past President, ICAI; CMA Amitava Sinha, Director (Finance), Jute Corporation of India and many others. CMA Chittaranjan Chattopadhyay, Chairman BFSIB and Council Member ICAI and CMA Biswarup Basu, Immediate Past President and Council Member ICAI also addressed the participants while setting the ball rolling towards an electrifying fireside chat event which witnessed a barrage of questions from the participants during the Q&A session which followed the fireside chat.

The programme also witnessed an overwhelming response on the official youtube channel of the Institute where number of views surpassed 6400 soon after upload, anyone desirous of viewing it at their leisure can do so on the link https://youtu.be/oagT4XYVy-A .

D. Representation letters for inclusion of CMAs

- The BFSIB continues its efforts for further development of the profession in the BFSI sector with representations to authorities and employers for inclusion of CMAs in the sector. The concerted and diligent efforts have resulted in numerous opportunities for CMAs. The BFSI Board is greatly pleased to note the following developments:-
- CMAs are eligible to apply for the post of Manager (Credit Analyst), State Bank of India.
- CMAs are included for the post of Chief Manager, Credit (Scale-IV) of Bank of Maharashtra.
- CMAs are eligible to apply for the post of Deputy Managing Director of IDBI.
- CMAs, both individuals and in practice are included to conduct Due Diligence Audit in Punjab National Bank for both Indore and Bhopal.
- PFRDA has included CMAs for the post of Officer Grade-A (Assistant Manager). State Bank of India has also included CMAs for the post of Circle Based Officers.
- We have sent representation to various Banks for inclusion of CMAs in various posts and with proper follow up we hope to have our names included in coming days for all Banks.
- CMAs are included for the lateral recruitment of Forex Dealer (MMG-III) and Treasury Dealer (MMG-III) in Punjab and Sind Bank.
- CMAs are eligible to apply for the post of Professional Director of The Andhra Pradesh State Co-operative Bank Ltd., Vijayawada.
- CMAs are eligible to apply for the post of Manager (Credit Analyst), State Bank of India.
- Representation letters have been sent to various Banks, Insurance Companies and Financial Institutions for inclusion of CMAs in various posts and with proper follow up and we are hopeful to have our names included in coming days for all Banks.
- CMAs are included as private practitioners in the Swami Vivekananda Swanirbhar Karmasanasthan Prakalpa.
- CMAs are eligible to apply for the 100 posts of Assistant Manager, Group A , General Stream of SIDBI.

E. Exposure Draft of Insurance and Regulatory Development Authority of India (Registration of Indian Insurance Companies) Regulations, 2022

The BFSI Board, ICAI had provided the representation on the Exposure Draft of Insurance and Regulatory Development Authority of India (Registration of Indian Insurance Companies) Regulations, 2022 based on the various feedback received from various Bankers and we hope that CMAs would be included in the final Notification to be issued by the IRDAI.

F. Reserve Bank of India released the Draft Master Directions – Information Technology Governance, Risk, Controls and Assurance Practices Guidelines

The BFSI Board, ICAI is seeking comments on the Draft Master Directions – Information Technology Governance, Risk, Controls and Assurance Practices Guidelines. The last date of submission of comments/ suggestions was 15th November, 2022. We are pleased to inform that we had received numerous representations from concerned stakeholders.

G. Sale of Aide Memoire on Infrastructure Financing

The handbook which was released by the BFSIB, titled 'Aide Memoire on Infrastructure Financing' for benefit of all stakeholder and was very well accepted by stakeholders and now is reprinted with ISBN No which will ensure wider reach to reach across the unreached. The members, students and others can get their copies through online purchase via the link https://eicmai.in/booksale_bfsi/Home.aspx .

The 2nd edition is also under preparation and will be published very soon.

H. Workshop on Due Diligence in Banks

BFSI Board of ICAI organized a workshop on how to conduct the due diligence on Corporate Borrowers of Banks work for 3 days from 18th to 20th November, 2022 which was attended by members in practice and in industry along with representation from Corporates. The event was inaugurated by Shri Subrata Mukherjee, Additional CVO, State Bank of India on 18th November, 2022. In the valedictory session, Shri Nagesh Babu, Former DGM, Canara Bank who had wide experience in conducting Due Diligence Audit, graced the occasion to share his experience and interact with the participants.

Admission window for the workshop on "How to conduct the due diligence on Corporate Borrowers of Banks" for 3 days has been opened. The date of commencement will be announced very soon.

I. 2nd ICAI National Awards -Essay Contest 2022 for Bankers

The BFSI Board had organised the ICAI National Awards -Essay Contest 2022 for Bankers on the topic of "Pivotal Role of Banks's Lending/Credit to achieve Atmanirbhar Bharat". The last date of applications was 15th December, 2022. The details of the modalities of the event can be viewed as per the following link: https://icmai.in/icmai/Webint-BI.php . It is of great pleasure to note that numerous bankers have participated and send their essays for the 2nd ICAI National Awards- Essay Contest 2022 for Bankers within the time frame mentioned above. A panel of distinguished Bankers have been constituted with CMA Mohan Vasant Tanksale as the Chairman of this esteemed panel. We will print the best essay in the next edition of the Chronicle.

J. Certificate Courses on Banking

Due to overwhelming expression of interest the BFSI Board had re-opened the admission window for the three Certificate Courses on Banking, viz –

- Certificate Course on Concurrent Audit of Banks (8th Batch)
- Certificate Course on Credit Management of Banks (8th Batch)
- Certificate Course on Treasury and International Banking (6th Batch)

The syllabus of all such courses are under review and new study materials are under preparation. The members and students are requested to take the opportunity for capacity building and knowledge enhancement by enrolling in such courses for which the link of admission is https://eicmai.in/advscc/Home.aspx .

K. Certificate Course on Investment Management in association with NISM

BFSI Board, ICAI in association with NISM has successfully conducted the 4th batch of the Certificate Course on Investment Management (Level-II) and the certificates have been provided to the successful candidates.

L. Release of Handbook on Stock and Book Debts Audit (Revised and enlarged 2nd Edition)

We are happy to announce that the BFSI Board of ICAI has released the revised and enlarged 2nd edition of the Handbook on Stock and Book Debts Audit on 23rd December, 2022 at Chennai. The publication is available in soft copies in the BFSI portal. We are happy to inform you that in order to on the mechanism of stock audit process, we would be conducting a workshop enhance the skill of our members for which an announcement is expected to be made soon. The hard copy of the publication will be available soon. Please keep watch on the BFSI portal.

M. Chairman's meetings with various dignitaries:-

a) CMA P.Raju Iyer, Immediate Past President with CMA Vijender Sharma,President ICAI; CMA Chittaranjan Chattopadhyay, Chairman, BFSIB and CMA (Dr.) Ashish D Thatte, Chairman, Corporate Laws Committee met Ms. Madhabi Puri Buch, Chairperson, SEBI at her Office in Mumbai on 1st November, 2022 and represented about the Institute and inclusion of CMAs in various certifications in the capital markets.

b) CMA Chittaranjan Chattopadhyay, Chairman, BFSIB met Shri Sanjib Sarkar, General Manager, Credit Monitoring Department, Bank of India on 2nd November, 2022.

C) CMA Chittaranjan Chattopadhyay, Chairman, BFSIB along with CMA Vijender Sharma,ICAI met Shri Rajkiran Rai G, MD, National Bank For Financing Infrastructure and Development (NaBFID) at his office in Mumbai on 16th November, 2022. The President and Chairman, BFSIB also met Shri Arun Bansal, Executive Director of IDBI Bank on the same day.

d) CMA Chittaranjan Chattopadhyay, Chairman, BFSIB along with CMA Vijender Sharma, then Vice-President, ICAI and present President, ICAI met Smt. Swapna Bandopadhaya, General Manager, Bank of Baroda on 17th November, 2022 to discuss inclusion of CMAs in various recruitment advertisements for the post of specialist officers and others in the bank.

e) CMA Chittaranjan Chattopadhyay, Chairman ,BFSIB met Shri Vikas Nawal, AGM (Head, Business Credit-East), ICICI Bank and appraised him of the various efforts undertaken by the BFSIB in various domains of the Banking industry on 3rd December 2022.

f) CMA Chittaranjan Chattopadhyay, Chairman, BFSIB and CMA Rajesh Sai Iyer, Treasurer, SIRC of ICAI met Shri Rohit Rishi, GM of Indian Bank and Shri H S Ahluwalia, GM of Indian Bank at 6th December 2022 at Chennai. CMA Chittaranjan Chattopadhyay also met with Ms. S. Srimathy, Executive Director, Indian Overseas Bank, Shri K. Swaminathan, MD & CEO of REPCO Home Finance Ltd. and Dr. N. Kamakodi, Managing Director and CEO of City Union Bank on the same date.

g) CMA Chittaranjan Chattopadhyay, Chairman, BFSIB met with CMA Gaurav Bhandari, CGM, India Export Import Bank of India on 8th December 2022.

h) CMA Chittaranjan Chattopadhyay, Chairman, BFSIB met with Shri Sanjay Kapoor, General Manager (PPR) State Bank of India and presented him with various publications of BFSIB on 14th December 2022.

   The Chairman also met Shri Ranjan Gupta,Chief General Manager,Human Resources of State Bank of India and urged for more recruitment of Cost and Management Accountants in various managerial roles in the Bank and the niche services provided by the professionals of our Institute.

i) CMA Chittaranjan Chattopadhyay, Chairman, BFSIB and CMA P.Narayan Murthy, Insurance Consultant and Advisor to the BFSI Chronicle met with Shri Raj Kumar, Managing Director of Life Insurance Corporation of India (LIC) and discussed with him the various aspects of the insurance industry.

j) CMA Chittaranjan Chattopadhyay, Chairman, BFSIB and CMA P.Narayan Murthy, Insurance Consultant and Advisor to the BFSI Chronicle also met with Shri Sunil Agrawal, Chief Financial Officer of Life Insurance Corporation of India and Shri Rajesh Dubey, Executive Director (Human Resources) of Life Insurance Corporation of India and expounded the increasing importance of Cost and Management Accountants in the Insurance sector.

N.Business Standard BFSI Insight Summit at Jio World Centre,Mumbai on 21st and 22nd December 2022

CMA Debashish Mitra, Chairman,Advanced Studies, Members in Industry and Placement along with CMA Chittaranjan Chattopadhyay, Chairman, BFSIB attended the prestigious summit to increase the visibility of the Institute of Cost Accountants of India. Shri Shaktikanta Das, Governor, Reserve Bank of India graced the occasion as the Chief Guest.

O. Seminar on Banking-India@100 Growth Trajectory for Banks on December 23, 2022 at MMA Management Centre, Chennai organized jointly by the BFSI Board,SIRC,ICAI and IPA,ICAI along with Madras Management Association (MMA)

The health of the Banking sector is a priority area as it plays a vital role in the financial intermediation in the economy. Keeping in mind the various macro-economic developments during the Amrit Kaal as envisioned by the Prime Minister of India, the BFSI Board under the Chairmanship of CMA Chittaranjan Chattopadhyay decided to jointly organize with SIRC, ICAI and IPA, ICAI a seminar on the topic of " Banking @100"-Growth Trajectory for Banks with Madras Management Association on 23rd December 2022 at MMA Management Center, Chennai.

The president of the Institute CMA Vijender Sharma graced the programme in inaugural session and technical session. The inaugural session was attended by several distinguished bankers including Shri R. Radhakrishnan, Chief General Manager, State Bank of India, CMA S.Krishnan, MD and CEO, Tamilnad Mercantile Bank as the Chief Guest, Shri B. Ramesh Babu, MD & CEO. Karur Vyasa Bank and Shri D Lakshminarayanan, MD, Sundaram Home Finance.

The technical session was also attended by several distinguished bankers including Shri Arun Bansal, Executive Director, IDBI Bank who gave a presentation on the topic of " Liquidity Management and Role of Treasury in Bank" and CMA Murali Ramaswamy, Former Executive Director, Bank of Baroda and Independent Director, Karur Vyasa Bank. , Shri Mahesh Bajaj, Executive Director, Indian Bank. CMA Vijender Sharma, President of the Institute gave an insight and summarized the technical session on the theme of Management of Stressed Assets in Banks and Role of Professionals.

The programme was well appreciated with inaugural, technical and valedictory sessions. The valedictory session was attended by several distinguished bankers including Shri Mahesh Bajaj, Executive Director, Indian Bank, CA Nalini Padmanabhan, Independent Director, Canara Bank.

It was attended by Bankers, CMA members in practice and service and others.

P. Seminar on Social Stock Exchange- Role of Professionals organized by the BFSI Board, ICAI

The BFSI Board, ICAI organized the blended seminar to the Social Stock Exchange- Role of Professionals on 24th December, 2022 at the hallowed turf of Indian Chambers of Commerce. Shri Jeevan Sonaparte, CGM, SEBI was the Chief Guest and CMA Rambabu Pathak, Company Secretary, Eastern Coalfields Ltd. and Chairman, Asansol Chapter, ICAI was the spearker. It was attended by members in both online and offline and the Institute is involved in developing the standards of audit of the social stock exchange.

FINANCIAL SNIPPETS (upto Dec 15th)

From 24 th Sep 2022

- Bank credit growth at 16.2% more than doubled last year's pace
- India's forex reserves fall to near two-year low
- Liquidity in banking system turns deficit, first time in over three years
- Tightening liquidity may force Indian banks to compete harder for deposits
- Government for banks to collaborate with NBFCs and fin tech companies
- IBA forms key working group of banks for sustainability
- India's GDP to grow at 7.5% in FY 23 despite developed- economy recession
- Finance Ministry calls meeting with PSB Chiefs as branches suffer staff shortage
- Government amends IBC rules to cut delays, helps creditors realise better value
- Formal sector job generation hits four month high in July
- PSU banks give digital lending a push as part of EASE reform agenda
- CRISIL sees banks' GNPA touching decadal low of 4%by FY24

October 2022

- Tokenisation rules for debit, credit cards kick in from October 1
- RBI cuts FY 23 GDP growth forecast to 7% as developed world gets into recession
- Banks dip into excess regulatory buffers to meet credit demand
- Expect inflation to come close to target a 4% in two years-RBI Governor
- India a 'STAR' among emerging market economies with 7.3% growth in FY 23- S&P
- Digital payments trump cash transactions in India with 93% adoption rate
- World Bank paper calls for a new approach to regulating fin techs
- Banks increase interest rates on bulk deposits as liquidity tightens
- UCO bank and YES bank tie-up with Russian banks for payments
- High NPAs in education loan segment turn banks cautious
- RBI monetary policy 2022-Key Takeaways
- RBI announced the 4th straight increase of 50 basis points in Repo rates to 5.90
- with immediate effect. RBI has raised rates by 190 basis points
- (3 year high) since May. Prior to this, RBI has raised 40 bps in an off cycle meeting in May and 50 bps each in June and August.The standing deposit facility (SDF) rate stands adjusted to 5.65% and the marginal standing facility (MSF) rate and the Bank rate to 6.15 %

- Next meeting of Monetary Policy Committee on 5-7 December.
- India digital payments crossed 20 billion mark in Q2 led by UPI
- New loan guarantee scheme for start-ups with ₹10 Cr ceiling
- Cards in circulation in India hit one billion as debit card issuances revive
- IMF warns of higher recession risk and darker global outlook 2023
- Tightening actions by central banks will help to prevent high inflation as per IMF
- RBI introduces internal mechanism for credit information companies
- RBI mulls provisioning norms based on expected loss for tax
- Doorstep banking for elderly on cards
- The seasonally adjusted S&P global India manufacturing purchasing managers index (PMI) came in at 55.1 in September indicating the sector being in expansion mode for the 15th consecutive month
- Indian corporate credit quality remains strong as per Crisil ratings
- PM to dedicate 75 digital banking units to the nation on 16th October
- India to become world's third largest economy by FY 28 as per IMF
- Ben Bernanke gets Nobel in economics
- forex reserves rise after two months of decline
- Fourth month of decline-WPI inflation hits 18 month low at 10.7%
- Incremental credit at 13 year high in August
- Bounce rates fall in September despite rising inflation
- India's cash transfer schemes a 'logistical marvel' says IMF
- RBI asks banks to stop building positions in offshore market and
- UPI making inroads globally
- No entity to obtain fresh ratings from Brickwork- RBI
- SBI the first bank to achieve this milestone, home loan AUM crosses ₹ 6 trillion
- Key takeaways from finance ministry's economic review of September 2022
- India's economic activity has been termed ' impressive'
- As measured by PMI composite index, economic activity level was higher for India at 56.7 compared to 51 for the world during Apr-Sep 22
- Retail inflation during last 6 months stood at 7.2% compared to 8.0% of the world.
- Rupee which has been hitting all time lows, depreciated by 5.4% against USD . However,the depreciation is less than that of 8.9%of 6 major currencies in DXY index.
- The real economic growth for India in 2022-23 is expected to be 6.8% , the second highest in G20.
- Deposit rates go up as liquidity dries up

- Fitch sees limited risk to India's sovereign rating from external headwinds, remains confident of forex reserves
- Banks are broadening their retail lending horizon beyond prime rated borrowers
- India Post Payments Bank , RBI Innovation Hub join hands for financial products
- Digital Banking Units to boost RBI's financial inclusion efforts- RBI Governor
- RBI schedules additional MPC meeting on November, 3
- Lower refinance rates in the works for RRBs
- NARCL to make its first acquisition in Jaypee Infratech
- Banks close 2.9 lakh inactive credit cards in September on RBI guidelines
- Consolidation of PSBs have not impacted their outreach as per RBI , Dy. Governor
- Banks low cost CASA a goes down in September quarter.
- CBDC pilot launched with G-Sec trades of ₹ 275 Cr
- Services sector picks up pace in October
- Currency in circulation declines in Diwali week for the first time in 20 years
- Bank credit to industry sees healthy growth led by MSMEs- RBI data
- Banks go for bulk deposits amid strong growth in credit, tight liquidity
- Borrower cannot claim extension of time period under OTS as a matter of right
- Bank loans to rise 17.9% YoY in two weeks to October 21 from a year earlier deposits up 9.5%- RBI
- GST collection over ₹ 1.51 Trillion in October, second highest ever.
- Core sector output grows 7.9% in September
- Technology and talent - two challenges for Indian banks
- At ₹ 60 000 CR , Indian banks post highest profit in the quarter
- PSBs on track to get, reduce the value gap with private banks
- Tax revenues may overshoot FY 23 budget estimate by ₹ 3-3.5 Trillion
- Forex reserves are for rainy days, RBI did not just pick them up to keep as showpiece-RBI governor
- Corporate advances of banks rise in Q2 despite rate hikes
- India to become third largest economy by 2027- Morgan Stanley
- Banks are planning to build expertise for ESG financing
- Banks ask for more time and rating rule, fearing capital impact
- Government raises PSB CEO term to 10 years
- India's economy to grow up to 6.3% in Q2 of FY 23- RBI

- Indian banks to gain from rising rates as credit growth stays steady - S&P global
- RBI shortlist shortlist banks for beta testing Digital rupee in retail transactions
- Creditors get 32% of ₹ 7.91 trillion claims in resolved IBC cases
- RRBs may have to go for EASE reforms agenda meant for larger banks
- Foreign banks may ask ESMA to defer clearing house action
- Nine Russian banks to set up vostro accounts
- DICGC settled claims worth Rs.8 516.6 CR in FY22
- Insurance companies are now a part of RBI's account aggregator
- Government appoints ten Executive Directors to public sector banks for three years
- Banking system is well capitalised and gross NPAs have consistently declined-RBI report
- Balances under SDF to be included in liquidity coverage ratio-RBI to banks
- Credit card spends exceed pre-Covid levels
- NBFCs are ever greening loans-SEBI
- Raising interest rates will help Indian banks post healthy profits in FY23-S&P
- Four tiered regulatory framework for Urban Cooperative Banks
- Household debt moves up by ₹ 6 lakh crores ,touches ₹ 86.35 lakh crores in FY 22
- RBI tests digital rupee in 4 cities
- Remittance to India touch USD 100 billion as per World Bank
- Bank credit grows 17.2 % in September quarter
- India's manufacturing PMI hits 3 month high of 55.7 in November 22
- Indian Banks raise USD 2 billion in rupees via infra bonds in two weeks
- Be cautious while lending to Corporates with exposure to West- RBI
- India well placed to face global headwinds-World Bank
- India has allowed millions to open bank accounts and pay in one click- EU antitrust Chief
- Loans rose 17.2 % YoY in the two weeks to 18 Nov 22 as per RBI
- RBI exploring legal, technical provisions to keep e - rupee transactions ' anonymous '
- Paperless home loans will become a reality very soon
- Government clarifies foreign funds can own over 51% stake in IDBI Bank
- Key takeaways and highlights of RBI MPC announcement on 7 th Dec
- Repo rate increased by 35 bps to 6.25%
- SDF and MSF at 6% &6.5%
- Stance focused on 'withdrawal of accommodation,
- GDP growth forecast for FY 23 lowered to 6.8%

- CPI inflation forecast retained at 6.7%
- Liquify conditions to improve

Up to 15 th Dec 2022

- Morgan Stanley expects India's banks to have a strong financial year
- Credit card spends top ₹1.3 lakh crore in India
- RBI advises fintechs to focus on governance, data protection issues
- Government asks Trade bodies and banks to explore options for Rupee trade mechanism
- MSMEs witness spike in credit from banks by 24%- RBI data
- Retail inflation eased to 5.88% in November, drops within RBI's tolerance band
- RBI flooded with 13000 complaints against digital lending apps and recovery agents during Apr 2012 and November 2022
- RBI removes informal NDF restrictions on banks

Notes

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