THE JOURNAL FOR CMAs

THE MANAGEMENT ACCOUNTANT

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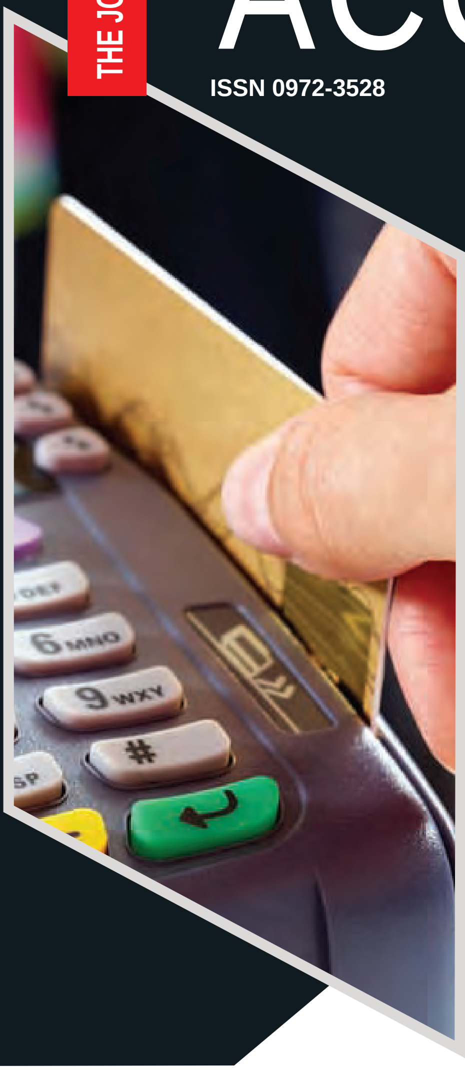


STRENGTHENING INDIAN BANKING SYSTEM

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory body under an Act of Parliament)
www.icmai.in

Editorial Office
CMA Bhawan, 4th Floor, 84, Harish Mukherjee Road, Kolkata-700 025
Tel: +91 33 2454-0086/0087/0184 , Fax: +91 33 2454-0063
Headquarters
CMA Bhawan, 12, Sudder Street, Kolkata 700016
Tel: +91 33 2252-1031/34/35 , Fax: +91 33 2252-7993/1026
Delhi Office
CMA Bhawan, 3, Institutional Area, Lodi Road, New Delhi-110003
Tel: +91 11 24622156, 24618645 ,Fax: +91 11 4358-3642
WEBSITE
www.icmai.in

The Institute of Cost Accountants of India

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA (erstwhile The Institute of Cost and Works Accountants of India) was first established in 1944 as a registered company under the Companies Act with the objects of promoting, regulating and developing the profession of Cost Accountancy.

On 28 May 1959, the Institute was established by a special Act of Parliament, namely, the Cost and Works Accountants Act 1959 as a statutory professional body for the regulation of the profession of cost and management accountancy.

It has since been continuously contributing to the growth of the industrial and economic climate of the country.

The Institute of Cost Accountants of India is the only recognised statutory professional organisation and licensing body in India specialising exclusively in Cost and Management Accountancy.

MISSION STATEMENT

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

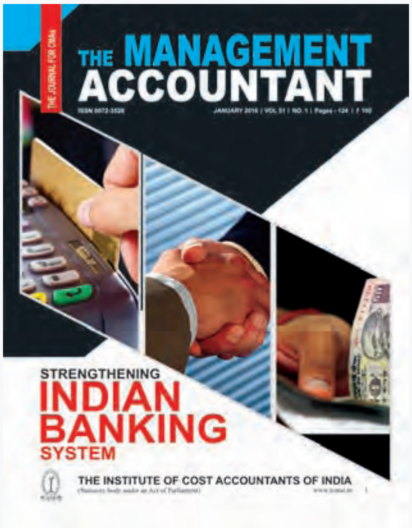
VISION STATEMENT

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

IDEALS THE INSTITUTE STANDS FOR

- *to develop the Cost and Management Accountancy profession*
- *to develop the body of members and properly equip them for functions*
- *to ensure sound professional ethics*
- *to keep abreast of new developments*

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



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EDITOR

CMA Dr Debaprosanna Nandy
on behalf of The Institute of Cost Accountants of India,12, Sudder Street, Kolkata - 700016
editor@icmai.in

PRINTER & PUBLISHER

CMA P V Bhattad
on behalf of The Institute of Cost Accountants of India, 12, Sudder Street, Kolkata- 700016

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CHAIRMAN
RESEARCH, JOURNAL & IT COMMITTEE

CMA Avijit Goswami

EDITORIAL OFFICE

CMA Bhawan, 4th Floor, 84, Harish Mukherjee Road, Kolkata-700 025
Tel: +91 33 2454-0086/0087/0184
Fax: +91 33 2454-0063

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INSIDE COVER STORY

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TAXATION

INTERVIEW

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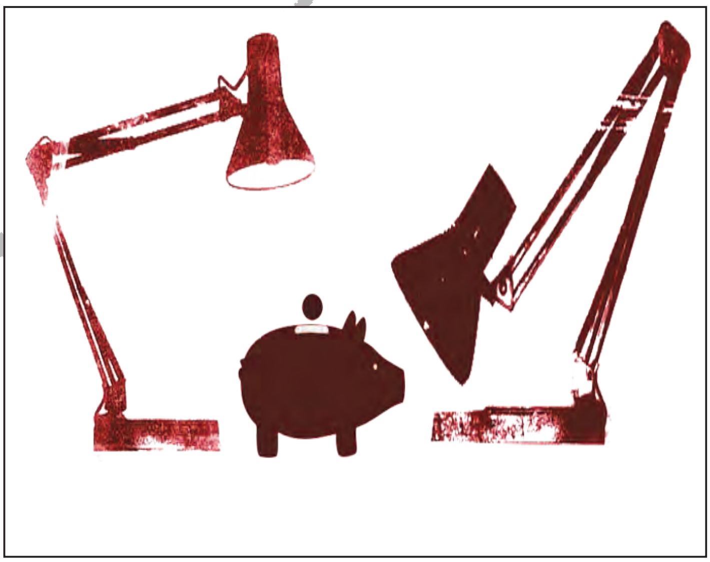
EDITORIAL

Greetings!!!

Due to changes in banking regulation, developments in technological and financial innovations, inverse interest rate structure, high volatilities on financial markets, and the severe competition between financial institutions, there is an urge of need to emphasis profitability and efficiency analysis in banking. The Banks are essentially engaged in the business of financial intermediation which involves mobilization of deposits and granting of loans and advances to the needy. While mobilization of deposits and funds require a cost in the form of interest paid on deposits and borrowings, the lending operations are the basis of income stream for the banks. The banks need to manage the size of deposits and borrowings on the side of liability management so as to commensurate with their requirement of funds to be deployed in the form of loans and advances.



This is the era of liberalization and globalization and each and every sector of the economy has to be conscious regarding their threats and risks. Banks are also exposed to cut-throat competition and have to face various types of financial and non-financial risks. There are three main categories of risks as follows:

- Credit Risk,
- Market Risk &
- Operational Risk

The safety and soundness of Indian banking is an important prerequisite for its sustainable growth. It largely depends upon the maintenance of adequate capital to cover up the inherent risk, proper matching of assets and liabilities and adequate control over excessive leverage.

Non-performing assets in the Indian banking system have increased to an all-time high during the last few years. Despite restructuring the loan portfolio remains under stress. Thus, there is need to capture stressed assets for focused attention on assets quality in banks. Due diligence process in credit evaluation, disbursement of loans and monitoring of accounts are found to be inadequate during the period of the loan. The ability of public sector banks to manage the quality of their asset portfolio has remained weak on several accounts such as poor credit appraisal and ignorance of early indicators of deterioration in asset quality. It is evident from the trend of growth in the number of stressed advances that the growth rate in stressed assets is comparatively lower in case of private and foreign banks.

Basel III introduces new capital, leverage, and liquidity standards to reinforce regulation, supervision, and risk management of the financial sector. It represents an effort to fix the gaps and lacunae in Basel II that surfaced during the financial crisis. Basel III addresses both short term liquidity risk management and long term solvency risk management through Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) respectively. It encourages banks to avail stable source of funding relative to the liquidity profile of assets including off-balance sheet commitments. Basel III framework helps to reduce risk of systematic banking crises as the enhanced capital and liquidity buffers together lead to better management of probable risk emanating due to counterparty defaults and / or liquidity stress circumstances. It also addresses all these issues with an aim to improve the ability to absorb shocks arising from financial and economic stress.

This issue also presents a good number of articles on the cover story theme 'Strengthening Indian Banking System' by distinguished experts and authors as well as interview from industry stalwart. We look forward to constructive feedback from our readers on the articles and overall development of the journal. Please send your mails at *editor@icmai.in*. We thank all the contributors to this important issue and hope our readers enjoy the articles.

"For students choosing the right career option keeping the market in mind is as much necessary as ......"

CMA P.V. Bhattad
President
The Institute of Cost Accountants of India

"Take a leap of faith and begin this New Year by believing. Believe in yourself. And believe that there is a loving Source - a Sower of Dreams - just waiting to be asked to help you make your dreams come true."
Sarah Ban Breathnach

My Dear Professional Colleagues,

Namaskar.

The New Year has arrived. This is the time to see things in new perspective. To make 2016 your year, keep it simple; Count your blessings first; Whatever you did last year, Do it better; Go step by step, One day at a time; Create/make your own opportunities; Believe in your abilities at all times; Quitting is not an option. Keep Going and Finish what you started. I am joined by my Council colleagues to wish all the stakeholders a great year ahead. May there be more happiness & joy in your life and your march towards your goals would be swift. Wishing you renewed success in 2016.

Career counselling

Choosing the right career option keeping the market in mind is as much necessary as selecting the right education institution. Unfortunately, not many students are able to discover their potential and interesthence pressure starts building. Career counselling sessions helps the students to know about different streams and career path they offer, thus the students can make an informed choice, and get a career assessment that helps avoid the risk of change in career path later in life. As we all know that our Institute also thrives on the student strength and they are the brand ambassadors of the Institute after passing out from the Institute.

I urge the members of Central Council, Regional Councils and Chapters of the Institute to come forward and take the initiative of Career Counselling. As elected representatives of the Institute they know all about the Institute and the profession so their active contribution in this regard will boosts the morale &confidence of prospective students and give them new direction which could be beneficial for the whole society. Members in Industry and in Practice also have a role to play in this regard. I urge them to contribute their bit and take active part in career counselling initiative of the Institute in best possible manner. I believe that planned career counselling will give students a clear understanding about the CMA Profession. It is imperative for us to highlight the following information during the counselling sessions before the prospective students:

- Council decision on payment of course fee in instalment to overcome the financial hardship of parents.
- Continuousplacement services provided by the Placement Cell of the Institute whereingood packages are offered to the students
- Career opportunities for practice and service are to be emphasised.

I will welcome your views and constructive suggestions in this regard.

Institute as member of Common Norms Committee of the Government

I am happy to inform that the Ministry of Skill Development and Entrepreneurship, Government of India, has included our Institute as member of Common Norms Committee to update and suitably revise the Common Norms for the Skill Development Courses being conducted by Government of India. The Chairman, CAT Committee met the representatives of CAT ROCCs from Eastern and Northern Regions on 19th&20th December 2015 to understand the progress of CAT Course and the challenges being faced by them. The deliberations from this meeting, I am sure will go a long way in expanding the Course in other parts of this country.

Professional Development Initiatives

- Keeping in view the fact that the Companies Act, 2013 has strongly emphasized on internal control system and has mandated for listed companies and some classes of companies to appoint a Cost Accountant or alike professionals as internal auditor to provide the Management and Board of Directors with an assurance on the adequacy and effectiveness of Internal Financial Controls, a seminar was organized on 'Risk Based Internal Audit' on 11thDecember 2015 at New Delhi. The seminar was well attended by large number of members from industry and in practice.
- On 18th December 2015 a meeting of the first study group on "Healthcare Sector" was organized. The agenda of the meeting was to develop the Best Costing Practices in Healthcare Industry for the benefit of industry and as well as society at large. The meeting was attended by eminent members of the institute working at top positions in healthcare sector.
- Professional Development Committee organized a programon "Governance for Sustainability- Issues, Problems and Solutions" on 21st December 2015.
- Vice-President, ICAI met Shri SanjoyMookherjee, Financial Commissioner and Secretary to Government of India Ministry of Railways during a program hosted by Metro Railways on 24thDecember, 2015.Shri Mukherjee assured that he would arrange to engage CMA professionals for study in improvement of profitability of Indian Railways through activity based costing and implementation of accrual based accounting system.

CASB Initiatives

The Cost Accounting Standards Board (CASB) in its 81stmeeting held on 23rdDecember 2015 approved the Guidance Note on Cost Accounting Standard on "Repairs and Maintenance Cost" (CAS-12) and Exposure Draftsof CAS on "Treatment of Revenue for Cost Statement" and Guidance Note on CAS 2 (Revised 2015) on "Capacity Determination" for obtaining views/ suggestions/ comments from the Stakeholders. The EDs will be hosted on the Institute website shortly. I request members and Industry to send their views / suggestions to improve these drafts.

CAASB initiatives

The Cost Auditing and Assurance Standards Board (CAASB) in its meetings held on 10thDecember and 24thDecember 2015 approved the Cost Auditing Standards (SCAs) on "Audit Evidence", "Materiality in Planning and Performing an Audit" and "Cost Auditor's Responsibility Relating to Fraud in an Audit of Cost Statements" and recommended to send it for approval of the Council of the Institute. Further, the Board also approved the Exposure Drafts (EDs) of SCAs on Using the work of Internal Auditors;Using the work of Cost Auditor's Expert;Analytical Procedures;Communication those Charged with Governance; and Communicating Deficiencies in Internal Control to those Charged with Governance and Management. These EDs will be hosted on the Institute website shortly for obtaining views / suggestions of the members and stakeholders to further improve these standards.

Continuous Placement Process

The Campus Placement program for the June 2015 final qualified students still continues beyond the dates fixed in October 2015 and many companies like WIPRO, Genpact, Infosys visited our Chennai, Delhi and Hyderabad campus for campus placement. It is heartening to know that the placement for final qualified has become a continuous process now.I convey my compliments to the Chairman,Members in Industry and Placement Committee for his active contribution.

Examinations

December 2015 term examinations for the CMA course, 1stbatch of Diploma Courses on Business Valuation, IS Audit and Control and Internal Audit were completed in all the Centres except states of Tamil Nadu and Puducherry. The rescheduled examination time table for the students of the Tamil Nadu and Puducherry states is available on the Institute website.

Welcoming new Associates and Fellows of the Institute

I am happy to inform that during the month of

December 2015, 293 associate members have been inducted while 39 associate members have been advanced to Fellowship. I congratulate & welcome all the new Associates and Fellows and urge them to come forward and contribute their bit to the growth of the Institute and Profession.

Initiatives by International Affairs Department

The WTO, International Affairs and Sustainability Committee organized a Round table discussion on Integrated Reporting in association with ACCA on 15th December 2015 at New Delhi. Mr. Richard Martin, Head of Corporate Reporting, ACCA, presented a brief presentation on Integrated Reporting. The Round Table discussion was attended by participants from various organisations. The Chairman-WTO, International Affairs and Sustainability Committee of the Institute attended the A4S 2015 Summit and meetings with the ACCA officials during 8th to 11th December 2015.

Initiatives by Tax Research Department

I had the opportunity to congratulate Shri AK Jain, IRS, Chairman - CBDT on his assuming the office along with the Chairman, Taxation Committee. Taxation Committee has successfully conducted Refresher Course on Indirect Tax and gearing for GST in Kolkata and Mumbai. I had an opportunity to interact with participantsat Mumbai during the valedictory session. The participants appreciated the program and requested to continue the efforts in future on different topics. On behalf of the Institute, the Committee presented Pre-Budget Memorandum covering its recommendations for Union Budget 2016 before the officials of Finance Ministry.

Initiatives by Research and Journal Directorate

The Institute in association with ASSOCHAM organized a seminar on 'Ease of Doing Business in Gurgaon' on 14th December 2015 at Gurgaon. Capt. Abhinanyu, Hon'ble Minister of Industries & Commerce, Government of Haryana was the chief guest of the event.

Initiatives by Regional Councils and Chapters

Northern India Regional Council of the Institute organized one day conference on "Role of CMAs in Make-In-India" on 18th December 2015 at New Delhi. Hon'ble Shri Santosh Gangwar, Union Minister of Textiles was the Chief Guest and other Members of Parliament were also present during the event. The role of CMAs in Make-In-India was deliberated by a galaxy of speakers.

Asansol chapter of the Institute organized its annual seminar on the theme "Cost Competitiveness through Leadership" on 6thDecember 2015 at Asansol.

South Odisha, Bhubaneswar & Cuttack-Jagatsinghpur-Kendarapara Chapters ofthe Institute jointly organized Two Days National Conference on the theme "CMAs'-Factor ofValue Addition in Power & Mining Sector" at Gopalpur-on-Sea, Ganjam on 12th&13thDecember 2015. The event was very important as these sectors are of paramount significance for the economy.

Durgapur Chapter of the Institute organized one day seminar on 20th December 2015 at Durgapur on the theme "Indian Economy- Emerging Global Growth Engine" to mark the Golden Jubilee celebrations of the Chapter. I congratulate the Durgapur Chapter for completing the glorious 50 years of its existence in the service of members, students, profession and the society.

57th National Cost Convention 2016

I hope to see you during the 57th National Cost Convention - 2016 to be held on 30th& 31st January 2016 at VigyanBhawan, New Delhi on the theme "Building Cost Competitiveness – Mission "Make-in-India". I request members and students of the Institute to attend the annual national event of the Institute in large numbers to show the strength of CMA profession. I also urge the regions and chapters of the Institute to publicize the national event of the Institute amongst members and industry representatives to mobilize resources and assure good participation.

I wish prosperity and happiness to members, students and their families on the occasion ofLohri, Pongal, Makar Sankranti, Bihu, Guru Gobind Singh Jayanti, Subhash Chandra Bose Jayanti, Swami Vivekanand Jayanti and Republic Day.

With warm regards,

(CMA P.V. Bhattad)
1st January 2016

CMA Avijit Goswami
Chairman - Research, Journal & IT Committee

New Year's Greetings!!!

I would like to take this opportunity to wish you and your family a very happy, prosperous, peaceful and successful new year 2016.

I express my heartfelt thanks to the President, Vice President and the Council for giving me this great opportunity to serve the Institute as Chairman of the Research, Journal and IT committee (2015-16). The Directorate is working relentlessly to meet the expectations of the members, students and other stakeholders.

Our mission is to establish this department as a premier research body in the country to raise public awareness about policy issues in business, trade, society and economy and to facilitate solutions that will contribute to national development.

Regular Publications

The following items are being published regularly by the Directorate of Research & Journal:

- The pioneering monthly journal 'The Management Accountant'
- Quarterly 'Research Bulletin'
- Quarterly E-magazine on 'Cost Competitiveness'
- Monthly CMA E-Bulletin and
- Weekly E-News Digest

To build awareness in entrepreneurship development among college students, programs have been conducted successfully at different colleges in West Bengal as a joint initiative of the Institute with National Skill Development Agency (NSDA) in support with EDI, Gujarat.

Research and allied activities

- The Directorate of Research & Journal arranged a Round Table Discussion on 'Environmental Peace for Sustainable Development' on August 12, 2015. Professor Biswajit Ganguly, Steering Committee Member, ECOSOC-United Nations, Director, International Innovation Projects, University of Toronto, Canada and Chancellor, Noble International University, USA and Professor Roger I.C. Hansell, President, Noble International University, USA and Emeritus Professor, Department of Ecology and Evolutionary Biology, University of Toronto were the Key Note speakers of the session and Swami Atmalokananda, Advaita Ashrama, Kolkata, the Chief Guest of the session discussed and clarified various shlokas in relation to world peace.

- The Directorate of Research & Journal arranged a workshop on 'Research: Basic Ingredients and Questions (Series-I)' on August 20, 2015 to encourage the young researchers as well as the seniors to enhance research interest in social science.

- The Directorate prepared knowledge report for Medical and Wellness Tourism Summit 2015 in association with PHD Chamber of Commerce and Industry (PHDCCI) on August 27, 2015 at India Habitat Centre, New Delhi.

- The Institute and ASSOCHAM organized the summit 'Ease of Doing Business: Unfinished Agenda' in New Delhi on September 15, 2015. Shri Arvind Kejriwal, Hon'ble Chief Minister, Govt. of NCT of Delhi was the chief guest. Knowledge Study Report 'Ease of Doing Business: Unfinished Agenda' prepared by the Directorate got released during the summit.

- The Directorate of the Institute arranged a Round Table Discussion on 'Financial Inclusion:

are we still far ahead' jointly organized by University of Calcutta, Calcutta Stock Exchange Centre of Excellence in Financial Markets and the Institute on September 28, 2015 at EIRC Auditorium. Shri B. Madhav Reddy, President, Calcutta Stock Exchange was the Chief Guest of the discussion.

- The Directorate and the Committee on Banking & Insurance of the Institute in association with Financial Express as media partner organized a seminar on October 1, 2015 based on the Discussion Meet 'Risk Management in BFSI' at ICAI Auditorium, Kolkata.

- On October 10, 2015 the Directorate in association with NSDA, Commerce Alumni Association of Calcutta University and EDI, Gujarat organized a National Seminar on 'Fostering Sustainability through Skill & Entrepreneurship Development' at our ICAI Auditorium where Padmabhushan Shri S. Ramadorai, Chairman, NSDA & NSDC was the chief guest of the seminar.

- Knowledge Study Report on 'Profit Reengineering: Roadmaps to Corporate Profitability Across Economy' prepared by the Directorate got released during the national summit on 'Exploring the Roadmaps to corporate profitability across Economy' on October 28, 2015 at New Delhi.

- ASSOCHAM and the Institute jointly organized a summit 'Ease of doing business in Gurgaon' on December 14, 2015 in Gurgaon. The Institute was the knowledge partner of the summit.

As a part of ongoing research and allied activities, the Directorate has also undertaken the following activities:

- The Institute successfully conducted the 'Pilot Study and Training Programme on Accounting & Auditing of SHGs' during August – September 2015 with the assistance of West Bengal State Rural Livelehoods Mission (WBSRLM). This programme were conducted by 70 CMAs (Qualified and Intermediate) as Master Trainers in 19 districts of West Bengal at 18 different venues and trained about nearly 1600 women participants to create a pool of efficient Community Auditors for SHGs.

- National Skill & Entrepreneurship Development Workshops, a joint initiative of the Institute and National Skill Development Agency (NSDA) in support with EDI, Gujarat, had been conducted successfully at different colleges in West Bengal to build awareness on entrepreneurship development among college students and hope to see these initiatives will give a boost to the opportunities for the students in near future.

In our continuous endeavour for improvement of the quality of "The Management Accountant" Journal, we are also incorporating new features and relevant cover stories of national and global importance in our journal, providing interviews of eminent industry stalwarts in respective fields and giving our best efforts to reach the unreachable through persistent value. We are in the process of building up a strong and vibrant ' International Advisory Board' for the journal. The journal is now available in eight popular e-commerce portals with a global presence in 212+ countries. Our Research & Journal activities are online through a vibrant portal *www.icmai-rnj.in* which is directly interlinked with the Institute's website.

It is heartening to announce that Directorate of Research & Journal of the Institute in association with University of Calcutta – Calcutta Stock Exchange Centre for Excellence in Financial Markets (CUCSE-CEFM and University of Calcutta) is going to organize One Week Faculty Development Programme on "Business & Financial Market Analysis" during 22 – 28 February 2016 at Kolkata for Professionals and Academicians.

I am also pleased to announce that the Institute is going to organize "National CMA Practitioners' Convention – 2016" on Sunday, 21 February 2016 at J.N. Bose Auditorium, Headquarters, Kolkata. I fervently request the members of the Institute to participate in the Convention in large numbers to make it a grand success.

We solicit your feedback, suggestions, and concerns for the overall development of the Research and Journal Directorate. Please send us mails at *research@icmai.in* and/or *journal@icmai.in* for issues relating to research and/or journal respectively.

With Warm Regards

CMA Avijit Goswami

CHAIRMAN'S COMMUNIQUE

We are pleased to inform you that the Institute is organising a **"Corporate Laws Week"** from 18th January, 2016 to 24th January, 2016. During this week we plan to organise programmes and events to have more exposure to the issues in corporate laws which will strengthen our efforts in giving our best whether we are in employment or practice.

CMA Dr. P. V. S. Jagan Mohan Rao
Chairman - Corporate Laws, Governance and Corporate Sustainability Committee

All the Regional Councils and Chapters have been requested to actively organise and participate in these week long programmes and make it a grand success.

During these seven days we plan to conduct study circle meetings and/or seminars every day on one or more subjects. Some of the topics for discussions are being published in the Management Accountant which may be used for leading the discussions. I sincerely thank our members who have kindly consented to provide talking/discussion points.

The following are some of the topics for discussions and deliberations:

- CMA – CFO – KMP
- Pre certification of forms
- IFRS
- NCLT
- Internal Audit
- FEMA

It would be highly useful if we can think of having a few hours every day deliberations during the seven days, covering all the chapters of the COMPANIES ACT, 2013 so that we can gain more knowledge on the subjects which may be followed by focussed workshops on such topics as may be identified more useful later.

Apart from these topics, meetings and seminars may be also held to cover topics on other Corporate Laws including legislations related to CLIMATE CHANGE.

For the development of our profession we need continuous liaison with the Law Makers, Regulators, Industry, Chambers of Commerce and Educational Institutions. So taking this opportunity let us also plan the following during this Corporate Laws week.

*i.*Inviting law makers and regulators as chief guests and/or guests.

ii. Inviting Industry and Corporate Leaders to participate in our programmes.

iii. Organising joint programmes with Industry associations and chambers of commerce and other institutions.

iv. Organising joint programmes with Universities, Colleges and inviting teaching faculty in the departments of Management and Commerce.

v. While interacting with educational institutions we can plan to do career counselling programmes and share our knowledge and experience on Corporate Laws with the students and faculty.

vi. We can take this opportunity of meeting our members to encourage our members to become members of Members Benevolent Fund.

vii. We can conduct Quiz Competition programmes on a subject/s in corporate laws for Members and Students.

viii. We can conduct Elocution Competition programmes on a subject/s in corporate laws for students

ix. It will be nice if we can encourage our students to take lead and organise student programmes.

*x.*It will be encouraging if we have more of our members addressing and talking on the corporate laws during the week.

Acquiring knowledge through programmes like this and compliance and adhering to the provisions of corporate laws by the professionals and business community will help make **'Make in India'** and **'Swachh Bharat"** Programmes a grand success.

Let each one of us the CMAs give ourselves a professional opportunity to serve the industry and society by actively participating in organising, encouraging and attending in this week long programmes during the "Corporate Laws Week".

As we will be meeting large number of members, students and others during this week long events, let us work together towards making our ensuing National Cost Convention a grand success.

CMA Dr. P. V. S. Jagan Mohan Rao

Internal Audit

Opportunities for CMAs

CMA Biswarup Basu
Council Member

Cost Accountants have been empowered statutorily vide Section 138(1) of the Companies Act 2013 for conduct of Internal Audit of the Companies. The internal audit landscape dominated by financial reporting, compliance related efforts is now being challenged by pressure on resources and growing demands to help improve overall business performance. Internal audit has historically been viewed as stable, traditional and beneficial but not necessarily critical for the organization. But with globalization, winds of change has also occurred in the mechanism in which Internal Audit is conducted. It must have the capability of influencing change in managing risks, costs and value. The modern role of Internal Audit has, therefore, now focused on driving value and efficiency with improvement in audits in creating, enabling, preserving and reporting value.

Presently, the role of Internal Audit has become more critical. The backdrop and changing business scenario and the role metamorphosed as technology have erased global barriers. Customer expectations have increased and compliance demands are growing both in terms of quantity and complexity. The Enterprise Risk Management is emerging as the key element in Corporate Management.

The expectations of the Board from Internal Auditors are now to assist the Board in identification, monitoring and management of business risks and also to offer and provide insight, advice and assurance on enterprise risks. The Internal Auditors should also inform directors about the tone of the organization-culture, ethics, performance and continuously evaluate the efficiency and effectiveness of operations. They should also check compliance with laws and regulations and authenticate the reliability of financial and management reporting. Internal Auditors has the added role of safeguarding the assets of the company. They should evaluate performance management and control systems and act as an advisor to the Management. The role of effective Cost Management involves in waste reduction and enhancing productivity and process improvement.

The Internal Audit must be synchronized to the expectations of the Board. It must develop an Internal audit strategy that is linked with the organization's strategic plan with a focus on optimizing risks, costs, and value. It must develop dynamic internal audit plans. The communication must be done frequently with key stakeholders on their needs, expectations, satisfaction with the internal audit. It should leverage technology to optimize audit operations and assist management in developing and maintaining a comprehensive performance management framework. It should support and facilitate business process improvement and re-engineering and provide active support in furthering good Corporate Governance.

CMAs have a colossal role to play as they have an unique blend of core competencies in accounting, management and strategy. CMAs can apply their forward looking insights across the organization to manage risks, reduce costs and create new opportunities, preserve and enhance value.

CMAs possess the expertise to evaluate the operational efficiency, productivity and profitability, wastages, losses, inefficiency. They can apply their knowhow in judging efficiency of management of resources, capacity utilization, channeling resources into productive channels, standards of efficiency of performance, production processes and performance of respective units. Efficiency of business processes, Enterprise Performance Management, Business risks, Efficiency of Supply Chains, Efficiency of Utilities / Energy Consumption, Sustainability of Business are critical drivers to keep the business focused on priority areas.

The perspective of CMAs have changed in the present era of mergers & acquisitions, new product development and also to climate change and sustainability. The financial perspective, customer perspective, operational perspective and people perspective all can be aligned to meet the goal of the business.

Implementation of International Financial Reporting Standards in India

CMA Balwinder Singh
Council Member

The Ministry of Corporate Affairs vide notification dated 16 February 2015 has issued the Companies (Indian Accounting Standards) Rules, 2015 which lay down a roadmap for companies other than insurance companies, banking companies and non-banking finance companies for implementation of Indian Accounting Standards (Ind AS) which are converged with International Financial Reporting Standards (IFRS).

The introduction of these standards is a paradigm shift that introduces several new and complex concepts, and will involve the application of significant judgement and estimates, accompanied by detailed quantitative and qualitative disclosures.

Applicability for Financial year 2016-17 and onwards:

The Ind AS are applicable to the following companies from financial year 2016-17 and onwards.

a. All companies having net worth of Rs. 500 crores or more

b. Holding, subsidiaries, joint ventures, or associates of companies covered in (a) above

Comparatives of previous year are also required to be reported

Applicability for Financial year 2017-18 and onwards:

The Ind AS are applicable to the following companies from financial year 2017-18 and onwards.

a. All Listed companies (or companies in the process of being listed)

b. Unlisted companies having net worth of Rs. 250 crores or more

c. Holding, subsidiaries, joint ventures, or associates of companies covered in (a) and (b) above.

Comparatives of previous year are also required to be reported

Exceptions

Companies whose securities are listed or in the process of listing on the Small and Medium Enterprises (SME) exchanges will not be required to apply Ind AS and can continue to comply with the existing accounting standards unless they choose otherwise.

Key Differences:

Differences in major accounting and reporting areas under Ind AS as compared to present Indian Standards is as under:

Revenue recognition

Ind AS 115, Revenue from Contracts with Customers applies to all types of contracts with customers, including sale of goods, sale of services, construction arrangements, royalty arrangements, licensing arrangements, etc. whereas, separate standard applies to each of these types of contracts under the present Indian Standards. Ind AS 115 determines when and how much revenue is to be recognised based on the principle that revenue is recognised when the entity satisfies its performance obligations and transfers control of the goods or services to its customers, as compared to the present standard which focus on transfer of risks and rewards. Other differences include recognition of Multiple deliverable arrangements (fair value of each component) and also considering of Time value of money

Property, plant and equipment/intangible assets

Ind AS 16, Property, Plant and Equipment and Ind AS 38, Intangible Assets discusses eligible borrowing costs (debt vs. Equity), Capitalisation of administrative and general overheads, Asset retirement obligation (to consider time value of money), Accounting for leases embedded in sale or service contracts, Consideration of time value of money and Indefinite useful lives for certain intangibles in addition to the requirements under the present Indian standard.

Consolidated Financial Statements

Under Indian Standard, control is assessed based on ownership of more than one-half of the voting power or control of the composition of the Board of Directors. Whereas, Ind AS 110, Consolidated Financial Statements, defines control differently, as per which an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to affect those returns through its power over the investee. There being fundamental difference in the definition of control, the entities that get consolidated will be different.

Mergers and acquisitions

Under Indian Standard, the accounting is driven by the form of the transaction, i.e. legal merger, share acquisition, business division acquisition, etc. which results in varied results based on the form of acquisition. Under Ind AS 103, Business Combinations, all business combinations are accounted for using the purchase method that considers the acquisition date fair values of all assets, liabilities and contingent liabilities acquired, except in case of acquisitions between entities under common control.

Equity and liability instruments

Under Indian Accounting, equity and liability instruments are largely based on the legal form of these instruments and also governed by legal and regulatory treatments permitted, such as utilisation of securities premium for redeeming instruments at a premium, etc. Whereas Ind AS 32, Financial Instruments: Presentation, requires that a financial instrument should be classified in accordance with the substance of the contractual agreement, rather than its legal form (substance over form). Redeemable preference shares classified as liability and related 'dividend' recognised as interest expense, Convertible bonds are split into their liability and derivative components

Other financial instruments

Under Indian scenario, there is no mandatory applicable provisions on accounting of Financial instruments. Under Ind AS 109, classification of financial assets is based on an entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. Under Ind AS 109, an entity should recognise all derivative instruments at fair value on the balance sheet. Investments to be categorised - fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) and amortised cost. Initial recognition of all financial assets and financial liabilities at fair value (security deposits, employee loans, sales tax deferral, etc.). All investments (including unquoted equity shares) generally measured at fair value at each reporting period. Loans and advances to be measured at amortised cost using effective interest rate

Recognition of adjustments from present Standards to Ind AS

The accounting policies that an entity uses in its opening Ind AS balance sheet may differ from those that it used for the same date using present Standards. The resulting adjustments arise from events and transactions before the date of transition to Ind AS. Therefore, an entity shall recognise those adjustments directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to Ind AS.

First-time Adoption of Indian Accounting Standards:

Ind AS 101, First-time Adoption of Indian Accounting Standards provide starting point for accounting in accordance with Ind AS and set out the procedures that an entity would follow when it adopts Ind AS for the first time as the basis for preparing its financial statements. Ind AS 101 has certain differences as compared to the corresponding International Financial Reporting Standard (IFRS) 1, including certain inclusion/ modification of existing exemptions.

Conclusion:

The adoption of Ind AS would entail a significant change in the financial reporting framework used by Indian companies to report their financial results. As a consequence, the reported earnings (net income) and financial position (net worth) reported by all such companies would undergo a change. Impact of this change would vary from sector to sector and company to company, with some sectors/companies being significantly impacted.

Foreign Exchange Management Act 1999

CMA Vinayaranjan P
Secretary
Vijayawada Chapter of Cost Accountants

The Foreign Exchange Management Act (FEMA) has been enacted as a part of liberalisation process initiated by Government of India. India has adverse balance of payments for quiet a long time. To regulate this the government has introduced Foreign Exchange Regulation Act (FERA) in1947 which was replaced by FERA of 1973. Later due to liberalization policy of 1991 the FERA,1973 has been replaced by FEMA,1999 to monitor the increased foreign currency transactions and foreign direct investments in various sectors of the country. Liberalization and Government's move towards Foreign direct investments (FDI) has made FEMA's objectives different from FERA's

Objective:

The objective of the FEMA emphasise foreign exchange facilitation and regulation and where as the FERA objectives emphasise the conservation and control of foreign exchange.

Applicability of the Act and RBI:

The entire act is applicable to whole of India including branches, offices outside India owned by a person being resident of India. The FEMA entrusts the responsibility of meeting the objectives of the act with Reserve Bank of India (RBI), the apex body to monitor and regulate foreign currency transactions in India. RBI has given permission to money changers, authorised dealers, off share banking units, etc. to deal with foreign currency.

Classification of Transactions and regulations:

As per the act all the foreign currency transactions are classified into capital and current account transactions and this classification is very important for foreign exchange management. The capital account transactions are those which alter the assets and liabilities including the contingent assets / liabilities and the Current account transactions are with respect to payments in connection with foreign trade, interest on loans, remittance for living expenses of parents etc. One can remit the balances under current account without much restrictions, but there are restrictions on the remittances under Capital Account. The FEMA also specifies the limits in terms of value of foreign assets a person can buy in a year (At present the limit is $ 250,000). It specifies the limits in holding the foreign currency per person (A resident Indian can hold foreign exchange not exceeding $ 2000 or equivalent in aggregate). These restrictions are only for physical possession of foreign currency by the individuals and not on the amount maintained with authorised dealers.

Present Scenario:

FEMA brought radical changes in Indian economy and its impact can be felt in every sector./ For example telecom, software, food & beverages......etc. India had attracted about $34.9 billion as FDI in 2014-15. Foreign Direct Investments are permitted in almost all the sectors, excepting few. Hope these FDIs generate more employment opportunities to the young Indians and at the same time helps India to reduce the deficit in the balance of payments.

Even though FEMA does not specify any criminal offences for violation, but one must remember that government can control and punish the offenders under Conservation of Foreign Exchange and Prevention of Smuggling Activities Act.

CMA as CFO and KMP

CMA P. Madhusudan
CMD of Vizag Steel

CMA TVS Krishna Kumar
Director (Finance) of Vizag Steel

CMA P. Mohan Rao
Advisor (Company Affairs) of RINL

With the swift changes happening across the Globe in the areas of Technology coupled with the fiscal uncertainty in the USA and Europe, fluctuating US dollar and Oil prices, sluggishness in overall demand across various sectors, rising domestic interest rates and inflationary pressures, continuous rupee depreciation, competition from China, globalization of operations and increased compliance requirements with various laws, Companies act' 2013 , SEBI guidelines etc , the role of CMA turned CFO and now a KMP of the Company has undergone tremendous change from the erstwhile traditional accountant to a new age strategist for organization's growth just as a caterpillar transformed into a butterfly.

The need of the hour is to optimize the limited resources and balance them in such a way as to ensure value addition and value creation. Of course, the peculiar conditions prevalent in the concerned Industry, the company specific problems, capacity building within the company etc. will have a greater influence in this pursuit.Today's survival of any company is dependent on the type of leadership and potential of the management team which includes the CMA turned CFO and KMP and has to reckon with factors like Competitiveness, Cost and Operational efficiency , Change in regulatory environment Market dynamics viz Supply Vs Demand scenarios, Improvements /Innovations in Technology, Compliance requirements etc.. Accordingly, from the traditional role of an accountant, the CMA has to assume a strategic role in assisting the Management for converting the daunting challenges into rewarding opportunities for the growth of the company.

The following are, inter alia, some of the talking/ discussion points:

- ❖ Paradigm shift from traditional role to strategic role
- ❖ Regulation driven role as KMP of the Company
- ❖ Challenges of Technology developments in Finance areas
- ❖ Industry specific advancements in technology and impact on Cost of capital and Cost Management.
- ❖ Value addition and Value creation by CMAs for sustainable growth of the Company
- ❖ Implementing adequate internal control mechanism for fraud prevention and Enterprise Risk Management System for mitigating various risks.
- ❖ Transparency in financial transactions and compliance with Corporate governance guidelines / requirements
- ❖ Shift from cost management to enterprise management with entrepreneurial orientation
- ❖ Managing Board room agenda – Working capital and cash management with focus on inventory management, sundry debtors and creditors management,Tax /Vat planning etc...
- ❖ Changes in corporate governance framework: Focus on involvement and engagement with the Independent directors, compliance with CSR provisions, Sustainability development issues, functioning of Board Sub Committees, Enhanced reporting requirements etc..
- ❖ Building relationships with Key stakeholders with Trust, focus on simplification of information/procedures, and faster decision making with proper delegation of powers to appropriate levels etc..
- ❖ CFO to play a participative role acting as trusted advisor in realizing the goals, objectives, mission/vision of the company
- ❖ The thrust of CFO is now to be on organizational growth with financial orientation, innovation, accountability and transparency.

NATIONAL COMPANY LAW TRIBUNAL

Great Opportunity for Cost Accountants

CMA K Narasimha Murthy
Consultant

◗ National Company Law Tribunal (NCLT) and National Company Appellate Tribunals (NCLAT) are taking birth after a long litigation. Several Commissions and High Level Committees have been suggesting formation of an NCLTs and NCLATs in order to reduce litigation before different authorities viz., CLB under Companies Act 1956, BIFR and AAIFR under Sick Industrial Companies (Special Provisions Act 1985) and High Courts which have jurisdiction and powers relating to Corporate Restructuring, Arrangement, Amalgamation and Winding up etc., in other words there will be a consolidation of Corporate Jurisdiction.

◗ There will be at least 16 Benches of NCLT, thereby providing justice at the door step

◗ The NCLT will be a statutory judicial body and it would enjoy all the powers being conferred under the Companies Act 2013. The proposed NCLT will have Judicial and Technical experts, which will ensure more concrete and precise decisions. NCLT will handle all the matters presently being handled by the CLB with much wider jurisdiction in terms of the scope of the subjects.

◗ The NCLT will also get the jurisdiction in respect of certain matters which are presently being dealt with by the BIFR, AAIFR and High Courts covering:

- Revival and Rehabilitation of Sick Companies
- Compromises, Arrangements and Amalgamations
- Reduction of Share Capital
- Winding up etc.,

◗ The Cost Accountants are authorised to represent before NCLT and NCLATs. Though the Cost Accountants with 15 years experience were made eligible to become Members of NCLTs under the Companies Act 2013, the related provision was struck off by the Supreme Court by its order 14th May 2015.

◗ Now, a vast area suddenly got opened for the Cost Accountants. They have to develop expertise in the following areas:

- Preparation of Revival Schemes for Sick Undertakings working out an acceptable package for all the Creditors and other Stake Holders
- Preparation of Schemes for Amalgamation and Arrangement of Companies
- Preparations of Schemes for Compromises between Creditors, different classes of Shareholders etc.,
- Revival Schemes for Sick Industrial Companies
- Winding up schemes ensuring equity for all the concerns

◗ The job not only requires knowledge of Finance, Accounting, number crunching and the Concerned Laws but also soft skills of Communication coupled with diplomatic handling of conflicting interests.

◗ It is advisable that the CMA Institute conducts workshops covering the following:

- Covering the provisions under Companies Act 2013 along with concerned Rules
- Accounting Standards relating to Amalgamations (covering creation and treatment of Goodwill / Capital Reserve)
- Case Laws covering Rehabilitation Schemes earlier passed by BIFR and AAIFR
- Provisions and steps involved in Winding up of Companies
- The Income Tax Act provisions regarding unabsorbed depreciation and carry forward losses.

Pre-Certification under the Companies Act, 2013

an emerging field for CMAs

CMA K P C Rao
Consultant

Pre-certification means certification of correctness of any document by a professional including CMA in Practice before the same is filed with the Registrar of Companies under the Companies Act, 2013 read with the Companies (Registration Offices and Fees) Rules, 2014. Pre-certification acts as a pre-emptive check to ensure that the particulars stated in the form or return are as per the books and records of the company and are true and correct. CMAs play an important role while pre-certifying the e-forms. The authorised signatory and the professionals, who certify e-form, are responsible for the correctness of the contents of e-forms and enclosures attached with the e-form. However, if a professional gives a false certificate or omits any material information knowingly, he is liable for punishment under the provisions of Companies Act, 2013 as well as liable for professional or other misconduct. This article is prepared to highlight the various important aspects which should engage the attention of a member in practice while certifying forms, liabilities of professionals in case of wrong pre-certification and the checklists which management of the companies and PCMA may examine before filing and certifying the e-forms.

(The complete article would appear in the subsequent issue of the journal)

News coverage of the One Day Seminar on

GST – Making One India

on 3rd January 2016 organised by the Nagpur Chapter of Institute

Contribute for nation building: Gadkari tells cost accountants

■ Business Bureau

Nitin Gadkari, Union Minister for Road Transport and Shipping addressing cost accountants' annual seminar on Sunday.,

"TODAY cost effectiveness is very important," said Nitin Gadkari, Union Minister for Road Transport and Shipping, while inaugurating annual seminar 'GST-Making One India' on Sunday organised by The Institute of Cost Accountants of India (ICAI), Nagpur Chapter. Also present on the dais were P V Bhattad, National President of ICAI, Upendra Gupta, Commissioner of GST, Government of India, S N Mahankaliwar, Secretary of WIRC, Mumbai of ICAI, S S Malhi, Director (Finance) of WCL, MSN Murthy, Director (Finance) of MECL, Mukund Choudhari, Director (Finance) of MOIL, V Madhusudana Rao, Chairman of ICAI, Nagpur Chapter, K V Kasiviswanathan, Vice-Chairman, Arun Kumar, Secretary and Girish Deshmukh, Corporator.

Gadkari continued, "China is competing with India because of its cost effectiveness. It is reducing cost of goods. To survive in international market, we must think of quality of our product and its cost effectiveness." He also elaborated that by cost reduction, his Ministry was able to book a profit of Rs 6,000 crore in this year. He also advised the cost accountants to make the system transparent and corruption free. "It is time for the country to build future prospective and cost accountants should give their contribution," Gadkari said.

V Madhusudana Rao made the welcome speech. In his address, he noted that the seminar had been organised to accelerate 'Make in India' initiative. S N Mahankaliwar said, GST regime, there would be a single undivided market and a single point taxation. MSN Murthy noted that GST was important according to logistic point of view. P V Bhattad, noted that GST was necessary for cost effectiveness and cost competitiveness which would bring all round development of industries and professionals. Renu Kulkarni, compared the programme while K V Kasiviswanathan proposed the vote of thanks.

The programme was attended by Atul Pande, President of VIA, Jayprakash Parekh, Secretary of NVCC, Sachin Punyani, Joint Secretary of NVCC and more than 170 delegates. The first technical session conducted by Atul Pande, Upendra Gupta, N P Vishwanathan. Second technical Session was conducted by T V Raman Murthy and Mrityunjay Acharjee. Speakers for third session were P Pramod, DGM of PowerGrid and Rahul Renavikar.

GST is modern way of doing business: Gupta

■ Business Bureau

IN THE present scenario, for transportation of goods from Jammu Kashmir to Kanyakumari, it takes 29 days. However, after introduction of GST, it would be possible to reach within 5 to 7 days, noted Upendra Gupta, Commissioner of GST, Government of India while delivering his keynote address at the annual seminar organised by The Institute of Cost Accountants of India, Nagpur Chapter.

"The present system limits free flow of goods, but GST attributes will be uniformed throughout the entire country. It will be full inputs tax of CGST and MGST," Gupta said. Gupta also noted that with GST there would be higher economic activities, higher demand and supply of goods which in turn would make the industry flourish. Gupta added that entire GST process would be IT based.

"The professional are required to have knowledge of IT and taxation as well. You must upgrade yourself. Without IT, we can't implement GST. Everything will be available on one portal. Information will be available to both tax authorities of inter-states. Today the activity is limited. Inventory carrying cost will be substantially reduced in GST," Gupta said.

"GST is a modern way of doing business. GST is a business reform and not a tax practice," Gupta noted. He also informed that manufacturing facility, tax exempted areas would not be there. There won't be any need to open depots because of tax policy. It would be possible to directly transfer goods from manufacturer to the user without supply chain. "GST will bring 'One India' as there will be uniformity in taxes, uniformity in policies," he said. Gupta assured that GST would be implemented for which professionals should increase their knowledge and study the developments.

'Centre of excellence for local cost accountants coming up next year'

■ By Praveen Vighre

P V Bhattad, National President of ICAI

THE Centre of excellence for The Institute of Cost Accountants of India, (ICAI), Nagpur Chapter will be fully operational by July 1, 2017, disclosed P V Bhattad, National President of The Institute of Cost Accountants of India, in an exclusive interview with *The Hitavada*, on Sunday. He was speaking at the sidelines of a one-day annual seminar on 'GST-Making One India'.

"The Centre will come at the premises of the Nagpur Chapter's building at Laxminagar and it will conduct research work for Ordnance Factory," Bhattad said. He also noted that Centre of excellence has been opened at Hyderabad and the construction works for the new centre at Mumbai was on war-footing.

The Institute would also be opening centres at places like Jaipur, Noida and Bhubaneswar.

Bhattad, who has done Cost Accountancy from Nagpur in 1978, also represented the Nagpur Chapter as student representative. He was the Vice Chairman and then Chairman of Nagpur Chapter. Bhattad was elected to the Regional Council in the year 2001. He was the Regional Council Chairman for the year 2005-6, and was elected to the Central Council in the year 2011.

He served as a Vice-Chairman for the year 2014-15. He was unanimously elected for the first time as President of ICAI in 2015-19. The ICAI at present has 68,000 members and 4.5 lakh students, with its headquarter at Kolkatta and one office at Delhi. It has 4 regional offices with 97 chapters and 9 overseas centres.

Highlighting the role of cost accountants in society, Bhattad said, "Costing is applicable in every field of life. Every industry must have a cost accountant. It is all pervasive profession in all walks of life. It is a continues process. Cost accountants provide Management Information System (IMS) for the higher management which unable them to take timely action. A cost accountant helps in maximisation of utilisation of all resources," he said.

He also noted that the demand for cost accountants had increased and companies were approaching Institute, more than 50% were selected in campus.

Courtesy - The Hitavada, Nagpur, Monday, January 4, 2016

LETTERS TO EDITOR

Dear Sir,

Article published in November issue of Management Accountant is very enlightening & informative . The author, Prof Subramanyam has brought out various facets of telecom Industry in relation to application of various Cost Reduction Techniques, considering high level of competition.
This article would become a forerunner towards development of specific tools for attaining sustainability (as already highlighted by the author under `Total cost ownership and cultural change is (read - are) the need(s) of the hour.
Let me supplement, perhaps, we are looking for cost optimization techniques as against cost reduction techniques as Revenue fluctuations have to be dovetailed to costs in a dynamic mode under various scenarios.
As a corollary, focused case studies of the organisations (including culture of the employees), establishing measurable correlation between revenue segments and operational costs, will greatly enhance the possible contributions from management accountants towards sustainability efforts for the Telecom Sector.

CMA Anand Satchit Jammalamadaka
Consultant, satchitjammalamadaka@gmail.com

Hi,

The Article named 'An Accountant's perspective on GST in India' by CMA Debnath Mukhopadhyay in September 2015 issue of 'The Management Accountant' is very useful one and the author has done simply great job in helping to understand the GST in simple terms.

The Institute should focus on such topics which are quite useful. Well done.

CMA D. Venkata Narayana
Head Finance & Director
InterfaceFLOR India Private Limited

Corrigendum

The readers may kindly note that Shri Rintu Nath (Rahul), whose article appeared on page 71 of The Management Accountant journal, December 2015 issue, is affiliated to T H K Jain College, Kolkata

Governance for Sustainability

Issues, Problems and Solutions

The Institute of Cost Accountants of India Professional Development Committee organized a programme titled "Governance for Sustainability- Issues, Problems and Solutions" on 21st December, 2015. CMA Vijender Sharma, Chairman of Professional Development Committee provided the opening speech. CMA N.K. Bhola, Regional Director (Eastern & North-Eastern Region), Ministry of Corporate Affairs was the guest of honour. The programme had sessions from experts of the industry and Government. Dr. Sudhir Misra, IPS deliberated a session in e-governance in Police. He is presently posted as Addl Director General of Police, State Crime Records Bureau, West Bengal. Further, Ms. Sushmita Ghatak, CEO of ICRA Online Ltd. deliberated about the present provisions of Companies Act, 2013 of Corporate Governance. Mohd. Kabir, General Manager (Business Administration) of Siemens Ltd. provided a session on the topic of issues, problems and solutions of governance. Finally, CMA Nilanjan Chakraborty, Senior Role Manager (Project), Capgemini presented the compliance of governance and it's impact in IT enabled environment. CMA Biswarup Basu, Council Member provided the vote of thanks for the programme.The programme was attended by members of the Institute.

THE JOURNAL FOR CMAs

THE MANAGEMENT ACCOUNTANT

THE JOURNAL FOR CMAs

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PAPERS INVITED

Cover stories on the topics given below are invited for 'The Management Accountant' for the four forthcoming months.

February 2016

Theme

Agricultural Innovation and Sustainability

Subtopics

- Agricultural entrepreneurship
- Agro-tourism
- Organic farming
- Innovation, productivity & food security
- Sustainability indicators
- Role of co-operatives
- Agricultural Value Chain Development
- Agro-producers and Supermarkets in India

March 2016

Theme

Cost Management in Pharmaceutical Industry

Subtopics

- Sustainable Cost Management in Pharmaceutical Industry
- Cost Management tool box for Competitive Advantage
- Product Life Cycle Management
- Risk Management in Pharmaceutical Industry
- Pharmaceutical Pricing Strategies
- Multidimensional role of CMAs in the Pharma Sector
- Case Study

April 2016

Theme

GST in India

Subtopics

- Impact of GST in Indian economy and its various sectors
- GST and Indirect Tax Reforms in India
- GST Model for India
- GST and the MAKE-IN-INDIA Mission
- Tax Mechanism - Levy and Chargeability
- Case study on mode of operation of GST in India
- Role of CMAs in GST

May 2016

Theme

Strategic Cost Management in Telecom sector

Subtopics

- Tariff and subsidy mechanism
- Sustainability through cost effectiveness
- PPP model
- Infrastructure issues
- FDI in telecom sector
- Govt. policies and initiatives
- Role of CMAs

The above subtopics are only suggestive and hence the articles may not be limited to them only.

Articles on the above topics are invited from readers and authors along with scanned copies of their recent passport-size photograph and scanned copy of declaration stating that the articles are their own original and have not been considered for publication anywhere else. Please send your articles by e-mail to editor@icmai.in latest by the 1st of the previous month.

Directorate of Research & Journal

The Institute of Cost Accountants of India (Statutory body under an Act of Parliament)
CMA Bhawan, 4th Floor, 84 Harish Mukherjee Road, Kolkata - 700 025, India
Board: +91-33- 2454 0086 / 87 / 0184, Tel-Fax: +91-33- 2454 0063
www.icmai.in

1: Shri Shripad Yesso Naik, Hon'ble Minister of State (I/C), for AYUSH & MoS for Health and Family Affairs, Government of India, the Chief Guest addressing the seminar on 'Financial Inclusion for Entrepreneurship & Innovation & 3rd SMEs Excellence Award - 2015' on December 10, 2015 at New Delhi. Shri UK Joshi, Director, Assocham, Shri Manguirish Pai Raiker, Co-Chairman, National Council for MSMEs, Assocham , CMA Manas Kumar Thakur, Vice President of the Institute, Shri S C Aggarwal, Chairman, Micro Finance Council, Assocham are other eminent dignitaries on the dais

2:The Institute in association with Assocham organized a summit on 'Ease of Doing Business in Gurgaon' on December 14, 2015 in Gurgaon.

From Left: Shri Ravi Wig, Senior Managing Committee Member – Assocham and Chairman, SAARC Council, Assocham, Shri Vikas Jain, President, Gurgaon Chamber of Commerce & Industry, Dr. Lalit Khaitan, Chairman, Northern Region Development Council, Assocham, Capt. Abhimanyu, Hon'ble Minister of Industries & Commerce, Government of Haryana, Shri P K Jain, Chairman, National Council for MSMEs, Assocham, Shri Umesh Aggarwal, MLA, Gurgaon Constituency, CMA Vijender Sharma, Council Member of the Institute

3: CMA P V Bhattad, President of the Institute addressing the group of representatives from Western India Regional Council and Chapters under WIRC of the Institute at the 'Regional Council and Chapters Co ordination Meet' organised at Pune on November 15, 2015.

From right: CMA L D Pawar, Chairman, Students & Members Co ordination Committee, CMA Amit Anand Apte, Council Member, CMA Niranjan Mishra, Chairman, Regional Council & Chapters Co ordination Committee and Council Member, CMA A B Nawal, Council Member, CMA Debasish Mitra, Chairman, WIRC, CMA A B Dhawale, Chairman, Pune Chapter

4:Dr P Venugopal, Member of Parliament, Thiruvallur, Dist., Tamil Nadu releasing the brochure of Regional CMA Summit – 2015 held at Visakhapatnam during Corporate Cost Management Week Programme with ICAI - SIRC dignitaries

5: Knowledge Report on 'Ease of Doing Business in Gurgaon' had been released by the eminent delegates at the summit

on 'Ease of Doing Business in Gurgaon' organized by the Institute in association with ASSOCHAM on December 14, 2015 in Gurgaon

6: CMA H Padmanabhan, Council Member of the Institute, addressing the gathering at ICAI SIRC Woman's Wing Program organized by SIRC of the Institute on 'Critical Issues in VAT and Service Tax' on December 28, 2015, Chennai. He congratulated the Woman's Wing for its 12th program since formation and wished the forthcoming International Women's Conference of ICAI all success and stressed the need to conduct the Curtain Raiser Programs in all the Regions all over the Country to ensure more Women organized purposeful programs. Mrs. Aparna Nandakumar Advocate and Tax Consultant, Chennai also addressed the audience at the program

On the dais: Advocate & Tax consultant Mrs. Aparna Nandakumar, Regional Council Member CMA Jyothi Satish, Patrons Woman's Wing, Ms. Subhashini S and Ms. Latha Venkatesh

7: CMA V Kalyanaraman, former President, ICAI and SAFA, delivering the key note address at ICAI SIRC Woman's Wing Program organized by SIRC of the Institute on 'Critical Issues in VAT and Service Tax' on December 28, 2015

8:Lighting of Lamp by Sri TVS Krishna Kumar, Director Finance of RINL on the occasion of Regional CMA Summit -2015, Visakhapatnam, November 27 and 28, 2015

9:Hyderabad Chapter of the Institute receiving the 'Best Chapter Award' for the year 2015 from CMA PV Bhattad, President. Seen on the dais are other eminent dignitaries with Council Members and Regional Council Members of the Institute

10: Release of souvenir at the Annual Seminar 2015 on the theme 'Cost Competitiveness through Leadership' organized by Asansol chapter of the Institute on December 6, 2015

On the dais from left: CMA Chinmoy Bhattacharyya, Chairman of Asansol chapter, Mr K S Patro, D(P),ECL, Mr A M Marathe, D(F), ECL,CMA P V Bhattad, President of the Institute, CMA KS Rajashekar, D(F), BCCL & CMA SP Padhi, Chairman, EIRC

11: CMA P V Bhattad, President of the Institute addressing the gathering during valedictory session at Regional CMA Summit -2015, Visakhapatnam, November 27 and 28, 2015

12: Release of Souvenir at Regional CMA Summit - 2015, Visakhapatnam, November 27 and 28, 2015

13: Release of Souvenir in the inaugural session of two days National Conference 2015 on the theme 'CMAs - Factor of Value Addition in Power and Mining Sector' jointly organized by the Bhubaneswar Chapter, South Odisha Chapter and CJK Chapter of the Institute during December 12 & 13, 2015 at Gopalpur – on - Sea, Odisha

14: CMA Jitendra Panda, CEO and MD of Peerless Securities in Investor Awareness Programme organized by the Institute held at WBSEDCL on December 10, 2015

15: Shri Sanjoy Mukherjee, Financial Commissioner of Railways felicitating CMA Manas Kumar Thakur, Vice-President at a seminar organized by Metro Railways on "Accrual Based Commercial Accounting in Indian Railways" on December 24, 2015

GMC - 2015

Globsyn Business School (GBS), eastern India's first Corporate B-school collaborated with the Institute to organize the second Globsyn Management Conference (GMC) on 18th December, 2015 at the Globsyn Knowledge Campus. The theme of this year's conference was 'The changing Business scenario and evolving Management Practices'. The conference was attended by academics, industry experts, research scholars and students from across 5 states, 13 institutions and 3 renowned corporations.

Prof. R C Bhattacharyya, Vice Chairman, Globsyn Business School declared the conference open on a celebratory note after the dignitaries present joined him in lighting the lamp. Prof. (Dr.) Subir Sen, Dean, Globsyn Business School in his inaugural address spoke about the ways in which post-liberalization India looks and behaves differently from the days of a closed economy while Prof.(Dr.) Malabika Sarkar, Principal Advisor, Ashoka University and former Vice Chancellor of Presidency University in her lecture drew attention to the fact that the digital revolution has had as great an impact on human civilization as the disruptive theories of Copernicus and Darwin. The keynote speaker of the conference, Mr. R.N Kar, Regional Director of the Reserve Bank of India, encouraged the management students present to pursue banking as a career and in his informative speech dwelled on the continuous changes taking place in the Indian banking sector since independence.

A lively panel discussion followed the keynote speaker's address and the participants included eminent personalities like Prof. (Dr.) Biju Paul Abraham, Dean (Academic) of IIM (Calcutta), Dr. Soumendra De, Professor of Finance, Menlo College (California), Prof. (Dr.) Imon Ghosh, former Director, Academy of Human Resource Development and Mrs. Suchitra Guha, former Head, HR/IR, Tata Steel Limited. This panel discussion was moderated by Prof. (Dr.) Ajitava Raychaudhuri of Jadavpur University. This session turned out to be the most invigorating with each panel member offering new insights for the eager audience to contemplate on — a hypothesis on the end of debt finance, the Japanese concept of 'Ikigai', mark to market accounting and adaptability as the distinctive attribute of the successful.

The post-lunch session of GMC turned out to be equally captivating with research papers on diverse topics presented, ranging from contemporary business issues, risk management in investment banking, modern lighting, workplace spirituality to flying drones and gender discrimination prevalent in corporate India.

GMC concluded with the valedictory address delivered by CMA Dr. Debaprosanna Nandy, Director (Research & Journal), The Institute of Cost Accountants of India, and an appreciation from all present for the efforts made by Globsyn Business School and ICAI to bridge the gap between academia and industry by providing the research community with a platform like the Globsyn Management Conference where they can exchange ideas to evolve an effective paradigm for delivering quality education.

Transmission of REPO RATE

Reserve Bank of India (RBI) is the central bank of our country and hence is also known as regulator of banking industry in India. There are following major functions which are performed by RBI.

1) Issue of bank notes
2) Banker to the Government
3) Custodian of cash reserves of commercial banks
4) Custodian of foreign currency reserves
5) Lender of last resort
6) Central clearance and accounts settlement
7) Controller of credit

Dr.J.D.Sharma
President – IOB Officers' Association
Director- Indian Overseas Bank
Senior Vice President – AIBOC

These functions are performed under several policy guidelines and are also supported by various statutes. The focus of this paper would revolve around three major functions viz., (1) Controller of Credit, (2) Lender of Last Resort and (3) Custodian of cash reserves of commercial banks.

Controller of Credit

Commercial banks are considered providers of credit money which is commonly known as loans and advances to support the sustenance and growth of economy in the country. Hence it assumes greater significance for RBI to ensure that adequate credit is made available for productive sector of economy. Extension of credit to productive sector is determined by its need, availability and cost. Apart from these three determinants, the economic policies and priorities of the Government also impact dispensation of credit by the banks. While need of credit is largely determined by the trade and industry, its availability is determined by the savings which get channelised to the banking sector. The cost of credit is largely determined by cost of funds at the disposal of the banks. The interest rates in India were regulated by RBI but with the passage of time and progress of liberalisation of regulatory and economic policies, RBI has deregulated the interest rate both on deposits and also on loans. RBI has been tweaking its policy relating to its reference rate of interest from time to time so as to ensure provision of adequate credit to the productive sector of the economy at a reasonable cost. Such reference rate is known as "REPO RATE".

Repo Rate:

Before proceeding further, it would be appropriate to understand the definition and meaning of repo rate.

"Repo Rate is the rate at which RBI lends money to commercial banks in the event of any shortfall of funds".

Repo Rate is used by monetary authorities to control inflation. In the event of inflation, RBI increases Repo Rate as this would act as a disincentive for banks to borrow from RBI. Such a measure on part of RBI would reduce the money supply at the disposal of commercial banks and consequently in the economy which will help in arresting inflation. But in the event of declining inflationary pressures, RBI takes a contrary view and reduces the Repo Rate.

The business dictionary defines Repo Rate as "the discount rate at which a central bank repurchases government securities from the commercial banks, depending on the level of money supply it decides to maintain in the country's monetary system. To temporarily expand the money supply, the central bank decreases repo rates (so that banks can swap their holdings of government securities for cash). To contract the money supply it increases the repo rates. Alternatively, the central bank decides on a desired level of money supply and lets the market determine the appropriate repo rate".

Reverse Repo Rate:

Reverse Repo Rate is the rate at which the **RBI** borrows money from commercial banks. RBI does so by sucking the liquidity from the banking system to bring down the inflationary pressures. For such borrowings, RBI is required to pay interest to the banks and such rate of interest is known as Reverse Repo Rate which is invariably lower than the Repo Rate.

An increase in reverse repo rate can prompt banks to park more funds with the RBI to earn higher returns on idle cash. It is also a tool which can be used by the RBI to drain excess money out of the banking system.

Lender of Last Resort:

There are situations when a bank may come across Asset-Liability mismatch of adverse nature whereby the resources at its disposal fall short of the demand. It creates shortage of funds or liquidity problems. In such eventualities, commercial banks approach RBI to tide over the temporary mismatch and RBI comes forward to rescue the banks by lending money at an interest. Such lending operations could be under collateralised bank lending operations or Marginal Standing Facility. Such lending operations from RBI entail a cost to commercial banks. Whenever these loans are collaterally secured, the interest charged by RBI is at Repo Rate. In case of unsecured loans under Marginal Standing Facility, the interest rate charged is higher than the Repo Rate. Since RBI is a regulator, it is obliged to come to the rescue of commercial banks to help them tide over the temporary liquidity problems and hence it is called as "lender of last resort".

Custodian of cash reserves of commercial banks:

Section 42 of RBI Act provides that every scheduled commercial bank shall maintain with RBI an average daily balance the amount of which shall not be less than the specified percentage of Net Demand and Time Liabilities (NDTL). RBI has specified four per cent of NDTL to be maintained by scheduled commercial banks as an average daily balance and such amount is known as Cash Reserve Ratio (CRR). Since RBI holds the custody of cash reserves of commercial banks, it is called "custodian of cash reserves". RBI does not pay any interest to commercial banks on CRR balances. RBI was earlier paying interest on cash reserve balances held in excess of three per cent which was statutory minimum to be maintained by commercial banks. Maintaining CRR balances with RBI is also one of the measures of maintaining liquidity of the banking system in the country. CRR is also used by RBI to release the funds to the banks as lendable resources by reducing the percentage of CRR to be maintained. The percentage of CRR is increased if RBI wants to squeeze the liquidity from the banking system.

It is thus clear that collateralised lending operations at Repo Rate and Marginal Standing Facility at Bank Rate (currently 7.75 per cent) play an important role in helping RBI maintain the required level of liquidity in the banking system. Similarly CRR is used as a measure to regulate the liquidity in the banking system.

Pricing of Loans and Advances

Benchmark Prime Lending Rate (BPLR)

A study of Repo Rate would reveal that the functions of RBI do not provide anywhere for its use to make the banks determine their lending rates based on Repo Rate. It is common knowledge that cost of funds of the banks is different from the Repo Rate at different points of time. The banks are financial intermediaries and hence in a deregulated banking environment, they need to determine the lending rates with reference to their cost of funds. RBI, as a regulator, keeps modifying the methodology of computing Bench-mark Rate by commercial banks. RBI introduced a system of Bench-mark Prime Lending Rate (BPLR) in 2003 and permitted the commercial banks to fix their lending rates for the borrowers even at a discount to BPLR. Such freedom given to banks resulted in an unhealthy completion of lending at un-remunerative prices to the undue benefit of large corporate borrowers. Such an unhealthy competition made RBI rethink about the desirability of continuing with the system of BPLR. While RBI fixed a ceiling on 'spread' to be charged by the banks above BPLR, it did not prescribe any minimum threshold Sub-BPLR rate. The objective of introducing the system of BPLR was to ensure transparency in fixing the lending rate for different categories of borrowers. It also was used as tool to assess the efficacy of the transmission of policy rate of RBI to lending rates of the banks. The freedom given to banks to determine the interest rates on loans and advances provided huge scope to the banks for arbitrarily manipulating the effective interest rates. Those borrowers who had the strength to bargain on interest rates with the banks succeeded in borrowing at as low as 6 to 7 per cent when BPLR was at 14 to 15 per cent. Such a practice also resulted in unethical and dishonest practices where interest rates were fixed for considerations other than ethical business practices. It brought to surface the dishonesty in fixing the lending rate in respect of some large corporate loans and advances and obtaining undue favour and illegal gratification.

It also led to the small borrowers cross-subsidizing the interest rates on loans to large corporate borrowers. RBI thus failed in its objective of introducing transparency in fixing lending rates but succeeded in assessing the ability and willingness of the banks to use the mechanism of BPLR in an honest and objective manner. By the time RBI realised the misuse and fallacy of system of BPLR, a long period of 7 years had passed.

It would be quite interesting to observe that RBI has been changing Repo Rate quite frequently. A perusal of the following table would reveal that the Repo Rate between 05.06.2000 and 29.09.2015 has been as low as 4.75 per cent as on 21.04.2009 and the highest being 16.00 per cent as on 09.08.2000. It is pertinent to note that the lending rates of the banks have not been so volatile during the corresponding period indicating that there is little co-relation between Repo Rate and the lending rates of the commercial banks. However there has been some semblance of stability of Repo Rate in last 10 years where the Repo Rate has been at a low of 4.75 per cent as on 21.04.2009 and a high of 9.00 per cent as on 29.07.2008 with present Repo Rate being at 6.75 per cent. The interest rates charged by the banks on their loans and advances, however, have not moved even so sharply during the corresponding periods. Such ground realities put a question mark on effectiveness of Repo Rate being considered as a reference rate to determine the ultimate lending rates of the banks on their loans and advances.

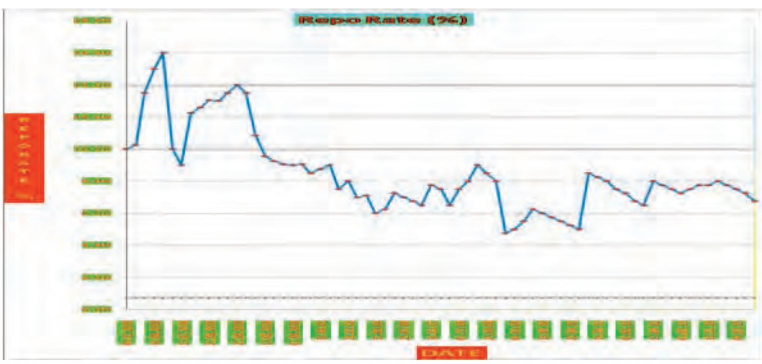
The perception amongst certain interest groups about linkages between RBI's reference rate and lending rates of the banks charged to borrowers appears to be based on a wrong premise. The following table depicts the Repo Rate between 06.11.2000 to 29.09.2015:

Table: Repo Rate (%) between 06.11.2000 and 29.09.2015

Date	Repo Rate (%)	Date	Repo Rate (%)
06.11.2000	10.00	08.12.2008	6.50
13.10.2000	10.25	03.11.2008	7.50
06.09.2000	13.50	20.10.2008	8.00
30.08.2000	15.00	29.07.2008	9.00
09.08.2000	16.00	24.06.2008	8.50
21.07.2000	10.00	11.06.2008	8.00
13.07.2000	9.00	21.04.2009	4.75
28.06.2000	12.25	04.03.2009	5.00
27.06.2000	12.60	02.01.2009	5.50
23.06.2000	13.05	02.11.2010	6.25
22.06.2000	13.00	16.09.2010	6.00
21.06.2000	13.50	27.07.2010	5.75
20.06.2000	14.00	02.07.2010	5.50
19.06.2000	13.50	20.04.2010	5.25

Date	Repo Rate (%)	Date	Repo Rate (%)
14.06.2000	10.85	19.03.2010	5.00
13.06.2000	9.55	25.10.2011	8.50
12.06.2000	9.25	16.09.2011	8.25
09.06.2000	9.05	26.07.2011	8.00
07.06.2000	9.00	16.06.2011	7.50
05.06.2000	9.05	03.05.2011	7.25
07.06.2001	8.50	17.03.2011	6.75
30.04.2001	8.75	25.01.2011	6.50
09.03.2001	9.00	17.04.2012	8.00
12.11.2002	7.50	29.01.2013	7.75
28.03.2002	8.00	19.03.2013	7.50
19.03.2003	7.00	03.05.2013	7.25
07.03.2003	7.10	20.09.2013	7.50
31.03.2004	6.00	29.10.2013	7.75
26.10.2005	6.25	18.12.2013	7.75
30.10.2006	7.25	28.01.2014	8.00
25.07.2006	7.00	15.01.2015	7.75
08.06.2006	6.75	04.03.2015	7.50
24.01.2006	6.50	02.06.2015	7.25
30.03.2007	7.75	29.09.2015	6.75
31.01.2007	7.50		

Graphical presentation of Repo Rates between 06.11.2000 and 29.09.2015



Base Rate (BR)

The shortcomings of the system of BPLR were sought to be removed by introduction of the system of Base Rate which was implemented with effect from 1st July 2010. The Base Rate (BR) included all those elements of the lending rate that were common across all categories of borrowers. These elements are –

(i) Cost of Deposits/Funds
(ii) Negative carry on CRR & SLR,
(iii) Unallocatable overhead costs and
(iv) Average return on net worth.

The banks were allowed freedom to choose any bench-mark to arrive at the BR for a specific tenor to be disclosed transparently. The freedom so afforded to the banks was considered appropriate as long as it was consistent and made available for the review and scrutiny of RBI as and when required. The banks were expected to determine the actual lending rates on loans and advances with reference to the BR and by including such other customer-specific charges as considered appropriate by the banks. The banks used the internal rating system to determine the 'spread' over the BR to fix the interest rates on loans and advances of their borrower customers. In case of large corporate clients, the external rating also influenced fixing the interest rates. RBI imposed restrictions of not charging an interest rate below the BR. However certain categories of borrowers were kept outside the purview of such restrictions as follows:

- Specified sectors of priority
- Loans to bank's own employees
- Loans against bank's own deposits
- Differential Rate of Interest (DRI) advances
- Export credit

The floating interest rates based on external bench-mark were prescribed as equal to or above the BR at the time of sanction or renewal. The hall-mark of concept of BR is that it is transparent and non-discriminatory in nature. The difference in the rates of interest could be on account of risk premium and tenor of the loan. RBI prescribed effective lending rates to be fixed by the banks as floating based on external bench-marks. RBI expected banks to conduct review of their BR at least once in a quarter and get it approved by Assets Liability Management Committee (ALCO) or Board of Directors.

RBI placed the draft guidelines on transmission of monetary policy rates to banks' lending rates in public domain for comments/suggestions. RBI was of the view that for monetary transmission to occur, lending rates have to be sensitive to the policy rates (Repo). This was a new dimension brought into play by RBI as the interest rates on bank lending were being determined on the basis of cost of funds and other components as mentioned herein before. The objective of RBI's policy rate (Repo) had been to regulate the money supply and lendable resources at the disposal of the banks particularly to deal with inflationary pressures. The banks have been using the following methods to compute BR:

- Average Cost of Funds Method
- Marginal Cost of Funds Method
- Blended Cost of Funds Method

After getting the feedback and public comments on its draft guidelines, RBI has decided to direct the banks to use Marginal Cost of Funds Method to compute their BR from 1st April 2016 onwards. This method will also have its own implications more particularly in an environment of declining interest rates on deposits. The marginal cost of funds will be much lower than the actual/ average cost of funds and hence this method would result in the banks ending up fixing lower rate of interests on their loans and advances unless they modify their system of fixing spread over the BR. At such a critical juncture where non-performing assets of banks are mounting and growing every quarter, mandating the marginal cost of funds method for computing the BR is going to be detrimental to the interest of the banks and will certainly make improvements in profitability a distant dream for the banks. This may prove to be an acid test of the regulatory wisdom of RBI. The important aspects of using Marginal Cost of Funds Method to compute BR, is found to be more sensitive to changes in the policy rates as reported to have been experienced by RBI.

The Marginal Cost of Funds Method to compute BR provides for use of cost of funds by taking into consideration all sources of funds except the equity. The cost of deposits should be calculated using the latest interest rates/card rates payable on all types of demand and term deposits of various maturities. Similarly, cost of borrowings should be arrived at using the average rate at which funds are raised in last one month preceding the date of review. Each of these rates should be weighted by the proportionate balance outstanding on the dates of review. The little role of Repo Rate in computing DR on the basis of Marginal cost of funds can be completely eliminated by not availing loans from RBI at Repo Rate during the month preceding the review of BR.

RBI expects that new methodology of computing BR would help banks in the medium term goal of pricing their floating rate loans linked to an external bench-mark. The bench-marking agency viz., Financial Bench Mark India Pvt. Ltd. (FBIL), shall publish various indices of market interest rates and banks will be encouraged to price their deposits and advances with reference to the external bench-marks published by FBIL.

Myth of transmission

There has been lot of hue and cry in the country about the commercial banks not transmitting the reduction in Repo Rate to their borrowal clients. The Government of India has been wielding undue and indirect pressure on RBI to bring down its Repo Rate so as to enable banks to transmit such reduction by lowering their Base Rate/ lending rate to the corporate clients and retail borrowers. RBI after resisting it for more than a year, ultimately succumbed to such pressure and reduced its Repo rate by 25 basis points recently on 29th September 2015. The commercial banks struggling to manage their NPAs and improving their bottom line were finding it extremely difficult to realign their BR with the reduced Repo rate. This was not without good and meritorious reasons. An objective analysis would substantiate the considered view of the commercial bankers that the prevailing economic conditions in the country did not warrant any further reduction in effective lending rates in the interest of maintaining a healthy and robust banking sector.

It would be appropriate to understand the entire gamut of relevance or otherwise of RBI's reference rate called Repo rate in the balance sheet of commercial banks. At macro level, the domestic credit of commercial banks as on 24th July 2015 aggregates to Rs.71,38,280 crores. The banks charge interest on this amount. The Repo rate is applied by RBI on the collateralized lending to the banks. Collateralized lending to the banks is given by RBI against the security of SLR securities which are in excess of the stipulated requirement of 21.75 per cent of NTDL of the banks. As against the minimum requirement of 21.75 per cent of SLR securities, the commercial banks are currently maintaining 29.8 per cent. It gives a surplus of SLR securities to the extent of 8.05 per cent. On a base of Rs.86,00,380 crores of NDTL, the surplus of SLR securities currently held by the banks amounts to Rs.6,92,331 crores. It is this value of securities which entitles the commercial banks in the country to avail up to its 50 per cent in the form of collateralized lending from RBI at Repo rate. Such loans from RBI would add to the resources of commercial banks for the purpose of further lending. On the aggregate loan portfolio of Rs.71,38,280 crores, the loan amounting to Rs.3,46,115.50 crores (50% of excess SLR securities) at Repo rate is an insignificant amount to be used by RBI to call for aligning the BR of the banks to its Repo rate. The augmentation of the resources of the banks merely by 5 per cent of aggregate loan portfolio at Repo rate which is reduced by 25 basis points (0.25%) and expecting the banks to transmit 25 basis points by reducing their lending rates on a portfolio which is 20 times of RBI's benevolence, defies logic and commercial sense. The savings to the banks by availing full eligible amount at Repo rate from RBI would come to Rs.865.29 crores while transmission of 25 basis points to the borrowers of the banks would result in reduction in the income of the banks amounting to Rs.17,845.70 crores. It exposes the wisdom of Government and RBI to mount pressure for reduction of interest rates on loans and advances when the banks themselves are starving for profits and being chided by the bureaucrats in Finance Ministry, political masters in the Government and also RBI. Such initiatives on the part of Government and RBI have significant impact on not only the profit earning capacity of the banks in the country but would also adversely impact the smooth implementation of Basel-III norms within the prescribed time frame.

Conclusion

In view of the foregoing analysis, it should have been a hard-sell for RBI to persuade the Chief Executives of commercial banks to realign their BR with Repo rate. But it was seen that the banks willingly obliged RBI and in turn the Government to doll out huge money and in many cases by the bleeding banks in public sector to dishonest and greedy large corporate borrowers in the country who have been lobbying with the Government and creating such unhealthy commercial opinion about the whole concept of non-existent linkage between Base Rate and Repo Rate. Commercial banks having freedom to determine their BR and ultimate lending rate, ought to have stuck to retaining their basics of determining BR on the basis of cost of funds. It is also pertinent that many banks who were constrained to reduce their BR are not currently borrowing from RBI as they have comfortable liquidity in their balance sheet to meet the sluggish requirement of their borrowal clients. Under such circumstances there is no justification for reduction of BR in alignment with the reduction of 25 basis points by RBI in its Repo rate. The absence of such linkage between BR and Repo rate exposes the myth of large corporates, Government, RBI and even some of the commercial bankers. MA

sharmajaideo56@gmail.com

STRESSED ASSETS IN INDIAN BANKING

CAUSES AND MEASURES

CMA Dr. Ram Jass Yadav
Vice Principal & Assistant General Manager, Baroda Apex Academy, Bank of Baroda, Ahmedabad

The Scene

Stressed assets in the Indian banking system have increased to an all-time high during the last few years. The non performing advances (NPAs) data exclude restructured assets of banks. Despite restructuring the loan portfolio remains under stress. Thus, there is need to capture stressed assets for focused attention on assets quality in banks. Due diligence process in credit evaluation, disbursement of loans and monitoring of accounts found to be inadequate during the period of the loan. The ability of public sector banks to manage the quality of their asset portfolio has remained weak on several accounts such as poor credit appraisal and ignorance of early indicators of deterioration in asset quality. It is evident from the trend of growth in the number of stressed advances that the growth rate in stressed assets is comparatively lower in case of private and foreign banks. In this background, attempt has been made to analyze the stressed assets scenario in Indian banking industry for diagnosing causes of poor assets quality and suggestion to improve assets quality in banks.

Stressed Assets – Unveil bad loans

The stressed advances are defined as gross NPAs plus restructured standard advance for the purpose of the analysis in this article. Banks' ratio of stressed assets to gross advances stood at 11.1% as of March 2015, compared with 9.2% two years ago. The public sector banks (PSBs) recorded the higher level of stressed assets at 13.5% as on March 2015 compared to 4.6% in case of private sector banks. PSBs dominates in banking industry of our country as their share in total advances remains more than 75%; however, the stressed assets of PSBs are disproportionately very high compared to private sector banks. The bank group wise analysis of growth trend in gross NPA reveals that private banks have probably addressed the issues of hiding NPA numbers because their growth is much higher in year 2014-15 as compared to PSBs. However, in case of PSBs, there has been discrepancy in NPA numbers that banks report and what the Reserve Bank of India (RBI) finds during the annual inspections.

It is often the case that a loan is kept as standard asset despite there being incipient signs of stress. RBI Governor has set March 2017 during his address on monetary policy review briefing on 1st December 2015, as the deadline to complete the unveiling and clean up exercise considering that marking significant amount of provisions at one go, would severely impact banks bottle line thus this exercise spread over six quarters.

The rise in stress is conveniently attributed by bankers and policy makers to some infrastructure projects, slowdown in global economic recovery, and continuing uncertainty in global markets leading to lower growth of credit. But, this would have been the case the higher growth in NPA should not have been happened in case of private sector banks compared to PSBs. It is rather stated by media at various levels that public sector banks continued to be under stress on account of their past lending. This trend is quite revealing that banks operating in same economic environment have different proposition of distress and this widens the area to examine the impact of governance and non-financial factors attributing higher share in stressed assets. Thus, the present article has focused on governance culture in PSBs taking non-financial factors into centre along with financial reasons of stress.

Non Performing Advances – An Analysis

The analysis of bad loans reveals that they are continuously increasing and mounting stress on the banking industry. PSBs have though top the list, the annual growth of gross NPA during last year was observed highest in private sector banks. The comparative analysis of industry as a whole and public vis-à-vis private sector banks is made as under –

a. The net non- performing advances (NNPAs) as a percentage of total net advances increased to 2.5 % in March 2015 from 1.7% in March 2013 but it remained unchanged at 2.5% as on September 2014. This ratio of net NPA of PSBs increased to 3.2% in March 2015 from 3.1% in March 2014.

b. The gross non-performing advances (GNPAs) of schedule commercial banks (SCBs) as a percentage of the total gross advances increased to 4.6% in March 2015 from 3.4% in March 2013. The state-run-banks continued to report higher ratio at 5.17% as on March 2015.

c. The annual growth in gross NPA during last year ended March 2015 has been analyzed in table -1 which reveals that growth rate was highest in case of old private banks followed by new generation private banks. It is observed that GNPAs of 26 PSBs (including 19 nationalized banks, State Bank of India (SBI) & its associates and IDBI & Bhartiya Mahila Bank) have risen by 22.71 per cent to Rs.278877 crores against Rs.227264 crores in the previous financial year. 19 nationalized banks have registered a rise of 39.85 per cent in gross NPA at Rs.1,92,275 crores against Rs.1,37,487 crores in year 2014-15. State Bank of India and its associates have reported 7.39 per cent drop in their NPAs at Rs.73,917 crores against Rs.79,816 crores. The common feature can be observed in NPA of PSBs that their growth rate has been substantially reduced from 38.19 percent to 22.71 percent with negative / improved position in case of India's largest lender i.e. SBI.

Table -1: Gross NPA of Public Sector and Private Sector Banks **(Rs in Crores)**

Banks (Figures in bracket indicates number of banks)	March 2014	March 2015	% Growth	
			2015	2014
Public Sector Banks (26)	227264	278877	22.71	38.19
Nationalized Banks(19)	137487	192275	39.85	44.37
SBI & Associates(5)	79816	73917	(7.39)	27.14
Private Sector Banks (20)	22542	33861	37.97	16.48
Old Private Banks(13)	5907	8418	42.51	13.38
New Private Sector Banks(7)	18635	24943	33.85	17.48
ICICI Bank	10506	15095	43.68	9.35

Source: IBA – Key Business Statistic

New private sector banks present a different picture. Their gross NPA has risen by 33.85 per cent to Rs.24,943 crores in 2014-15 from Rs.18,635 crores in the previous financial year. ICICI Bank in this group grew by 43.68 per cent rise in gross NPA at Rs.15,095 crores against Rs.10,506 crores, contributes to the maximum. The gross NPAs of old private sector banks shows a rise of 42.51 per cent at Rs.8418 crores against Rs.5,907 crores in 2013-14.

Private sector banks characterized with a unique trend of abnormal hike in gross NPA during the last year 2015 as compared to previous year. Gross NPA of this category grew by over two times higher than the previous year (37.97 percent in year 2015 against 16.48 percent in 2014) which leads to an inference that private banks have unveiled their hidden NPA during the year owing to regulatory change of higher provisioning norms on restructured standard assets from current year.

Causes of Stress

The stressed assets being amid concerns of the government and RBI, banks are directed to clean their balance sheet by year 2017 by implementing some major decisions. The major reasons of mounting stress on the assets quality in banks are presented herein the article.

Financial Reasons

a) Promoters Contribution

Borrowers are expected to bring their contribution towards the loan into business which enhances their keen interest to run the business successful. At times it is observed that banks are approving the loan without adequate worth and sources available with promoters for projected margin money that cause either delay implementation or failure of business for want of required margin from them. The infusion of funds by promoters are normally relied by the bankers on certificate submitted by chartered accountants that found to be fake in many occasions. In light of increasing incidents of such false certification, the Chief Vigilance Commission has asked public sector banks to put in place a system to check rising instances of fake certificate being submitted by borrowers to get loan. The Institute of Chartered Accountant of India (ICAI) has also directed by the commission to make online directory of CAs available to banks.

b) High Leverage Ratio

Leverage ratio is considered to evaluate total amount of borrowing against the equity and also to assess company's ability to service its debt. However, equity to the total amount of borrowing does not indicate ability to service its debt, thus interest coverage ratio is used and higher numbers are seen as favorable. The interest coverage ratio of 5 and above represents a strong ability to pay off debt though the threshold varies from one industry to another. The debt-equity ratio for BSE 500 companies has gone up from 0.7 per cent in 2009-10 to 0.9 per cent in 2013-14, while their interest cover - a measure of a company's ability to meet interest payments - halved to 3.6 times during this period. If one were to consider companies with a debt-equity ratio of more than 1, the interest cover would shrink to 1.8 times. Over the last six months, the debt servicing capacity of companies has only worsened, with interest cover slipping to 1.6 times; companies with a very high leverage, of more than 3, have an interest cover of less than 1, indicating that earnings are insufficient to meet interest payments. The Financial Stability Report also flags the risk highlighted by the International Monetary Fund (IMF) in its report on Asian countries, including India. Apart from the increase in overall leverage, the report talks of the uneven and potentially problematic distribution of debt. A large share of corporate debt is concentrated in a few highly leveraged companies. About a third of total debt is owned by companies with a debt-equity of more than 3. The majority of the banks consider debt (total outside liabilities) equity ratio at 4-5 which itself indicates poor repaying capacity of serving the debt. Thus, high leverage ratio causing stress on the loan portfolio of public sector banks in country.

c) End use of Money

Effective monitoring of the end use of funds lent is of critical importance in safeguarding a bank's interest. It acts as a deterrent for borrowers to misuse the credit facilities sanctioned. Also, the shortcomings, according to RBI and other external agencies including CBI, observed in credit monitoring include depositing term loan disbursements to the current/cash credit accounts of borrowers and utilization thereof for day-to-day operations. Banks relied exclusively on chartered accountants' certificates, both for infusion of promoters' contribution and deployment of banks funds. Besides, the periodical scrutiny of operating and financial statements of borrowers and regular visit of the assisted units and inspect the securities charged or hypothecated for loans are missing.

d) Willful default

A willful defaulter is one who can, but does not repay it at his wish. There are serious consequences of being listed as willful default such as not getting access to any other loans by any financial institution, and that directors are "not fit and proper" to serve on company boards. Banks are mandated to report all cases of wilful defaults, which occurred or were detected after 31st March, 1999 on a quarterly basis to RBI. It covers all NPAs with an outstanding amount of Rs.25 lacs and above identified as 'wilful default'. Also, now all banks are expected to provide a list of such defaulters on quarterly basis to CIBIL and other such agencies. PSBs bound by a common set of guidelines issued by the RBI; also dominate in the wilful default list. The present legal & banks' rule framework to deal with willful defaults, lack teeth and there are enough grey areas

e) Over / under Financing

Banks finance largely depend on the projections submitted by the prospective borrowers. Such projections being the dreamed figures of promoters need to be validated by bankers in light of the industry growth, peer competitors performance and capacity available with the borrowers. However, in large cases it comes across that projections are considered based on the mathematical calculations without comparing the same with industry and peer growth that cause excessive finance. Also in case of realistic projections falls in line with the global growth but the eligible limits are curtailed for want of collaterals which causes failure of business and stress on the borrowers to depend on other private borrowings.

Non – Financial Reasons

Besides financial reasons, there are non-financial factors which are responsible for default -

a) Due Diligence (DD)

Due diligence considered to be synonyms of compliance of banks guidelines while it is over and above the guidelines and need to be exercised prudently by each bankers. Loans are therefore poorly assessed by taking diligence exercise merely as a formality for want of written document on the subject. Banks may be compliant in their laid down guidelines but what is more required in present environment of business is to adopt 'Charter of Due Diligence' in banks which is missing.

b) Default-friendly legal system

Present framework protects actions against wilful defaulters. There is no dedicated fast-track court of handling wilful default cases and different agencies like CVC, CBI etc. prolonged the actions against such default.

c) Outsourcing the credit marketing & project evaluation – Majority of the corporate are canvassed through informal arrangement of loan arrangers such as chartered accountants, retired bankers and others, influencing banks' management and also interfering / sourcing project evaluation keeping the lenders at far-length from the borrowers.

d) Training on Credit

Massive superannuation in public sector banks resulting vacuum of matured leadership in general and specialized banking like credit in special. PSBs have inadequate training capacity in terms of physical infrastructure and employees' trainer ratio to impart minimum skill to their employees on credit appraisal and monitoring of loans particularly on tracking the fabrication in audited financial of the borrowers.

e) Security obsessed Lending

Banks are obsessed to finance against collateral which deviated center focus of appraising cash flow from business. It results poor business performance appraisal. Further, properties charged to secure banks loan are observed to be taken at higher value then their realizable value, therefore, exposure comes under stress due to very less realizable value of these properties when they are sold at time of enforcing the securities.

Suggestions

Based on the above analysis presented in the manuscript, some of the important suggestions have been emerged to manage the stressed assets which are grouped in two categories i.e. preventive and curative treatment.

A) Preventive Measures

This category includes the following treatments to prevent stress

1) Due Diligence of Loan Facilitator

It has been noticed that majority of the credit business in banks which goes over 60 percent, is mobilized through chartered accountants and other financial consultant that may even include retired bank executives having influence on staff dealing the credit at bank branches. Under this scene, it is suggested to carry out proper KYC of the loan arranger / facilitator and he must be duly authorized by the prospective borrowers and he submits his appointment letter with detailed scope of authority /mandate. Bank should keep the borrower in loop and he should be involved in all discussions / developments /progress of the loan applications.

2) Audit Confirmation

Banks largely assess the credibility of prospective clients based on the audited financial statement submitted by the borrower. However, central vigilance commission has observed that certificates taken by the banks relating infusion of funds and also balance sheets are found to be fake in large numbers. It is therefore, necessary for bankers to obtain independent confirmation from the Auditor/ Chartered Accountant of the borrowing entity and return submitted by the private limited company with MCA-21 can also be verified the authenticity of their Annual Financial Statements.

3) Marginability –

Promoters contribution which is commonly known margin towards loan is one of the important covenants of lending. Adequate margin amount and capability of promoters to bring the margin need to be fully assessed at time of credit appraisal to avoid cases of stress owing to non-availability of borrowers' contribution into business. Liquid worth in form of investment, bank and cash balance, gold and jewellary are reported to be main source of promoters contribution thus, credit managers while appraise the loan proposal, should verify independently that borrowers / guarantors have liquid worth more than the amount projected to be raised from them as contribution for loans. Such amount to be brought in through banking channel and end use certificate from chartered accountants need to be obtained before releasing sanctioned credit facilities.

4) Skill Reformation

Public sector banks are passing through the turmoil phase of superannuation of experienced bankers replaced by new recruit who require to equip with managerial efficiency, skill up gradation for proper assessment of credit worthiness and a change in the attitude towards legal action, which is traditionally viewed as a measure of the last resort. Training academies of each bank should come forward with comprehensive credit management program for new entrants for qualitative appraisal of credit business.

5) Borderline Accounts Check

The potential accounts require quick diagnosis and remedial measures so that they do not step into stressed categories. The auditors of the banking companies must monitor all outstanding accounts in respect of accounts enjoying credit limits beyond cut- off points, so that new classified categories of standard assets in class of Special Mention Account (SMA) -1 and SMA -2 can be effectively monitored to slip back in sub-standard assets.

B) Curative Measures

This category includes the following treatments to cure stress -

a) Incentivize Early Warning Signal - There is a strong need for the banking system to recognize signs of stress early and to take prompt steps towards restructuring and recovery of stressed assets. The RBI's recent "Framework for Revitalizing Distressed Assets in the Economy" proposes a few important changes – including formation of lender's committee with timelines to agree to a plan for resolution, incentives for lenders to agree collectively and quickly to a plan and a penalty in the form of accelerated provisioning in case an agreement cannot be reached, among other measures. It is an effective framework, however, it can be further strengthen and quicker if the Joint Lenders Forum (JLF) decision threshold should be revised to 60% in terms of value and 51% in terms of numbers as against the Framework's 75% by value and 60% by number at present. Further, if any lender does not cooperate or participate in the meetings, the said lender should not count in the consensus estimation, and should attract a negative supervisory view. This would reduce the problem of banks 'holding out' and speed up the process. Also the tax breaks, should be provided to borrowers / promoters that initiate rectification under the Special Mention Account (SMA) classification, as defined by the RBI, at the first signs of incipient stress.

b) Penal Provision for Non Cooperation - There should be provision of higher degree of penalties for borrowers that do not cooperate with lenders. Such penalties should drive promoters to cooperate with lenders such as (i) declaration as a willful defaulter (which will shut borrowers out of the capital markets), (ii) transfer of promoter shares to an escrow account until a turnaround takes place (which will enable a change of management) and (iii) debar the blood related family members to avail credit from any banks and / or financial institutions.

c) Effective Credit Monitoring - Banks should evolve some effective system for monitoring projects at all point of time such as pre-operational stage, through effective pre sanction and post sanction appraisal. There is need to employ technical staff at periodical intervals to visit factory sites for 'on the spot' study to obtain first hand information on the progress of the project for which bank has lent.

d) Restorative Management - Banks can proactively adopt the approach of restorative management under its various functions to cure an account from stressed categories. RBI has introduced the concept of Strategic Debt Restructuring enabling transfer of equity of borrowing company to lenders under its guidelines of revitalizing distressed assets in economy. Banks should therefore, take timely action to manage stressed portfolio.

Banks should have the unfettered ability to change ownership and management if corporate debt restructuring (CDR) fails. This would also operate as an incentive to the promoters to ensure that the CDR package is complied with. Banks should be encouraged to act as a consortium and act collectively, particularly with respect to obtaining a pledge of promoter's shareholding as security, and facilitating change in the company.

Sum - Up

Today banking industry is operating in an environment which is highly competitive due to integration of global markets. Post reform epoch has changed the whole structure of banking sector in India. The rising competition has resulted in new confronts for the Indian banks. The weakening domestic macroeconomic conditions combined with continuing subdued global growth and its increasing spillover risks posed challenges to the banking sector in recent past. The growth of the Indian banking sector restrained in recent years as there was a turn down in the growth of profits of banks, credit off-take slowed down and interest rates soften. The asset quality also weakened more detectably for public sector banks. Profitability declined on account of higher provisioning on banks' delinquent loans and lackluster credit growth and increase in their losses coupled with companies/projects are under stress. As a consequence the Indian Banking System has seen augmented stress in loan portfolio. Restructured accounts had a sharp increase during recent years. In this article an attempt has been made to analyze scene of raising NPAs and stress in loan portfolio of banks in India. The major reasons of hike in stressed assets have been explained with the suggestive measures to curtain stress in banking as preventive and curative measures. These shall help to improve health of credit portfolio of banks with appropriate credit appraisal and risk management mechanism. *MA*

ramjassyadav@rediffmail.com

BANKER & THE COMPANIES ACT 2013

'Banking' has been defined under Section 5 (b) of the Banking Regulation Act, 1949 as 'Accepting for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise, withdrawable by cheque, draft, order or otherwise"

In performing the primary functions of accepting deposits and lending money, banks come across various types of customers. One of the main types is – Limited Companies. Limited Companies open Current Accounts for their day-to-day operations. Hence, the official in charge of opening the Current Account of Company needs to have knowledge of the Companies Act 2013/Rules which he should comply with.

When we think of lending function of the bank, Companies require huge funds both for working capital and purchase of fixed assets. Corporate advances account for a major portion of bank's advances. Banks feel that advances to corporates are safe because:

Company is an Artificial Legal Person, with a Common Seal and perpetual succession

It is easy to know about the advances taken by a Company by taking a 'Search' in the books of Registrar of Companies (ROC)

Probability of double finance against the same assets is quite remote.

The charge against the security offered by the company for any advances borrowed, shall have to be registered with the ROC

The second point and the fourth point discussed above would be effective if only the bank files with the ROC (Registrar of Companies), the charges against the assets of the company which have been taken as security, within the prescribed time limit. The provisions regarding these have undergone change in the Companies Act, 2013 when compared with the earlier Companies Act, 1956.

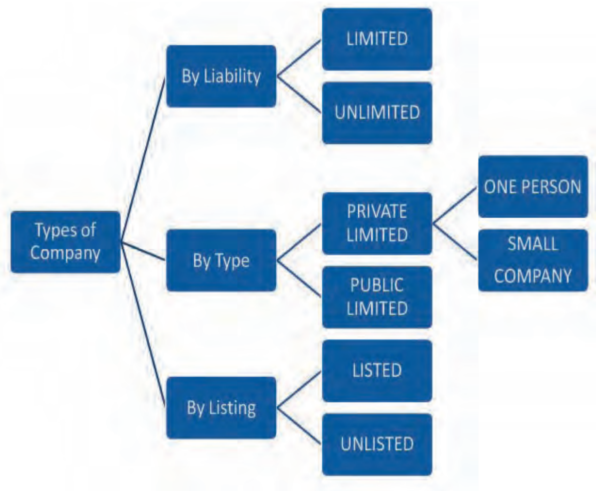
CMA S. Murali
Director, Enhance Your Competence,
Adjunct Professor, IBS, Bangalore

CMA S. Chitra
Consultant

Important Sections/Rules which would be valuable to a Banker

Sl. No.	Section	Brief Particulars	Corresponding Rules formed under Companies Act, 2013
1	2(62)	Types of Company – One Person Company in particular	Rule 3 of Companies (Incorporation) Rules, 2014
1 a	4 & 5	Memorandum and Articles	Rule Nos. 8 to 11 of Companies (Incorporation) Rules, 2014
2	8	Charitable Companies	Rule No. 19 of Companies (Incorporation) Rules, 2014
3	13 & 14	Alteration of MOA and AOA	Rule Nos. 29 to 33 of Companies (Incorporation) Rules, 2014
4	22	Execution of Bills of Exchange	---
5	33	Issue of Application Form for securities	---
6	61	Power of Limited Cos to alter its share capital	---
7	Chapter VI	Registration of Charges	Companies (Registration of Charges) Rules, 2014
8	92	Annual Return	Rule nos. 11, 12 &15 of Companies (Management and Administration) Rules, 2014
9	94	Place of Keeping and Inspection of Registers	Rule 14 of Companies (Management and Administration) Rules, 2014
10	120	Maintenance and inspection of documents in electronic form	Rule nos. 27 to 30 of Companies (Management and Administration) Rules, 2014
11	124	Unpaid Dividend account	---
12	128	Books of accounts, etc., to be kept by company	Rule Nos. 3 & 4 of Companies (Accounts) Rules, 2014
13	137	Copy of financial statement to be filed with Registrar	Rule 12 of Companies (Accounts) Rules, 2014
14	253	Determination of sickness	---
15	257	Committee of creditors	---
16	272	Petition for winding up	---
17	320	Distribution of property of company	---
18	321	Arrangement when binding on company and creditors	---

The things shown in the above table is quite exhaustive. Some of the important aspects (concentrating more on advances department of the bank) are explained below:



The New Act has introduced a new type of Company *"One Person Company'*. Hence, even a single individual can form a Company and register under the Companies Act, 2013 and enjoy 'limited liability provisions'.

Another new classification of company - 'Small Company' - has been brought under this Act.

As per Sec 2 (85). "small company" means a company, other than a public company,—

(i) paid-up share capital of which does not exceed fifty lakh rupees or such higher amount as may be prescribed which shall not be more than five crore rupees; and

(ii) turnover of which as per its last profit and loss account does not exceed two crore rupees or such higher amount as may be prescribed which shall not be more than twenty crore rupees:

Provided that nothing in this clause shall apply to—

(A) a holding company or a subsidiary company;

(B) a company registered under section 8; or

(C) a company or body corporate governed by any special Act;

Another major change is regarding the maximum number of members permitted in case of Private Limited Company – *increased from 50 to 200.*

Companies which are set up for the promotion of commerce, art, science, sports, education, research, social welfare, religion, charity, protection of environment or any such other objects, Intends to apply its profits, if any, or other income in promoting its objects and Intends to prohibit the payment of any dividend to its members are now covered under Section 8 of the Act (Earlier Sec. 25). These companies are permitted to use the name of the company without the words Limited or Private limited.

Important points to be noted in the Memorandum of Association

The Memorandum of Association of a company is its charter which contains the fundamental conditions upon which alone the company can be formed. It defines and confines the powers of the company. Any act done beyond these powers will be ultra vires the company and so void.

The Memorandum shall be in respective forms specified in Tables A, B, C, D and E in Schedule I as may be applicable to such company.

Section 4 elucidates the contents of the Memorandum as below:

Name Clause

Section 4(1)(a) The Memorandum shall state the name of the company with the last word "Limited" in the case of public limited companies or "private limited" in case of private limited company. This clause is not applicable to companies registered under section 8.

Registered office clause

Section 4(1)(b) This clause describes the State in which the Registered office of the Company will be situated.

Objects Clause

Section 4(1)(c) This defines the objects for which the company is proposed to be incorporated and any matter considered necessary in furtherance thereof.

Liability Clause

Section 4(1)(d) This clause states the nature of liability of the members- whether limited or unlimited.

Capital Clause

Section 4 (1)(e) This mentions the amount of share capital with which the company is registered and the mode of its division into shares of fixed value. If there are equity and preference shares, the division as such needs to be shown.

Salient points to be noted in the Articles of Association of the company

Articles of Association are the bye laws of the company which govern the ways in which the objects of the company are to be pursued. They contain all the information regarding the power distribution among Directors, officers, shareholders etc. However the articles must not be incoherent with the Memorandum.

The Banker has to scrutinize the Memorandum and Articles of Association of the Company before he begins the credit financing formalities.

Resolution- Ordinary or Special

A resolution passed at a General meeting can either be an ordinary resolution (votes cast in favour exceeds the votes cast against a resolution) or special resolution (votes cast in favour are not less than three times cast against a resolution.) [Section 114.]

Corporate Actions wherein special resolution is required

1. Provisions for entrenchment by a public company under section 5(3) are to be made by a special resolution.
2. When the company changes its registered office in accordance with section 12(5).
3. Save as provided in section 61, when a company has to alter the provisions of its Memorandum of Association. [Section 13(1).]
4. Change in object of a company which has raised money from public through prospectus and still has unutilized amount out of the money so raised.[Section 13(8).]
5. Alteration of Articles of Association including conversion of a private company to public or public to private subject to the provisions of the Memorandum [Section 14.]
6. When a company at any time has to vary the terms of a contract referred to or in the objects for which prospectus was issued.[Section 27(1)]
7. Issue of depository receipts in any foreign country [Section 41.]
8. Varying the rights of any class of shares [Section 48(1).]

It is also pertinent to note here that vide Companies (Amendment) Act, 2015 the use of Common Seal by a company has been made optional. The provisions regarding the 'Certificate of Commencement of Business' has been done away with, thereby Section 11 of the Companies Act , 2013 has been scrapped, making way for ease in start of business.

What is a Charge?

Section 2 (16) has defined Charge - "charge" means an interest or lien created on the property or assets of a company or any of its undertakings or both as security and includes a mortgage.

A Charge is a right of a creditor in and over the property/assets existing or coming into existence on a future date. Charge includes lien as well as equitable charge created or evidenced by an instrument in writing or by deposit of title deeds.

A charge may be a Fixed Charge or a Floating Charge.

A Fixed Charge is one which is static and is created on a definite property. Here the company can deal with such property subject to the Charge only. The company cannot dispose of such property without a specific permission from the creditor (Banker). Normally, fixed charge is created on Fixed Assets of the company like land, building, plant and machinery etc.

A Floating Charge is a charge which is dynamic. Here, the property may not be ascertainable. The property can be disposed off in the normal course of business without the permission of the creditor (Banker). The charge can be crystallized by the creditor at his option or when the company goes into liquidation or a Receiver is appointed. A Floating charge is created on inventory, receivables which form a part of working capital of a firm.

When is a Charge created?

A company registered under the Companies Act, 2013 (or earlier Acts when incorporated), can raise a loan within the ambit of its borrowing powers either for the purpose of working capital or for purchase of fixed assets (Term Loan) by creating charge on movable and/ or immovable assets of the company.

As per particulars to be filled under item 8 of CHG-1 (form for creation of charge) the following things require registration:

- Uncalled Share Capital
- Calls made but not paid
- Immovable property or any interest therein
- Movable Property (not being Pledge). Hence, Pledge continues to be exempt from registration
- Floating Charge
- Motor Vehicle (Hypothecation)
- Any property for securing the issue of secured deposits
- Goodwill
- Patent
- Any Licence under a patent
- Trademark
- Copyright
- Book debts
- Ship or any share in a Ship
- Solely of any property situated outside India
- Others (It is omnibus – The item has to be specified)

Who is responsible for registering of charge?

Sec. 77 of the Act very clearly says it shall be the duty of every company creating a charge to register the same with ROC. The instrument creating charge shall be signed by the Company and the charge holder (Creditor/Banker)

On What properties charge has to be created?

The company shall register the charge

- within or outside India
- on its property or assets
- property or assets of any of its undertakings
- whether tangible or otherwise and
- situated in or outside India

What is the Time Limit for creation of Charge?

The charge shall be registered with the Registrar of Companies within 30 days from the date of creation of charge by filing details under Form CHG-1.

Does a Company which has failed to register within 30 days, has any other remedy under the Act?

Yes. The Registrar may, on an application by the company, allow such registration to be made within a period of 300 days (30 + 270) of such creation, on payment of additional fees.

Is there any remedy for a Company if it fails to register within 300 days?

Sec.87 of the Act has dealt with this aspect. As per this Section, Central Government is vested with the authority to condone any delay beyond 300 days. Only condition is that Central Govt should be satisfied that the reasons for delay are just and equitable. (Form CHG-8)

A Caveat here: The Section also clearly says that by permitting a company to register after 300 days, the rights of any other lender shall not be prejudiced in respect of the property concerned before the charge is actually registered.

What happens to the Company/Officials if they fail to register a charge?

Sec.86 of the Act contains guidelines regarding this. As per this section, the company shall be punishable with fine which shall not be less than one lakh rupees but which may extend to ten lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to six months or with fine which shall not be less than twenty five thousand rupees but which may extend to one lakh rupees, or with both.

Does the Bank have any right to register charge if a Company fails to do within the prescribed time?

If a company fails to register the charges within the prescribed time, Bank may submit the form for registration of charge on its own. The Registrar shall give notice about such application to the company. After receipt of the notice, the company, may, itself register the charge. If it fails to register and also does not provide reasons for not filing, the Registrar shall register the charge within 14 days.

The section further gives right to the Bank to recover all charges incurred in this connection from the company (borrower).

What are the guidelines for Modification of Charge?

Same Procedure and same format as for Creation of Charge - Form CHG-1

What are the guidelines for Satisfaction of Charge?

The company shall give intimation to the Registrar of the payment or satisfaction in full of any charge within a period of thirty days from the date of such payment or satisfaction.

What are the duties of Registrar relating to registration of Charges?

1. Maintain a Register of Charges in respect of every company and enter particulars of charges registered under the Act. (Sec.81)
2. Issue a Certificate of Registration to the company and the charge holder {Sec.77(2) } (Form CHG-2)
3. Issue a Certificate of Modification of Charge (Form CHG-3)
4. Allow any person to inspect The Register of Charges on payment of prescribed fees for each inspection.
5. Registrar shall note satisfaction of charge on the company and the charge holder (Bank) submitting evidence of the same. He shall also issue a Certificate indicating that the satisfaction of charge has been noted in his register {Sec.82(2) } (CHG-5)
6. Sec. 83 provides powers to Registrar to make entries of satisfaction of and release of charge in absence of intimation from the company.
7. Under Sec.84 a Registrar is obliged to make entry in the register of charges regarding appointment of Receiver

for a Company after receipt of notice of appointment from the Receiver and payment of prescribed fee. (Form CHG-6 to be filed by the Receiver)

Provisions regarding maintenance of Register of Charges by the Company

In addition to the Register of Charges maintained by the Registrar of Companies, every company shall maintain at its registered office a Register of Charges (along with instrument of charges) giving details of the property or assets of the company or any of its undertaking which are charged for various borrowings (Form CHG-7).

The register of charges and instrument of charges, kept at the Registered Office of the company shall be open for inspection during business hours -

(a) by any member or creditor without any payment of fees; or

(b) by any other person on payment of such fees as may be prescribed

Forms to be used for Creation, Modification and Satisfaction of Charge

Form No. CHG-1 shall be used for both Creation and Modification of charge

Form No. CHG-4 for filing Satisfaction of Charge

Main Differences between Companies Act, 1956 and Companies Act, 2013 regarding Charge Creation

Sl No.	Point of Difference	Companies Act ,1956	Companies Act, 2013
1.	Sections covering Company Charges	Sec. 124 to 145	Sec. 77 to 87
2	Form for Creation, Modification of Charge	Form 8	CHG-1
3	Form for Satisfaction of Charge	Form 17	CHG-4
4	Time Limit for registration of charge	30 Days from Creation of Charge	30 Days from Creation of Charge
5	Extension of Time if failed to register within 30 days	Further 30 days (Total 60 days from date of charge) on Registrar being satisfied about the delay and payment of additional fees	Further 270 days (Total 300 days from date of charge) on Registrar being satisfied about the delay and payment of additional fees (CHG-10)
6	Any legal remedy for delay beyond 60 days (Old Act) and 300 days (New Act)	Yes. Application to Company Law Board (Sec.141)	Yes. If Central Government is satisfied the charge can be registered (Sec.87)

Filing of Annual Return and financials of the Company

Annual Return is a yearly statement required to be filed by every company irrespective of their nature or status. It highlights the information about the company's various aspects relating to its composition, activities and financial position. Every company is obligated to file its annual return in Form MGT-.7. (Section 92).

The Companies Act, 2013 **mandates** to put information in Annual Return as on the **last date of Financial Year** irrespective of information that stood on the **date of AGM.**It is also necessary for every company to file with the Registrar of Companies, a copy of the financial statement, along with the other documents, within thirty days of the date of the annual general meeting of the company.(Section 137)

Place of keeping and inspection of registers, etc.

The registers required to be kept and maintained by a company and the copies of the annual return filed under Section 92 shall be kept in the registered office of the company. It is significant to add here that Section 120 has allowed the company's records to be kept in electronic form as well.

Sickness and Rehabilitation of a Company:

Chapter XIX (Sections 253 to 269) deals with Sick Company, Revival and Rehabilitation and Determination of Sickness.

Distribution of property of company in times of winding up (Sec. 320)

Subject to the provisions of this Act as to overriding preferential payments undersection 326, the assets of a company shall, on its winding up, be applied in satisfaction of its liabilities pari passu and, subject to such application, shall, unless the articles otherwise provide, be distributed among the members according to their rights and interests in the company.

326. Overriding preferential payments

(i) Notwithstanding anything contained in this Act or any other law for the timebeing in force, in the winding up of a company,-

(a) workmen's dues; and

(b) debts due to secured creditors to the extent such debts rank under clause

(iii) of the proviso to sub-section (1) of section 325 pari passu with such dues, shall be paid in priority to all other debts:

2) The debts payable under the proviso to sub-section (1) shall be paid in full before any payment is made to secured creditors and thereafter debts payable under that sub-section shall be paid in full, unless the assets are insufficient to meet them, in which case they shall abate in equal proportions.

Conclusion:

Companies Act, 2013 has made lot of changes in the provisions governing companies in all aspects. As a Banker, we must be conversant with as many provisions as possible. However, knowledge of the provisions regarding creation, modification and satisfaction of charges on the assets charged as security for the loans is a necessity. There have been many changes in this regard in the new Act. The article would have provided the reader with a bird's eye view of the amendments. Any further details can be had by referring to the Companies Act , 2013 and the Companies Rules, 2014 which are available on the website of Ministry of Corporate Affairs. (www.mca.gov.in) MA

"Banks deal with various types of clients while opening deposit accounts and lending advances. One of the main types of customer is 'Company' form of business organisation. Knowledge of the provisions of Companies Act, 2013 and Rules there under, is a pre requisite for any official working in the Bank. The new Act has brought about drastic changes when compared with erstwhile Companies Act, 1956. This article tries to capture important provisions of the Act and the Rules. Importance has been given to the area of advances – changes in the formats for creation of charges, time limit for filing charges, etc".

smurali@ibsindia.org, chitrasreeshan@yahoo.in

Cover Story

Forensic Audit – Strengthening the Banking System

CMA Vineet Aggrawal
Consultant

Banks accept deposits in various forms and provide loans to its customers for various activities. Area of concern for the banks is to recover the amount given as loan and to maintain the vigil on the funds available with it. One of the tools available with the banks to deal with loan defaults and frauds is Forensic Audit. There are several activities that can be called as red flags and forensic audit ordered to know if fraud has actually happened. Banks can get several answers once forensic audit techniques are adopted.

The word 'Bank' brings with it two elements – Trust and Confidence. Every occurrence of fraud takes away this trust and confidence. Why this trust is shaken even though we personally might not have lost any money? It's because we doubt the systems and work culture of the bank.

Banks accept deposits in various forms and provide loans to its customers for various activities. Area of concern for the banks is to recover the amount given as loan and to maintain the vigil on the funds available with it. In simple words, banks are always vigilant on two aspects; First, to get back the amount given as loan for various activities along with agreed interest. Second, to ensure that customer funds available in their accounts and assets at all its branches across India are not siphoned off in any way.

Most of the efforts of the banks are devoted towards getting back the loan amount and when such amount could not be collected it is known/classified as Non

Performing Asset (NPA). Banks try not to let any account fall under NPA category by restructuring the loan (Commonly called as CDR). But despite all efforts, every bank has to deal with NPAs. Higher the NPAs, higher the risk associated with it. Due to high NPAs cost of funds or interest rates on lending remain high and contain some element of risk rate added in the lending rate. In other words, had there been a situation when bank had no NPA, its lending rate would have been much lower.

As per the data made available by Indian Banks Association (IBA), 27 public sector banks had the following NPA figures as on 31st March of each year:

Particulars	2013	2014	2015	% change 2013 vs 2014	% change 2014 vs 2015
Net NPAs as % of Net Advances	2.01	2.56	2.92	27	14
Net NPA(in Rs. Cr.)	89,950	1,30,360	1,59,973	45	23
Net Advances (in Rs. Cr.)	44,72,845	51,01,142	54,76,250	14	7

As per the data made available by Indian Banks Association (IBA), 20 private sector banks had the following NPA figures as on 31st March of each year:

Particulars	2013	2014	2015	% change 2013 vs 2014	% change 2014 vs 2015
Net NPAs as % of Net Advances	0.52	0.66	0.89	27	35
Net NPA (in Rs. Cr.)	5,994	8,862	13,680	48	54
Net Advances (in Rs. Cr.)	11,43,249	13,42,935	15,43,917	17	15

As per the data made available by Indian Banks Association (IBA), 43 foreign banks had the following NPA figures as on 31st March of each year:

Particulars	2013	2014	2015	% change 2013 vs 2014	% change 2014 vs 2015
Net NPAs as % of Net Advances	1.01	1.09	0.54	8	-50
Net NPA (in Rs. Cr.)	2,661	3,160	1,761	19	-44
Net Advances (in Rs. Cr.)	2,63,680	2,91,142	3,27,615	10	13

If we combine all the above data of IBA, we get the data for all banks in India at the end of each financial year:

Particulars	2013	2014	2015	% change 2013 vs 2014	% change 2014 vs 2015
Net NPAs as % of Net Advances	1.68	2.11	2.39	25.60	13.27
Net NPA (in Rs. Cr.)	98,605	1,42,382	1,75,414	44.40	23.20
Net Advances (in Rs. Cr.)	58,79,774	67,35,219	73,47,782	14.55	9.09

As can be seen, there is sharp increase in NPAs during the financial year 2013-14 and there is decline in rate of advances in next year i.e. 2014-15. Had there been no NPA, funds to the tune of 1.75 lac crores would have been circulated to new borrowers and due to low risk of loan getting bad, rate of interest would have been lower by at least the risk rate on NPA.

Above data clearly show why reducing NPAs is a most important task for any bank. NPAs happen due to various reasons which include economic and political situation, siphoning of funds, etc. While economic and political situation may not be controllable, other reasons can be controlled by adopting several measures. With the advent of computers and softwares, nowadays, information travels much faster as compared to the days in 1980s. Banks have various systems in place to provide real time information about the performance of assets through reports. Banks have to maintain and upgrade its systems regularly by itself or on advice of Reserve Bank of India (RBI).

A typical organization that takes loan from bank, siphon off the funds and later falls under NPA category (in Bank Books), covers its activities in its financial statement. Common ways in which financial statements are manipulated in such cases are:

1. Fictitious Revenue recognition
2. Premature revenue recognition
3. Deferment of expenses recognition
4. Improper valuation of assets – Inventory, Receivables, Fixed Assets, etc
5. Misclassification of assets
6. Capitalization of expenses
7. Concealment of expenses and liabilities
8. Improper disclosure of accounting policy changes, related party transactions, contingent liabilities, subsequent events

RBI which is the regulator of the banks acts by issuing various circulars and guidelines so that trust and confidence remains intact in the banks despite occasional occurrences of fraud. RBI helps banks to check the occurrences of siphoning of funds. It has taken several steps by guiding banks and seeking reports from banks in the following forms:

1. Early warning systems for distressed assets.
2. Inspection and audit guidelines.
3. Framework for dealing with loan frauds.
4. Restructuring of advances.
5. Provisioning relating to fraud accounts.
6. Reporting of frauds.
7. System for willful defaulters.

RBI has issued guidelines to the banks for classification and reporting of frauds. All Banks have to classify the frauds under following categories:

A. Misappropriation and criminal breach of trust
B. Fraudulent encashment through forged instruments, manipulation of books of account or through fictitious accounts and conversion of property
C. Unauthorised credit facilities extended for reward or for illegal gratification.
D. Negligence and cash shortages
E. Cheating and forgery
F. Irregularities in foreign exchange transactions
G. Any other type of fraud not coming under the specific heads as above.

Forensic Audit as a tool

One of the tools available with the banks to deal with NPAs and frauds is Forensic Audit. Banks have started to use this tool quite frequently nowadays. Most of the times Forensic Audit is used in post fraud situations i.e. reactive tool. But sometimes Forensic Audit is being used as preventive tool in the form of monitoring of vast data, testing such data on various parameters through computer assisted tools and taking preventive action.

For example, some banks have installed the software that can give alerts on possibility of any loan falling into the NPA category. Some banks have installed the software which can scan the large amount of data at the loan processing stage itself and inform the possibility of a loan getting bad.

Most common definition of Forensic Audit is – 'An examination and evaluation of a firm's or individual's financial information for use as evidence in court. A forensic audit can be conducted in order to prosecute a party for fraud, embezzlement or other financial claims.'

At present in India there is no well documented rule that the banks follow for appointment of forensic auditors. Some banks have empanelled the firms for such audits while most of the banks appoint the professional firm through referrals as and when the need arises.

Ordering a forensic audit is a most difficult decision for a bank. It has to decide:

a) when to order such audit,
b) which accounts or activities to be audited,
c) for which period the activities to be audited and
d) what is the likely outcome they hope to get from such audit.

Let's discuss these decisions in some detail.

Banks often gets quarterly financial and other reports from any organization to which it lends. Based on the analysis of such reports loan accounts are classified broadly as satisfactory, stressed, CDR or NPA. Any loan account falls under such categories due to various reasons and one of the reason could be siphoning of funds or frauds. Difficulty with banks is how to know with reasonable assurance which loan account is under stress due to siphoning of funds and not due to other reasons. To order the forensic audit at a stage when loan account is getting stressed or wait for some time. What is the expected quantum of fraud. Which activity of the borrower to be audited. Since scope of the audit has to be defined, banks cannot order an open audit to cover all activities of the borrower. When the suspected fraud started to take place. This helps the bank to decide the period of forensic audit. Period cannot be undefined in any assignment. Normally, period of forensic audit is taken as three years prior to suspected fraud date and three years post suspected fraud date but may differ depending on the case.

RBI has listed out some or the early warning signals that the bank official can look at in a loan account. They are:

1. Default in payment to the banks/ sundry debtors and other statutory bodies, etc., bouncing of the high value cheques
2. Raid by Income tax /sales tax/ central excise duty officials
3. Frequent change in the scope of the project to be undertaken by the borrower
4. Under insured or over insured inventory
5. Invoices devoid of TAN and other details
6. Dispute on title of the collateral securities
7. Costing of the project which is in wide variance with standard cost of installation of the project
8. Funds coming from other banks to liquidate the outstanding loan amount
9. Foreign bills remaining outstanding for a long time and tendency for bills to remain overdue
10. Onerous clause in issue of BG/LC/standby letters of credit
11. In merchandise trade, import leg not revealed to the bank
12. Request received from the borrower to postpone the inspection of the warehouse for flimsy reasons
13. Delay observed in payment of outstanding dues
14. Financing the unit located far away from the branch
15. Claims not acknowledged as debt which are of high value
16. Frequent invocation of BGs and devolvement of LCs
17. Funding of the interest by sanctioning additional facilities
18. Same collateral charged to a number of lenders
19. Concealment of certain vital documents like master agreement, insurance coverage
20. Floating front / associate companies by investing borrowed money
21. Reduction in the stake of promoter / director
22. Resignation of the key personnel and frequent changes in the management
23. Heavy cash withdrawal from loan accounts
24. Substantial increase in unbilled revenue year after year
25. Large number of transactions with inter-connected companies and large outstanding from such companies
26. Significant movements in inventory, disproportionately higher than the growth in turnover
27. Significant movements in receivables, disproportionately higher than the growth in turnover and/or increase in ageing of the receivables
28. Disproportionate increase in other current assets
29. Significant increase in working capital borrowing as percentage of turnover
30. Critical issues highlighted in the stock audit report
31. Increase in Fixed Assets, without corresponding increase in turnover (when project is implemented)
32. Increase in borrowings, despite huge cash and cash equivalents in the borrower's balance sheet
33. Liabilities appearing in ROC search report, not reported by the borrower in its annual report
34. Substantial related party transactions
35. Material discrepancies in the annual report
36. Significant inconsistencies within the annual report (between various sections)
37. Poor disclosure of materially adverse information

Banks accept deposits in various forms and provide loans to its customers for various activities. Area of concern for the banks is to recover the amount given as loan and to maintain the vigil on the funds available with it. One of the tools available with the banks to deal with loan defaults and frauds is Forensic Audit. There are several activities that can be called as red flags and forensic audit ordered to know if fraud has actually happened. Banks can get several answers once forensic audit techniques are adopted.

and no qualification by the statutory auditors

38. Frequent change in accounting period and/or accounting policies
39. Frequent request for general purpose loans
40. Movement of an account from one bank to another
41. Frequent ad hoc sanctions
42. Not routing of sales proceeds through bank
43. High value RTGS payment to unrelated parties
44. LCs issued for local trade / related party transactions
45. Non submission of original bills

Similar difficulty is faced by banks before ordering forensic audit for accounts maintained at its branches and for misappropriation of their assets. Such situation could be credit card fraud, unlawful withdrawal/transfer from a customer account, cyber attacks, theft of pledged securities/assets, etc.

Common types of frauds for which banks can order forensic audit are:

1. Unauthorised withdrawals
2. Unauthorised transfer of funds from customer accounts
3. Theft of physical assets
4. Unauthorised use of collaterals
5. Loan to non-existent borrowers
6. Loan with kickbacks
7. Pledging of collateral more than once
8. False credit information
9. Bad loan swapping
10. Reciprocal loan arrangements
11. Money Transfer (Wire) Fraud
12. ATM Fraud
13. Letter of Credit (LC) Fraud
14. Cheque Fraud
15. Credit card fraud
16. Cyber frauds
17. NPAs

Any forensic audit of fraud related cases seeks to answer following questions:

a) What happened?
b) Who did it?
c) How it was done?
d) When it happened?

A typical fraudster leaves behind some traces of fraud that may be visible immediately or over a period of time. Traces of suspected fraud (commonly known as red flags) can be found through various ways depending on the type of fraud. Financial statement frauds take much longer time to detect as compared to other frauds as financial statement frauds can be detected only after comparison of past data.

Although all forensic audit assignments are different at most of the times, techniques/procedure adopted by forensic auditors can be:

1. Obtain original documents as far as possible
2. Maintain good filing system
3. Maintain chain of custody for evidence
4. Obtain documentary evidence
5. Examine fraudulent documents and take expert opinion where necessary
6. Interview the suspects
7. Covert operation through experts wherever necessary
8. Gather information from external sources
9. Analysis of data with or without the assistance of computer/software
10. Computer forensics wherever needed
11. Locating hidden assets
12. Report writing

In any forensic audit assignment gathering data and information is the most difficult task. Major hindrance in conducting forensic audit is collection of required data or information. Requirement for information or data changes as the audit progress. Some information/data gets difficult to obtain due to resistance from those who have access to such data/information. Sometimes legal remedies have to be taken to obtain the data/information for completing the forensic audit assignment.

Since most of the data in any bank is maintained on computers and servers, knowledge of computer forensics has become important for a good forensic auditor. Forensic audit reports does not contain opinion of the forensic auditor, it is always based on facts and documentary evidence that can be scrutinized in courts. Since such report can be submitted in court and be a basis for a court case, it should be precise, conclusive and must be error free. MA

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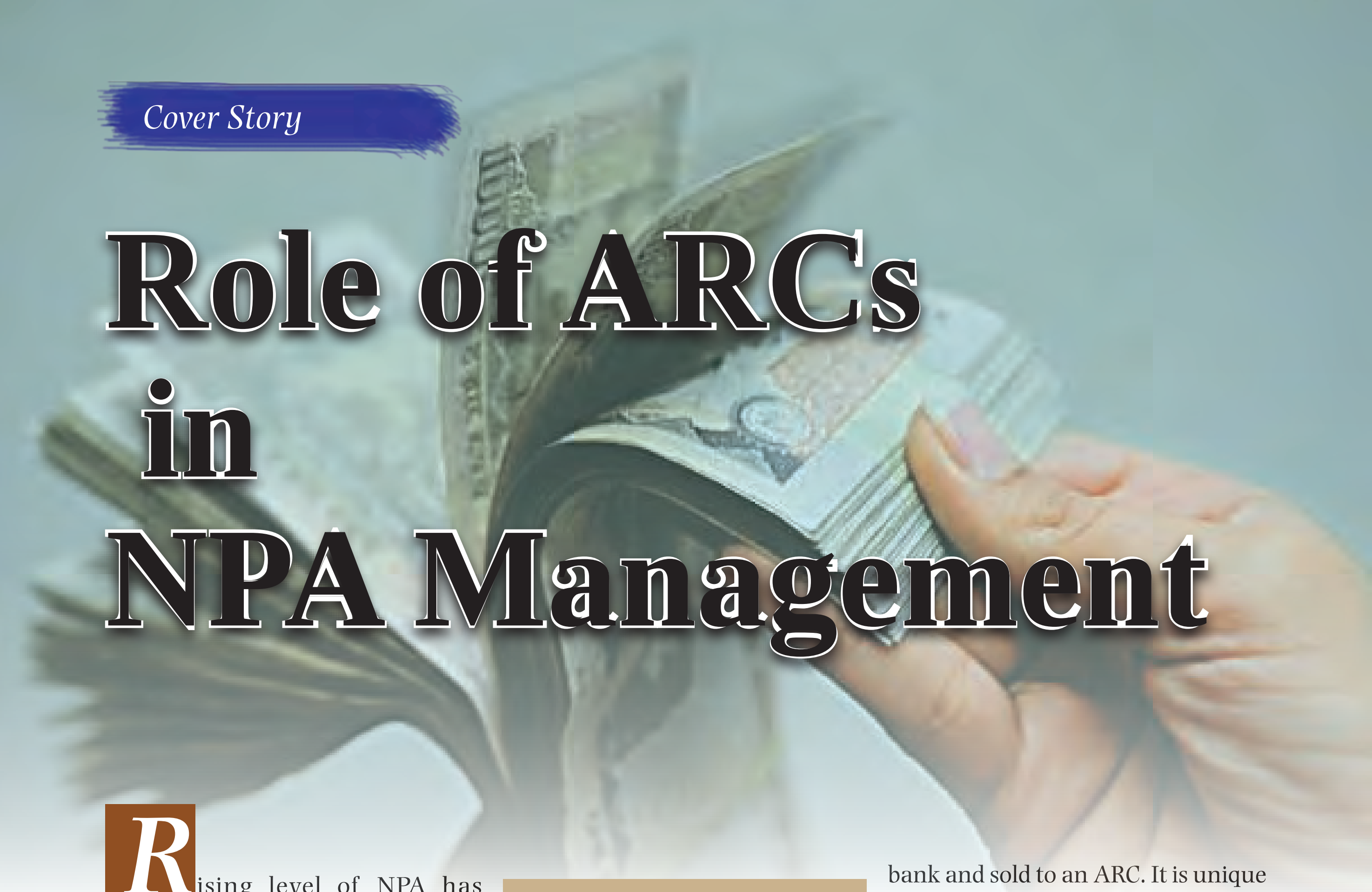
aggrawal@starifa.in



Cover Story

Role of ARCs in NPA Management

CMA Ela Sen
Senior Manager
Allahabad Bank, Kolkata

Rising level of NPA has caused an alarming situation in today's Indian banking industry. A recent estimate shows that the total *outstanding bad loans of the entire industry is now as high as around Rs 3 lakh crore and to that another Rs 4 lakh crore could be added being the value of restructured assets which RBI is no longer willing to consider as standard asset. According to credit rating agency Fitch The proportion of impaired assets may rise to 13 per cent of total advances by March 2016.*

RBI for long is exploring and experimenting with various avenues to combat the issue. Debt Recovery Tribunal was established in 1993 for speedy disposal of high value lawsuits. SARFAESI Act was passed in 2002 enabling the banks to sell assets of the borrowers without intervention of court. Simultaneously Corporate Debt Restructuring mechanism was introduced by 2001/2003 for revival of the corporate in their genuine need as well as for safety of bank funds. Banks were permitted to make out of court settlement with the borrower through compromise. Sale of loans to an Asset Reconstruction Company (ARC) is the latest venture of RBI in this regard. In this process bad loans with all associated risks and benefits are hived off from a bank and sold to an ARC. It is unique in the sense that it does not require borrower's involvement and removes the NPA from bank's balance sheet in one stroke

Global Scenario

In global terminology the companies engaged in purchase and selling of bank loans are generally referred as Asset Management Companies (AMC). These can take either of two distinct routs for resolution of loan assets, reconstruction or securitization. Reconstruction route is used for revival of viable units. The methods applied to achieve this goal are rescheduling the debts, lending additional fund, find a financier, bring change in management and/ or take control of management. For unviable units AMC undertake securitization route i.e., winding up of the defaulting company and sale of its physical assets. RBI guidelines for sale of assets by the banks are applicable to both RC and SC. In India, therefore, an ARC is entitled to perform both type of function.

In recent times AMCs worldwide have become quite a popular tool in NPA Management. Cross country experience shows that during past few decades many countries have encountered with major banking disaster when the AMCs were employed to repair the damage by taking over the bad loans of their viable but insolvent banks followed by corporate debt restructuring. During South Asian banking crisis aid of AMC were extensively taken to overcome the trouble. Similarly many European countries have developed a well functioning mechanism for sale of assets to AMC

These AMCs were mostly set up by government and their operational area and time frame is often limited. For example Resolution Trust Corporation of US (1989) was set up to take mortgage loans of insolvent savings associations and UK asset resolution (2010) took loan books of two failed building associations. Three AMC of china and two of Slovenia were created to transfer non performing loans of their State Owned Enterprises. SAREB of Spain (2012), NAMA of Ireland (2009) or MARK of Hungary (2015) purchased real estate loan of their banks that turned bad due to systemic failure.

Various studies indicate that although during crisis AMC can be a useful tool to restore the health of the banks their effectiveness in final resolution of loan assets is yet to be ascertained. Empirical studies show that only a few AMCs had so far been successful in corporate restructuring. Also these AMCs had to deal with real estate assets only which were more liquid in nature. In case of manufacturing industry the job is much harder as it is associated with many technological and labour issues. Performance of AMC-s in disposal of assets through securitization is somewhat better. But even then the process is often hindered by political interference, weak legal infrastructure and other social factors. Moreover, while resolution of the loans that turned bad due to a systemic failure is rather achievable, those became bad due to political motivation, bad lending practice or corporate fraud can hardly be resolved.

ARCs in India

Business of ARC was made permissible in India after SARFAESI Act 2002 came into force. Section (3) of the said Act permits formation of companies for carrying out securitization business. All ARCs in India registered are registered under section (3) of the said Act and are treated as NBFC. These are supervised by RBI under the provision of RBI Act, 1934. However, due to very nature of the assets acquired by them certain exemption regarding capital requirement, provisioning norms etc. are allowed to them.

ARC model in India is a little different from the commonly perceived global model. In India no systemic crisis has occurred yet and none of its banks are in the verge of collapse. Here ARCs act not as a savior of banks but as a commercial entity owned by non government agencies which work on continuing basis and earn profit. They, in course of their business, make recovery from non performing loan assets generated out of normal banking operation and try to maximize the value of recovery for their own benefit.

At present there are more than a dozen of ARCs in India. All these are large corporate bodies sponsored by different banks, FI, or big business houses. ARCIL, ASREC Reliance Capital, Edelweiss are few among them. No foreign institution has yet been permitted to enter the field.

The sale process

RBI has laid down specific guidelines for the Banks and ARCs for sale of loan assets.

Banks can sell only those loan which are non performing in its book. Sale of standard assets permitted in those cases where the loan is under consortium lending and 75% of aggregate loan as well as 75% of consortium member has declared the loan as non performing.

Before initiating a sale Banks are first required to identify the assets which can be sold. The asset may be single loan or a basket of loans. The basket approach helps the Bank to get rid of those assets which otherwise will be difficult to sell.

Next, the banks fix reserve price for each of loan assets. Reserve price is fixed after taking into consideration various factors such as actual realizable value of underlying security attached to the loan, both primary and collateral, age of the NPA, business condition, value of personal assets of the promoters and guarantors, legal position of banks in recovery process, general industry scenario etc.

Fixation of reserve price is required by the banks in case of other recovery process as well such as SARFAESI sale, compromise settlement etc. using almost same criteria. In recognition to the time and effort saved by the bank in sale to ARC an additional discount factor is taken into account.

Deals are finalized through public auction to ensure transparency in the process. RBI has recently made it mandatory for the Banks to accept Bid Price which is above reserve price and fulfils all other criteria. Once the negotiation is complete, MOU is signed the sale process is starts.

As per prevailing practice ARC purchases a loan asset from Banks through a trust formed specifically for this purpose where the parent ARC acts as a trust manager. Purchase consideration is raised through the Trust, 15%

of which is paid by the ARC itself as upfront fee (increased from initial 5%). The balance is raised by issuing Security Receipts (SR) to Qualified Institutional Buyer (QIB) who wants to invest in the trust. Generally the lender Bank opts to be the QIB and becomes holder of the SR. SRs are backed by the value of the charged assets and are redeemable after six years that can be extended up to eight years.

The difference between the sale price (cash component plus value of SR) and net book value of loan assets (book value less provision) is carried to the profit and loss account of the bank. In case of loss it has to write off the entire amount while in case of profit the excess amount has to be transferred to the provision reserve for being adjusted in future against loss in other sale transaction

SRs are shown in balance sheet of the banks under the category of non SLR investment as an exposure to the ARC. The valuation is done on the basis of NAV (net asset value). for arriving at NAV SRs are to be mandatorily rated by an approved rating agency every year.

The business being new, initially RBI took a cautious approach. As the ARCs has now established their role many relaxation has been gradually made to provide a level playing field for them. Accordingly:

ARCs are now allowed to join CDR or JLF as financier with the equal status of a bank

Internal sale between ARCs are now permitted for aggregation of assets to take control of management

ARCs can now purchase NPAs from their sponsor banks.

Buy back of assets by the original borrower is allowed

Redemption period for SRs can now be extended beyond eight years

Banks are now permitted to spread their loss in sale in more than one year as an incentive for sale.

Related Issue

In spite of encouragement by RBI to promote the growth of the business of ARCs the sale of NPA by the bank is yet to be picking up. Many related issues are yet to be resolved.

The difference between bid price offered by the ARCs and reserve price fixed by the banks is causing a hindrance to finalize the deal when each party accusing the other for unrealistic offer. Many auction has thus been failed.

Still today most bankers consider sale of NPAs as the last recourse, primary responsibility of recovery being its own and thus delay the initiation of sale. This often results in deterioration of value of security.

Bank's reluctance to sale of loans also comes from their emotional attachment with the borrowers

Although RBI stipulates that after sale of assts the banks should have no further liability for that particular loan of a company, it has not clarified the treatment for any contingent liability like bank guarantee or letter of credit issued by the banks on behalf of the company which often turns out to be a funded liability in a future date but cannot be sold to an ARC as per extant guidelines.

Last but not the least is the uncertainty over actual value of recovery made and ARC's commitment towards payment except the cash component. Although redemption of SR-s is supposed to be unconditional by the ARCs but in reality its payments are restricted to the value realized from that particular loan assets only and not beyond that. Due to the equity nature of SRs, in case of failure of ARCs to resolve the loan within the agreed time, the bank as the holders of SRs has to bear the loss. In such cases a sale of assets would be tantamount to nothing but extending the period of write off.

Conclusion

Recovery of NPAs is a special technique requiring expertise knowledge and consumes much time and effort. ARC with their sound financial base and skilled resource pool could provide a good solution. Sale of NPL to ARC would help the banks to clean their balance sheet, improve their market value, lower cost of fund and to focus on their core business. However survival of the business depends on its ability to resolve the loans in a meaningful way and recycle the fund entrapped in it. It is necessary that ARC not merely play the role of an agent to bail out the banks by deferring losses but becomes truly involved in the business on risk and return basis. Simultaneously it is essential to built up a proper legal infrastructure in the country paving the way for bankruptcy, foreclosure law. Also excessive political interference often creates obstacles in smooth recovery.. ARCs has the potential to push forth necessary changes and it is expected that they will use it. MA

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ela_sen19311@yahoo.com

QUALITY OF LENDING VS. CREDIT RISK

Realizing a good quality product in the market (whether it is a physical or service product) gives benefits to both organization as well as their customers. "Quality Control" means a process through which a business seeks to ensure that product or service quality is maintained or improved and errors are reduced or eliminated. Quality control requires the business to create an environment in which both management and employees strive for perfection. This is done by training personnel, creating benchmarks for quality, and testing products or services to check for statistically significant variations.

CMA Dr. P. Siva Rama Prasad
Retd. AGM of State Bank of India
Hyderabad

Bank is a financial institution that undertakes the banking activity i.e., it accepts deposits and then lends the same to earn profit. Lending or extending credit to needy persons is a major bank product.

'Quality of Credit' and 'Credit Risk' is interrelated. Credit Risk is inversely proportionate to Quality of lending. Credit Risk will decrease, if Quality of lending increases and vice versa. Due to poor quality of lending, banking industry is suffering with huge Non-performing Assets (NPAs). Thereby higher provisions for NPAs, lower profits, additional capital to maintain CRAR and decrease in rating of the bank etc are the side effects of poor quality of credit or lending.

Prerequisites for a good Quality Lending are

Scrutiny of Credit Proposal:

Scrutiny of proposals submits by prospective borrowers for credit is the first step in Credit Management Process. Whether to lend or not to lend depends on 'quality scrutiny' of the credit proposal. Banker has to verify the authenticity of important credit information provided by the applicant in proposal form. Banker has thoroughly scrutinizes the credit proposal, thereby it increases quality of lending. Casual approach in first stage of scrutiny of proposal in credit management process will dilute the quality of lending.

Essentials of a Good Proposal:

Application for credit should be as simple as possible and should contain vital information of proposed loan. Proposal should contain the following important information:

- ❖ Brief information about applicant or promoter.
- ❖ Purpose and quantum of Loan.
- ❖ Particulars of project or proposed activity.
- ❖ Applicant's / Promoter's experience in the Line of Activity.
- ❖ Stake or margin amount in the proposed loan or project.
- ❖ Collateral securities to be offered for the proposed loan.
- ❖ Success Rate in earlier business (if any).
- ❖ Existing borrowing particulars (from other banks and financial institutions).
- ❖ Supply and Demand gap of activity for the proposed loan in the market.
- ❖ Economic viability and Technical feasibility of the proposed project.

Banker has to study and understand the above particulars in detail by collecting relevant information from other sources or through interview with the applicant to arrive a conclusion on authenticity of data and information provided by applicant for the proposed loan. The banker should not give any scope for wrong data, partial data, and partial answers through interview with the applicant and he should fully satisfy the correctness of information submitted by the applicant.

Skills of the Appraiser

One of the important factors in increase credit risk is lack of appraisal skills of operating staff in lending function of the bank. After receiving the proposal, the next step is appraisal of loan as per the credit norms defined by the bank. Due to wrong appraisals some of the loans are turn into NPAs. Excess funding or shortage of lending amount will lead either misappropriation of funds or lack of finance for the proposed venture. Hence, good credit appraisal increases the quality of lending in credit function. Hence, banks should take more pre-cautions measures while selecting officials for credit function and trained them in credit management.

How to improve Appraisal Skills?

Study of credit proposal is an art as well as science. After thorough appraisal, appraiser will arrive a conclusion i.e., to accept or reject a credit proposal. This second import stage in credit management requires intelligence and good knowledge in credit management. Following are the critical areas in arriving conclusions on proposed loan to the applicant.

- ❖ Strengths of the proposal.
- ❖ Suitability of bank credit product to the applicant.
- ❖ Future prospects of the business activity / income or surplus generation.
- ❖ Access exact credit requirements of proposed activity.
- ❖ Margins, collaterals offered by the applicant.
- ❖ Valuation of collaterals and rating of the unit based on financials.
- ❖ Judgment on information provided by applicant.
- ❖ Information provided by the applicant in interview and its authenticity.

While doing the appraisal part, bank should avoid mediators and direct interaction with the prospective borrower throughout the lending process gives good results both to the bank as well as to the prospective borrower / promoter. To improve appraisal skills of credit department officials, banks should provide training or workshops on a continuous basis.

Important aspect of credit assessment:

a) Credentials of the Promoters / Individuals:

Determine the character of the prospective borrower is big challenge in the lending process. If the character is good, then 20% of the quality of advance is assured and willful defaulter's percentage will reduce. Here, character means when he enjoys a loan from the bank, his primary responsibility is to utilize the loan for the purpose he applied and repay the loan as per the terms and conditions of the loan. Hence, while appraising loan proposals, bank should thoroughly verify the loans taken from other banks by the applicant and his credit worthiness. To check this aspect, CIBIL report is one of the important tools and collects or enquires to get market information about the borrower. Due to freely availability of finance from different sources in the financial market, applicants are borrowing amounts from different sources / banks. And some of them are not repay the existing loans and are applying fresh loans from other banks.

This aspect should be cross checked by the bank in an intelligent way in addition to the various sources available in this regard.

b) Projections or Estimations:

Projections of sales and revenues in case of business organizations and projected income in case of individuals are to be thoroughly checked by credit officials. Over projections or estimates lead to wrong credit appraisal. Thereby account turn into bad.

For example, industry growth rate of a particular product is 5% average on year-on-year basis. But prospective borrowers who apply for a loan of same product will mention 40% to 50% projections. These areas are to be scrutinized by the Bank with authentic data available in the market. Otherwise excess finance leads to misappropriation of funds and at a later date it is difficult for the bank to recovery loan.

c) Availability of Collaterals and Margins:

Collaterals for the proposed finance by the bank are very important in fixing responsibility to repay the loan by the borrower and to create an interest to involve in the proposed line of activity. Collaterals are useful to the bank to recover the dues in case of default or failure of the business or loan. Accurate valuation of the collaterals is another area to reduce the credit risk of lending process. Valuation of collaterals should be on present value and under the circumstance of forced sale and not the future appreciation value etc. Forced sale value is different from present value. In forced sale, the banker may not get even the present value of the property due to lack bidders and demand etc.

A margin of the proposed loan is another important area in mitigating the credit risk. Higher borrower's stake or margin in the project, lowers credit risk and vice versa. 100% bank financed in certain projects is always dangerous due to borrower's contribution is zero in the activity. Margins are useful in case of fluctuations in collateral security and also in case forced sale of primary security.

d) Credit Rating:

The rating of Business firms depends upon the strength of balance sheet or financial statements, future growth of business, surplus generate from business operations, timely repayment of loans enjoyed by them earlier and also the experience and charter of the promoters or borrowers. Higher Credit Rating is a 'Extra Collateral Security' to the Bank. In case of individuals, the rating is depending on the annual income and net income, existing savings, financial obligations etc., In case of individuals banks are normally obtain Form 16 to arrive the income levels of individual. As borrowings are not reflected in IT Returns and personal finance from private lenders are not reflected in CIBIL report, the bankers should verify the flow pattern of credits and debits in savings bank account or current account statements to cross check the multiple lending repayments etc of the applicant.

Bank Guidelines on Credit Products / Exposure Norms:

Based on credit policy guidelines finalized by bank boards, these are advised to the operating staff or to branches i.e., guidelines of various credit products, delegation of financial powers of operating staff and also its exposure norms in various products. Credit department officials of the branches should be well versed with the above guidelines in full without any knowledge Gaps. Banks should communicate the same on an ongoing activity (whenever any changes are happening in product features, delegation of financial powers and exposure norms etc). Without good knowledge and updates on these vital areas to the operating staff, it will lead to high credit risk.

How to overcome this problem:

Communication on credit management guidelines should be on a continuous process in the bank. As changes in credit management is a dynamic and to avoid communication gaps to operating staff, changes are to be informed to the Branches or operating staff on regularly by the bank by using technology tolls like email, e-circulars, dedicated web-sites, SMS (brief information on credit instructions changes) etc. the following strategies will help in this regard.

- ❖ Random scrutiny implementation of latest instructions in credit proposals by controllers of the bank.
- ❖ Advise operating staff on credit management latest guidelines and get acknowledgement.
- ❖ Issue of codified or master circular instructions on credit management by the bank as and when instructions are frequent changes or modifications.
- ❖ Tighten the Internal Control System or Internal Audit or Concurrent Audit in credit function.
- ❖ Usage of Technology, instant communication on credit management areas or instructions.

Knowledge and communication gaps in credit management should be minimize, otherwise it leads to higher credit risk.

Demand and Supply Gap:

Study demand and supply is one of the important sub-functions in credit management process. Whether in may be a retail or business loans. If operating staff not following this important element in credit assessment, then loans will turn into NPAs due to lack of demand or excess supply for a particular product or activity. Recovery prospectus will increase whenever there is a demand for the product or activity in the market. For proper assessment of demand and supply, market information or data in respect of various credit products offered by the bank should be made available to branches or operating staff of credit department.

For example, in respect of Home Loans, banks should assess the potential of 'Home Loans' in the area of operation i.e., Demand and Supply of Houses. In X Town 'demand for houses' based on population and other factors is around 100 houses. And the existing houses available for living is 80, thereby potential gap for Housing Loans is '20 houses'. Accordingly, bank should finance 20 Houses in that particular area. If bank finance 100 additional Housing Loans, then supply of houses is more than demand, thereby occupancy problems for the additional home loans sanctioned by banks and these will turn into NPAs due to no income to borrowers for repayment of installments.

How to mitigate:

❖Bank should arrive demand and supply of bank products in each area of operation, accordingly advance budgets are to be finalized and advise to Branches or operating staff.

❖Review the same process on quarterly half yearly intervals or yearly intervals and modify or change the credit business budgets for each product accordingly.

❖Collect the information on 'Credit Gaps' for various bankable credit products from District Level Bankers' committee or State Level Bankers' Committee and pass on this information to the operating staff.

Market Research / Past Trend of Recovery:

Credit department officials should update skills in respect of market information, market trends, failure rate bank loans of other banks etc. This information is not only for Business, Manufacturing and Service sectors but also Retail loans of all financial institutions in the command area of business.

This information is useful to the bank to withdraw some of the existing products, where no demand / poor recovery or excess supply than demand in the market. This information should be made available to the operating staff from time to time. Research on credit needs or requirements, unit cost of various products (maximum and minimum loan amount), credit gaps should happen in zone-wise of the Bank. All bank products will not penetrate equally across the country. Some of the Products are having more demand in certain parts of the country than in other parts.

All commercial banks organization structure is more or less in similar i.e., Zonal Office or Regional Office. Zones or Regions should study the demand of their bank loan products. For example, Home Loans demand is not similar across all places in the country. Wherever development activities are more and employment opportunities available, home loans demand natural is more.

Banks should develop:

❖Zone-wise studies on bankable credit products.

❖Utilize the services of chamber of commerce and industries department located in the particular zone.

❖Government plans and development activities and develop suitable bank products.

❖Suitable studies on agriculture, industries and service sectors and its penetration levels are to be made by the respective Zonal Office of the Bank or District Bankers committee.

❖Branch-wise business dossiers are to be prepared and this helps as a tool in credit management of the bank branches.

Scrutiny:

After appraisal of credit, the loan proposal to be sanctioned by higher ups as per delegation of financial powers fixed by the Bank. While sanctioning proposals either by Controllers or Committee Approach in case of Large Proposals, scrutiny of proposals is very important. It should not be in a causal approach. ***It is as good as Quality Control Check of credit product released by the Bank.***

While sanction a credit proposal by sanctioning authority, proposals should be thoroughly scrutinize. If any gaps, like additional information requires and wrong information in the proposal, the proposal should send back to the appraiser with full details for re-submission or rejection. Common irregularities committed by operation staff from time to time should communicate to all branches. Thereby, same mistakes will not repeat and it will improve quality of lending. These points are to be discussed by the bank during training or workshops for credit department officials.

Scrutiny of proposals is an utmost important factor in improving the quality of credit of bank advances. This is a "second eye concept" of verification of proposal and sanctioning authority is as good as ***Quality Control Department of Bank Advance Products.***

Disbursement:

End use of funds is one of the important aspects in the credit management process. Purpose of the loan and utilization of loan should be matched. Funds diversification is always dangerous and advance account will turn into NPA. Here, banker should ensure the objective of loan and it should not be mis-utilized by the borrower. Credit officials should pay more attention in disbursement stage. When funds or installments amount release by the bank, each and every stage ensure end use of credit.

How to ensure? :

❖Credit officials should strictly implement the terms and conditions of sanction a loan and disbursement schedule without any deviation.

❖If the disbursements are in stages, each stage of disbursement, the earlier amount disbursement amount is fully utilized by the borrower as per the purpose of loan.

❖Frequent visits are to be made by the Credit Officials and verify the Primary Security (i.e., Asset created with Banks Funds) of the bank loan.

❖If any deviations are to be noticed, further disbursement should be stopped and inform to the controllers for further action.

❖Verify the documents like bills / invoices submitted by the borrower after purchase the assets with bank finance. Rates, quantity and type of product are to be verified from independent source and it should be matched with the project report submitted by the borrower.

Follow-up

Due to increase in volume of advance accounts, banks are not focusing on post sanction formalities of loans and advances sanctioned by them. In post sanction, end use of funds, follow-up stock statements, and activity is continue or not results timely recovery of loan and possibility for the bank to rectify the slippage of loan accounts.

Formalities to be fulfilled in Follow-up of Advances:

❖Continuous contacts with the borrower.

❖Frequent visits to the units and ensure proper utilization of funds.

❖Timely recovery of EMI or Installments of the Loan.

❖Ensure to submit stock statements etc.

❖Identify major deviations or irregularities happen in the Unit and timely action.

❖Both physical visit and communication should be established with the unit.

❖In case of negative symptoms, legal action is to be initiated.

❖Use of various Statutory Acts in recovery processes in time.

Credit Risk Mitigation Measures:

Credit Risk means default risk. Banks are trustees for the public funds. Banks are sanctioning Loans and advances with the help of depositor's funds. High credit risk in the bank means decrease safety to depositors' funds. Once the depositors' lost their confidence on the bank, then it leads to Asset Liabilities Mismatch due to heavy withdrawal of funds by them. Hence, banks should give lot of efforts / energy in minimizing credit risk. Following Ten Commandments are useful to mitigate the credit risk:

i. Selection of right personnel in the credit function.
ii. Train them on continuous basis to improve credit appraisal skills.
iii. Quality of lending bench mark to be fixed i.e., (99%).
iv. Incentives and accountability to officials of credit function.
v. Post-sanction process should be strengthened.
vi. Strengthen internal controls & concurrent audit in credit function.
vii. Instant legal action in slippage accounts.
viii. Optimum utilization of technology and communication credit function.
ix. Study on regular basis on credit gaps, credit requirements, region-wise to develop and to withdraw of credit products of the bank.
x. "Quality Control" in credit is to be established in each and every process or step of Credit Management.

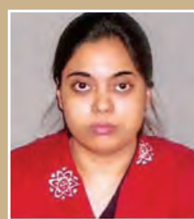
Conclusion:

Prevention is better than cure. Instead of putting more efforts on side effects of Credit Risk like providing more provisions, decrease in net profit and net worth, attracting more Tier-I and Tier-II Capital to maintain the required CRAR etc., banks should give more focus on "Quality of Lending". This is only one way or remedy or best solution to overcome all problems relates to the Credit Risk in the Banks. 'Quality Control' of each and every step of credit delivery process is the need of hour to mitigate the credit risk in the banks. *MA*

cma.psrprasad@gmail.com

Cover Story

Social Performance of Agency Banks and SHG



Dr Manidipa DasGupta
Assistant Professor
University of Burdwan

India, the developing large populace country, since the very first day of its post-independence era is facing an awful situation due to constant increase in unemployment and underemployment and also for the resultant issues of these like poverty, socio-economic disparity etc. Therefore, to curb these socio-economic problems, India has to generate self-employment opportunity for its rural and urban countrymen, specially for the first one, arresting under the socio-economic distress more than the latter case. The Self-Help group (SHG)[1] in this context, is accepted to be the most emerging force in introducing self-employment opportunity for the rural poor mainly and thus empowering them by self-esteem, self-respect with economic freedom. But the nominal asset base of the individual members of SHG creates hindrances in their way to generate and operate self-employment related activities with self-finance as well as bank finance. This circumstantially confines them under the clutches of the high-interest traders like Mahajan etc. for which poor becomes

Microfinance (mF), the masiha of inclusive growth in India, with an attempt to include the socio-economically excluded poor people in the main stream of finance, has taken a revolutionary step in 1992 with Self-Help Group – Bank Linkage Programme (SHG-BLP) of National Bank for Agriculture and Rural Development (NABARD). Under this programme, two specific models, Self-Help Group – Bank Linkage Model (SHG-BLM) and Microfinance Institutions – BLM (mFIs-BLM) are introduced since 2006 with active involvement of different institutions among which the Banks (termed as Agency Banks) play the most vital role in facilitating the unbanked poor people financially and non-financially. This includes multidimensional social benefit and ensures the promotion of socially responsible investment (SRI) in India.

poorer, rich becomes richer and socio-economic stability becomes underprivileged again.

From this perspective, in 1970, Government of India introduced a specially designed financial device – Microfinance (mF) with social aims. mF stepped towards a historic movement in 1992 with the evolution of Self-Help Group – Bank Linkage Programme (SHG-BLP) of National Bank for Agriculture and Rural Development (NABARD). Under this programme, two basic models like Self-Help Group – Bank Linkage Model (SHG-BLM) and Microfinance Institutions – BLM (mFIs-BLM) were introduced with active involvement of different beneficiaries amongst which Banks (termed as Agency Banks) are supposed to be the most important practitioner of social goal of mF. Agency Banks with social impact create a rigorous linkage with the unbanked poor populace (without/with negligible collateral security base) with their ends and thus facilitate the poor in their livelihood[2] promotion and self-employment generation. This social benefitting attitude of Agency Banks, therefore, creates high social performance[3] with an image of Socially Responsible Investment[4] from their end.

But the other side of the fact sheet reflects a very depressing phenomenon when it is found that the related financial institutions often are detected to be derailed from the social goal of mF. The unmanageable pressure from the end of the members of SHG for avilaingof financial assistance along with the self-centred solely commercial attitudes of the financial institutions with profit motive, are supposed to be responsible for the divergence.

In this context, a question may arise if the Agency Banks under SHG-BLP can carry on their social performancein touch with Socially Responsible Investment (SRI) or not where the social performance is considered as the primary aim of mF movement in our country. This issue attracted several researchers [Ghosh (2010), Guha (2010), Jothi, (2010), Gustavsson, (2012), DasGupta (2015)] to deal with. But no significant study has taken the social performance related attitude of Agency Banks under SHG-BLP in flavor of the SRI.

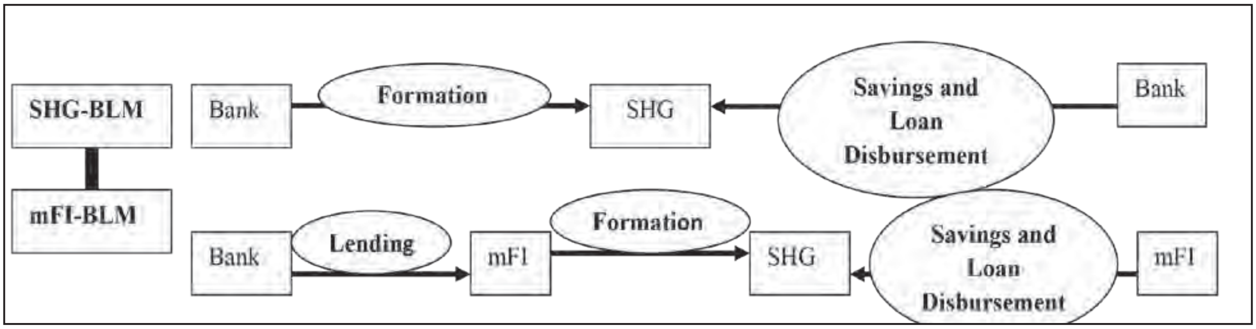
In this present context, this study aims at (i) analysing critically the social performance of Agency Banks in India under SHG-BLP with due respect with the SRI principle and (ii) recommending some suggestions to the concerned parties for further improvement in this issue following analytical research methodology.

SHG-BLP in India – A Conceptual Framework

SHG-BLP in its social promotional stepping towards socio-economic progression of unbanked marginalised poor people, avails of the involvement of different participants from financial institutions like Agency Banks [Commercial Banks (CBs), Cooperative Banks (CopBs), Regional Rural Banks (RRBs) and Small Industries Development Bank of India (SIDBI)], mFIs and other non-financial institutions like Non-Government Organisation (NGO) etc.Till 2005-2006, SHG-BLP has been designed and operated under three delivery models – Model I (direct association of Agency Banks with SHG in formation and savings-credit linkage), Model II (formation of SHG by NGOs) and Model III (formation and assistance in finance to SHG by mFIs with the financial support of Agency Banks). Since 2006-2007, SHG-BLP focuses only on two models – Model I and Model III renamed as Self-Help Group – Bank Linkage Model (SHG-BLM) (formerly Model – I) and Microfinance Institution – Bank Linkage Model (mFI-BLM) respectively, limiting Model – II (Figure – 1) (DasGupta, 2015).

SHG-BLM here contains the direct involvement of the first three Agency Banks (CBs, CopBs, RRBs) with SHG in both financial (savings-credit relation) and non-financial (formation) matters, while in second model, mFI-BLM, mFIs with a credit linkage with Agency Banks, take the responsibility of both financial and non-financial assistance to SHG. mFIs now are restructured under four categories – (a) NGO-mFIs, (b) Cooperative-mFIs, (c) and (d) Non-Banking Financial Corporation–mFIs (NBFC-mFIs) for profit and not for profit, registered and incorporated under the Companies Act (1956) as the case may be (Guha, 2010).

Figure – 1: Delivery Models of Microfinance under SHG-BLP after 2006-2007



Source: Dasgupta, 2015

Therefore, the omnipotent direct/indirect linkage of Agency Banks with the poor deprived members of SHG in financial as well as non-financial matters as specified in two basic models of SHG-BLP, prove their potentiality in establishing the SRI principle in India with which a positive social movement in multifaceted dimensions can be available under the light of sustainability[5] .

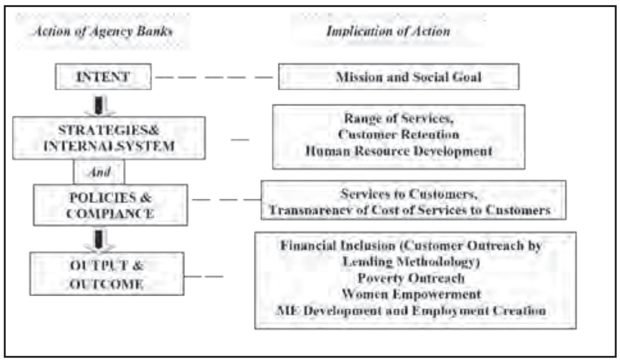
Social Performance of Agency Banks under SHG-BLP and SRI in India – A Critical Analysis

Agency Banks under SHG-BLP, with their promotional stepping towards socio-economic sustainability, engage in social performance in modes of financial inclusion, women empowerment, poverty alleviation and development and promotion of new Micro Enterprises (MEs) with the intension to generate SRI in India.

SRI accepts monetary return with social benefit and environmental sustainability in investment where investors may be willing to accept below market rates of return in order to contribute to certain forms of economic activity (Gustavsson, 2012). So the social benefit (financial and non-financial) as offered by Agency Banks to marginalized poor at their affordable condition, can be related to SRI.

Figure – 2 exhibits the way of social performance of Agency Banks in India with a flavour of SRI principle. Now, though the SRI related issues are considered mainly for the large scale projects having huge investment scale with high level of risk and longer maturity period, the emerging socio-economic impact of mF, practiced by the Agency Banks should also be recognized under its purview.

Figure- 2: Social Performance of Agency Banks under SHG-BPL linking with SRI



Now, the attempts of Agency Banks in materialising the social performance in the light of SRI are discussed below.

● ***Social Performance of Agency Banks under SHG-BLP introducing financial inclusion***

Under SHG-BLM, the Agency Banks directly invite the unbanked poor members of SHG without/with negligible collateral security to be financially included through savings-credit linkage. As per NABARD Report (2013-2014), the Agency Banks include more than 7.4 million SHG and 97 million rural poor under their purview. In savings-credit linkage with per unit SHG, the Agency Banks are maintaining more/less a positive growth rate since 2008-2009 with a very few exceptions (Diagram – 1 & 2).The Agency Banks in this context have to face a critical financial state with lower level of per unit savings amount with SHG in comparison with the per unit credit amount to SHG. The gap was the maximum in 2010-2011(mainly for Andhra Pradesh) after that the gap maintained a slow positive growing pace (Diagram – 3).In mFI-BLM, the Agency Banks grant financial assistance to mFIs (₹10282.49 crore, NABARD, 2013- 2014) to support SHG financially and non-financially.

Diagram – 1: Per Unit Savings amountof SHG with Agency Banks

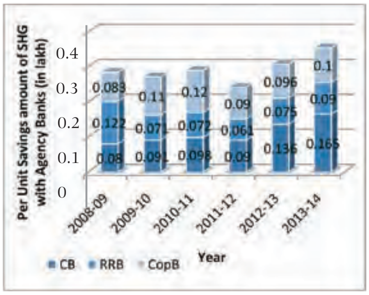


Diagram – 2: Per Unit Loan disbursment amount by Agency Banks

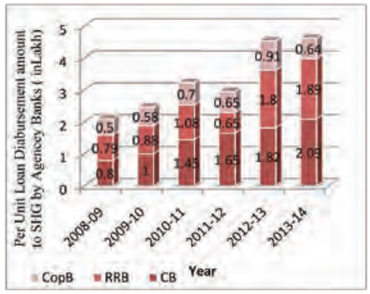
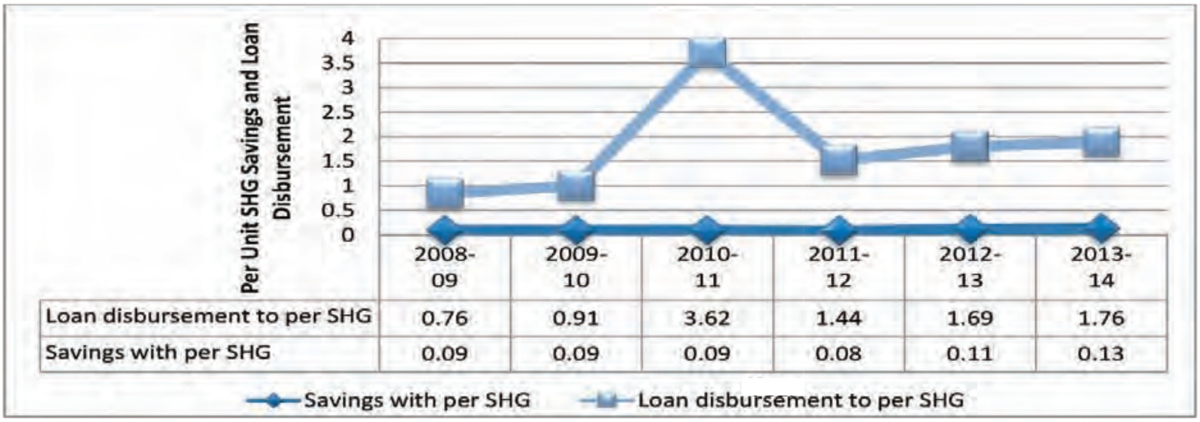


Diagram – 3: Year-wise amount of per unit savings with and loan to SHG by Agency Banks



	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Loan disbursement to per SHG	0.76	0.91	3.62	1.44	1.69	1.76
Savings with per SHG	0.09	0.09	0.09	0.08	0.11	0.13

● ***Social Performance of Agency Banks under SHG-BLP introducing women empowerment***

In India, the poor rural women are capable enough to control financial business with turnover of nearly ₹ 100000 crore (deposit + credit) which is supposed to be much more than most of the MNCs (NABARD, 2013-2014). Based on this fact sheet, to empower the women entrepreneur from the grass root level, NABARD in association with Department of Financial Services, Ministry of Finance, has declared a scheme for promoting and financing women SHG in 150 selected backward districts of India. Financial assistance of the Agency Banks specially to women SHG for empowerment[6] continues a steady pace since 2008-2009 (Diagram – 4).

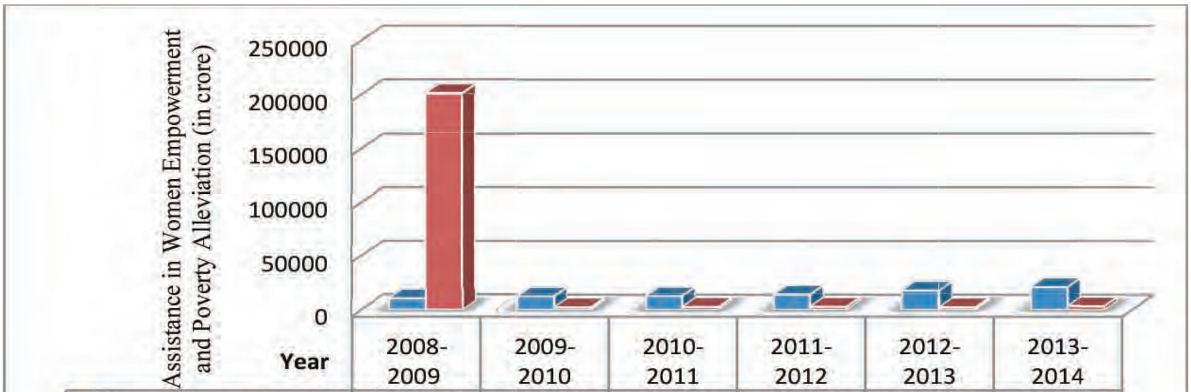
● ***Social Performance of Agency Banks under SHG-BLP introducing poverty alleviation***

SHG-BLP with National Rural Livelihood Mission (NRLM) [the then Swarnyajanti Grameen Swarojgar Yojana (SGSY)] has included the members of SHG belonging to Below Poverty Line (BPL) population. Agency Banks under SHG-BLP, with their positive attempt to assist the target marginal section of our society, always try to eradicate the curse of poverty from our economic structure. The data revealed from the NABARD Report w(2013-2014) exposed the fact that the Agency Banks made their attempt to alleviate poverty which was the maximum in 2008-2009 after that the amount is found in a declining pace but maintains a steady progress positively (Diagram – 4)

● ***Social Performance of Agency Banks under SHG-BLP introducing development of new enterprises:***

In 2006, NABARD launched Micro Enterprise Development Programme (MEDP) to enrich the entrepreneurial talents of members of mature SHG[7] to set up and run MEs. The Agency Banks under SHG-BLP grant financial assistance to the training institution/Self-Help Promotional Institution (SHPI) for implementing developmental programme for proposed entrepreneurs.

Diagram – 4: Year-wise Agency Banks financing in Women Empowerment and Poverty Alleviation



Year	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Women Empowerment	10527.38	12429.37	12622.33	14132.02	17854.31	21037.97
Poverty Alleviation	201522.44	2198	2480.37	2643.56	2207.47	3480.6

In this issue, in 2013-2014, the Agency Banks offered financial assistance to SHPI for ₹ 47.11 lakh (NARABR Report, 2013-2014).

In promoting social performance through savings-credit linkage with SHG and credit linkage with mFIs, the Agency Banks have to consider so many constraints which obstruct their activism towards social sustainability and thus put a question mark on their acceptance and application of SRI principles in practice. Under SHG-BLM, the Agency Banks have to bear tremendous pressure to create financial inclusion (though sometimes is not taken importantly) for which they have to adopt liberal policy in loan financing without verifying the creditworthiness of the members of SHG and also their genuine motive for utilizing the granted fund in their financial practices. Moreover, the Agency Banks, having underutilised rural network, consider SHGs as the main means of generating profitable rural banking for which they force SHG to open saving bank accounts only (Dasgupta, 2015).

In their loan financing, Agency Banks sometimes are blamed to favour some specific regions (Southern, Western etc.) where the concerned amount may be unmanageable to some extent, while the other regions irrespective of holding potentialities in entrepreneurial performance and social development may be rejected to be financed in. Moreover, before granting loan support to SHG members, the Agency Banks may not want to preserve and verify the members' registrar which attracts falsification in the number and actual existence of members in SHG having actual requirement of microcredit. The beneficiaries under NRLM also suffer due to this unsystematic loan disbursement principle of Agency Banks for which the poor from BPL may be deprived of and poverty alleviation scheme of mF is found to be in vain.

All these unprofessional loan financing principles of Agency Banks ultimately invite huge burden of loan outstanding with Non-Performing Asset (NPA) both against SHG and mFIs (under mFI-BLM). In 2013-2014, the amount of loan outstanding and NPA against SHG were 4292752 and 196636 respectively, while the same against mFIs were found as 1651744 and 7565154 respectively (NABARD Report, 2013-2014). All these issues create unnecessary blockage of fund in some unproductive fields which ultimately obstruct banks in investing in some other self-employment generating fields having high socio-economic benefit to our society. This again creates hindrances in the social performance of Agency Banks and thus hampers the SRI related principles.

In addition thereto, the Agency Banks often are being responsible for unnecessary delay in delivering credit to SHG, entering transaction in SHG passbook and providing financial reports to SHG in the time of audit.

Under mFI-BLM, the Agency Banks do not follow the SRI principle while assisting the mFIs financially. The social enterprise[8] , mFIs here are found to be inclined with 'mushroom like business' charging higher interest amount against the loan finance to the neediest SHG (22% - 26% p.a.) focusing only on the commercial aspect. In this issue, mFIs make the frequent small amount of SHG loan financing with huge operational cost as responsible ones. This alsoviolates the principle of financial inclusion from the end of mFIs as huge cost of loan finance may redress off the socio-economically excluded poor people from being linked with the mFIs.

Some mFIs today enlist their names in stock exchange to arrange financial assistance for market as commercial

> *Due to some circumstantial pressures, unprofessional mechanism in financial policy etc., the Agency Banks may not be able to maintain the SRI principle. The benefiting target groups sometimes also are found to violate the social norms. All these issues invite doubts on the proper maintenance of social performance of Agency Banks to target groups of poor people in the light of SRI in India.*

enterprises. All these violate the social entrepreneurial norm. The Agency Banks, in this context, are indirectly related to this unethical attitude of mFIs through their loan financing to that end depriving other social performance. This issue also violates the SRI norm which claims social performance not only by assisting units but also by the assisted ones.

Moreover, though the Agency Banks try their level best to generate women empowerment, due to the lack of information of the respective assistance to the target groups, the initiative is found to be an impractical one. In some MEs, developed with the assistance of Agency Banks, the age and gender-wise the standardized labour laws are not followed. Employees here are to perform in an inconvenient standardised working environment. Moreover, MEs may not adopt any practice for environmental protection and prevention of pollution. All these circumstantially curb the social impact of the self-employment activities as introduced by the members of SHG and Agency Banks without the verification of social benefit from MEs, may again divulge their social performance and thus SRI principles.

Therefore, the Agency Banks under SHG-BLP consider only the financial inclusion as taken as the main important motive of mF in India, while the other two wings of SRI related principle - society and environment are neglected or somehow not considered with importance.

Conclusion and Recommendations

With their social performance in the light of SRI, the Agency Banks are supposed to be the main contributors in motivating social progression towards sustainability in India. Nevertheless, due to some circumstantial demands Agency Banks have to operate commercially limiting the SRI related issues and philanthropic attitude. Now, to materialize the SRI motive and to achieve ethical goals, the Agency Banks may be offered to the following suggestions:

- Agency Banks should implement the adequate governance practice and policy for proper utilization and allotment of financial fund to the underprivileged section of our society having genuine demand.
- They should keep and verify the membership record of SHG systematically and visit SHG to meet the beneficiaries periodically to know the actual utilization of the bank loan account.
- They must avail of the services of accredited credit rating agencies and should introduce strict debt recovery actions from willful defaulter SHG and mFI.
- Agency Banks have to maintain a strong ethical standard with a financial and non-financial performance relating to SHG and mFIs. Focus here should be maintained on adequate financial services to the very end at affordable interest rate.
- The Agency Banks should also verify the proper maintenance of social performance of mFIs before granting loan finance focusing on the ethical return in the mode of social benefit with commercialisation.
- The environmental issues while financing in a proposed or running MEs, built up by the members of SHGs should also be focused on by Agency Banks.

Hence, it can be stated that the Agency Banks have to travel a long distance to avail of the standardized performance of SRI in their activities with SHG and mFIs with which India can get actual social benefit of mF in shapes of socio-economic-environmental issues. It can be concluded herewith that in a developing country like India, the mF model is basically built on trust and seems to be a complex one as it is operated without collaterals and at high operating cost. Therefore, the benefitting movement of the Agency Banks under SHG-BLP should be appreciated with a wish that some days it will address off all the hindrances in their ways in social performance to achieve social value with which ultimately SRI will be established in India with their end. MA

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dasgupta_manidipa@yahoo.co.in

[1] SHG is "a small economically homogeneous and cohesive group of rural poor coming together to save small amounts regularly, agree mutually to contribute to a common fund and have collective decision-making for providing collateral-free loans on terms and conditions decided by the group" (Jothi, 2010, p. 92). It contains maximum of 20 members.

[2] A livelihood is a means of making a living. It encompasses people's capabilities, assets, income and activities required to secure the necessities of lif

[3] The translation of an institution's mission into practice in line with accepted social values.

[4] SRI is the socially conscious investment considering the social impact of investment towards socio-cultural-economic-environmental sustainability, not considering the commercial matters only.

[5] Sustainability could be defined as an ability or capacity of something to be maintained or to sustain itself. It's about taking what we need to live now, without jeopardising the potential for people in the future to meet their needs. If an activity is said to be sustainable, it should be able to continue forever.

[6] Women empowerment is associated with the promotion of women section of our society in multifaceted dimensions like financial, familial/interpersonal, socio-cultural, legal, political, psychological, technical etc. (Malhotra et. al., 2002).

[7] Matured SHGs already have access to finance from banks.

[8] Social enterprise can be defined as one which produces goods and services for the market but redirects surplus in pursuit to social and environmental goals.

Precedence of Rule 4 over Rule 8 of the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000

CMA Rakesh Singh
Former President
Institute of Cost Accountants of India

The provisions regarding valuation of goods where whole or part of the excisable goods are not sold but captively consumed are given in **Rule 8 of the Central Excise Valuation (Determination of Price of Excisable Goods) Rules,2000 .** Prior to **Notification No, 14/2013-Central Excise (N.T.) dated 22nd November, 2013**, valuation under rule 8 mainly referred to goods where no part sale was effected or such goods which were wholly consumed within the unit**.** The Rule now provides that where whole or part of the excisable goods are not sold by the assessee but are used for consumption by him or on his behalf in the production or manufacture of other articles, the value of such goods that are consumed shall be **one hundred and ten per cent** of the cost of production or manufacture of such goods.

In the case of M/s Aarti Industries Ltd Versus Commissioners of Central Excise, Customs and Service Tax-Vapi2015 (12) TMI 731 - CESTAT Ahmedabad, it has been held that Rule 4 are in any case to be preferred over the provisions of Rule 8 not only for the reason that they occur first in the consequential of the valuation Rules but also for the reason that in a case where both the Rules are applicable, the application of Rule 4 will be allowed to determine value which will be more consistent and in accordance with the parent statutory provisions of Section 4 of the Central Excise Act 1944.

Facts:

1. The relevant facts of the case, in brief, are that the appellants were engaged in the manufacture of Ortho Nitrate Anisole (ONA) classifiable under Chapter 29 of the Schedule to the Central Excise Tariff Act 1985. A show cause notice dtd 14.1.2006 was issued proposing demand of duty alongwith interest and to impose penalty on the ground of undervaluation of the goods. It has been alleged that the appellants paid the duty on their own calculation and they have not followed the provisions of Rule 8 of Central Excise valuation (Determination of Price of Excisable Goods) Rule 2000 and CAS-4 in respect to clearance of the goods to their sister unit during the period from December 2001 to March 2006. The Adjudicating Authority confirmed the demand of duty of ₹14,00,831/- alongwith interest and imposed penalty on the appellant company.

2. The Learned Counsel on behalf of the appellant submits that during the period 2001-02 and 2002-03, they had not any independent sale and therefore, they are liable to pay duty under Rule 8 of the Valuation Rule 2000 read with CAS-4. He further submits that the remaining periods i.e., 2003-04 to 2005-06 there was sale of independent buyer to the extent 3% in 2003-03 and 30% in respect of the other two years. He relied upon the decision of the Larger Bench in the case of M/s Ispat Industries Ltd Vs CCE Raighad - 2007.209. ELT. 185. (Tri.LB). He further submits that the Honble Supreme Court in the case of M/s A K Roy and Another vs Voltas Ltd - 1997.1.ELT.J177(SC) accepted 5% sale to the independent buyer having determining for the valuation. He submits that the Tribunal consistently viewed that, if there is a sale to the independent buyer clearance to the sister unit could not come under Rule 8 of the Valuation Rule. He relied upon the following case laws:

a) Reliance Industries Ltd vs CCE&ST, Rajkot - 2014.308.ELT.495 (Tri.Ahmd)

b) Daman Ganga Board Mills Pvt Ltd vs CCE, Vapi -2012.276.ELT.532 (Tri.Ahmd)

c) SubrayCatal Chemical P Ltd vs CCE, Vapi - 2010.261. ELT.1170 (Tri.Ahmd)

d) Jai Corporation vs CCE&ST, Daman- 2015.317. ELT.353 (Tri.Ahmd)

e) Ultratech Cement Pvt Ltd vs CCE, Bhavnagar - 2013.295.ELT.470.(Tri.Ahmd)

f) Ultratech Cement Pvt Ltd vs CCE, Bhavnagar - 2014.302.ELT.334.(Guj)

g) GangotriElectrocasting Ltd vs CCE&ST Patna - 2013.293.ELT.395 (Tri.Kolkata)

h) Ferro Alloys Corpn Ltd CCE&ST, Bhubanewshwar 1 - 2013.294.ELT.440. (Tri.Kolkata)

3. The Learned Authorised Representative on behalf of the Revenue reiterates the findings of the Adjudicating authority. He submits that for the first two years, they have not followed Rule 8 of the Valuations Rules and CAS-4 system and therefore it would apply for the subsequent periods. He further submits that for the 3rd year sale to the independent buyer is about 3%, which cannot be accepted as sale to the independent buyer.

4. After hearing both the sides and on perusal of the records, we find that the Larger Bench of the Tribunal in the case of M/s Ispat Industries Ltd (supra) held that transfer part of production to another plant of same assessee and balance production sold to independent buyers, Rule 8 could not be applicable and value could be determined by the assessee under Rule 4 of the Valuation i.e., transaction value. It has been held that the provision of Rule 4 are in any case to be preferred over the provisions of Rule 8 not only for the reason that they occur first in the consequential of the valuation Rules but also for the reason that in a case where both the Rules are applicable, the application of Rule 4 will be allowed to determine value which will be more consistent and in accordance with the parent statutory provisions of Section 4 of the Central Excise Act 1944. In the present case, there is no dispute that during the period 2003-04 to 2005-06 the appellant transferred the goods to their sister unit as well as to the independent buyers. The Learned Authorised Representative submitted that in 2003-04 there was sale of 3% to the independent buyer. The Hon'ble Supreme Court in the case of M/s A K Roy and Another (supra) held as under :

" 20.Excise is a tax on the production and manufacture of goods `see Union of India v. Delhi Cloth and General Mills (AIR 1963 SC 791) section 4 of the Act therefore provides that the real value should be found after deducting the selling cost and selling profits and that the real value can include only the manufacturing cost and the manufacturing profit. The section makes it clear that excise is levied only on the amount representing the manufacturing cost plus the manufacturing profit and excludes post-manufacturing cost and the profit arising from post manufacturing operation, namely selling profits? The Section postulates that the wholesale price should be taken on the basis of cash payment thus eliminating the interest involved in wholesale price which gives credit to the wholesale buyer for a period of time and that the price has to be fixed for delivery at the factory gate thereby eliminating freight, octroi and other charges involved in the transport of the articles. As already stated it is not necessary for attracting the operation of s. 4 (a) that there should be a large number of wholesale sales. The quantum of goods sold by a manufacturer on wholesale basis is entirely irrelevant. There are facts that such sales may be few or scanty does not alter the true position."

5. In view of the decision of Honble Supreme Court, in the case of M/s A K Roy and Another (supra) the contention of the Learned Authorised Representative for the Revenue cannot be accepted. In our considered view, the appellant rightly paid duty on transaction value for the period 2003-04 to 2005-06 and the demand of duty alongwith interest and penalty cannot be sustained.

6. The demand of duty for the period 2001-02 and 2002-03, the learned Counsel on behalf of the appellant fairly submits that they are liable to pay duty under Rule 8 of the Valuation Rule read with CAS-4 system. It is contended that CAS-4 system was introduced in 30.2.2003. So, the demand of duty is liable to re-determined under the provisions of Rule 8 and CAS-4 for the first two years.

7. The Learned Counsel on behalf of the appellant submits that the duty has already been determined without adjustment of the excess payment with the short payment, which is contrary to the decision of the Tribunal in the vase of M/s Bajaj Tempo Ltd vs CCE, Pune - 2004.172.ELT.473 (Tri.Mum) and Essar Steel India Ltd Vs CCE&ST - 2014.307.ELT.569 (Tri.Del). We find that the Tribunal in the case of Bajaj Tempo Ltd (Supra) allowed adjustment of the demand of the differential duty against excess payment and short payment. This is also supported by earlier decision of the Tribunal in the case of M/s Smithklin Beecham Consumer Healthcare Ltd vs. CCE, Chandigarh - 2003.153.ELT.579 (Tri.) and VinirEngPvt Ltd Vs CCE Bangalore - 2004.168.ELT.34 (Trib). So, we find force in the submission of the Learned Counsel on behalf of the appellant that the quantification of demand of duty for the first two years is required in the light of the decision of the Tribunal. As the demand of duty alongwith interest for the last three years cannot be sustained and the first two years also required to be quantified, the imposition of penalty is not warranted.

8. In view of the above discussion, the demand of duty alongwith interest for the period 2003-04 to 2005-06 is set aside. The demand of duty for the period 2001-02 to 2002-03, the adjudicating Authority is directed to examine in the light of the decision in the case of M/s Bajaj Tempo Ltd (supra) after giving adjustment of excess/ short duty in accordance with law. The penalty is set aside. The impugned order is modified accordingly. MA

Reference:

TMI

rsco@aicmas.com

THE INSTITUTE OF
COST ACCOUNTANTS OF INDIA
(STATUTORY BODY UNDER AN ACT OF PARLIAMENT)
CMA BHAWAN
12, SUDDER STREET, KOLKATA – 700 016.

Telephones : +91-33-2252-1031/1034/1035
+91-33-2252-1602/1492/1619
+91-33-2252-7143/7373/2204
Fax : +91-33-2252-7993
+91-33-2252-1026
+91-33-2252-1723
Website : www.icmai.in

Ref. No.: G/128/12/2015-16

Date: December 3, 2015

CIRCULAR

Sub: **Details regarding Foundation Course Examination**

The Foundation examination on descriptive mode shall take place twice a year with effect from 1.1.2016. The last examination in on-line mode shall take place in December, 2015. However, the students who appear for Foundation examination in on-line mode in December, 2015 but are unsuccessful, shall be given a final opportunity to appear in on-line examination in March, 2016.

(Kaushik Banerjee)
Secretary


Digital India
Power To Empower
THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory Body under an Act of Parliament)
CMA
WESTERN INDIA REGIONAL COUNCIL
AND
PIMPRI-CHINCHWAD-AKURDI CHAPTER
are pleased to announce
REGIONAL COST CONVENTION 2016
Theme:
"Make in India" through –
*Cost Competitiveness *Tax Reforms,
*Ease of Doing Business *Digital India"
16th & 17th JANUARY 2016
Venue: Auto Cluster Auditorium, H-Block, Plot C-181, Pimpri-Chinchwad, Pune–411019

At the helm

Our heartiest congratulations to CMA Lakshmi Prasad K, a fellow member of our Institute, for being elevated as JAG officer at Registrar of Companies, North Eastern States, Shillong and Official Liquidator (with additional charge), Gauhati High Court with effect from November 9, 2015. He was previously associated with Indian Corporate Law Service – ICLS, Ministry of Corporate Affairs, New Delhi. He was also associated as Assistant Registrar of Companies, in Kolkata and Hyderabad and had been serving as Deputy Registrar of Companies, AP and Telangana from July 2015 till November 2015.

We wish CMA Lakshmi Prasad K the very best in all his future endeavours.

Taxation

- CBEC amends Notification No. 69/2011-Customs, dated 29th July, 2011 so as to provide a concessional rate of basic customs duty in respect of tariff item 84082020 [engines of a kind used for the propulsion of motor vehicles – of cylinder capacity exceeding 250 cc] and 87084000 [gear box and parts thereof, of motor vehicles], w.e.f. 1st of January, 2016 at 5.94% and 8.13%, respectively, when imported under the India-Japan Comprehensive Economic Partnership Agreement (IJCEPA) vide *Notification No. 57/2015-Cus,dt. 14-12-2015.*

- CBEC levied definitive anti-dumping duty on Abendazole, originating in, or exported from the People's Republic of China, for a period of five years vide *Notification No. 62/2015-Cus (ADD), dt. 14-12-2015.*

Read more at: http://www.cbec.gov.in/htdocs-cbec/customs/cs-act/notifications/notfns-2015/cs-add2015/csadd62-2015

- CBEC further amended Notification No 12/2012-Central Excise dated 17.03.2012 so as to increase the Basic Excise Duty rates on Petrol and Diesel(both unbranded and branded) vide *Notification No. 46/2015-CE, dt. 16-12-2015.*

Read more at: http://www.cbec.gov.in/htdocs-cbec/excise/cx-act/notifications/notfns-2015/cx-tarr2015/ce46-2015

- Revision of monetary limits for filling of appeals by the Department before Income Tax Appellate Tribunal and High Courts and SLP before Supreme Court - measures for reducing litigation vide *Circular No. 21 / 2015 dated: 10 December, 2015.*

Read more at: http://www.incometaxindia.gov.in/communications/circular/circular21_2015.pdf

- **Relaxation of additional fees and extension of last date of in filing of forms MGT-7 (Annual Return) and AOC-4 (Financial Statement) under the Companies Act, 2013**

In continuation of this Ministry's General Circular 1412015 dated 28.10.2015, keeping in view requests received from various stakeholders, it has been decided to relax the additional fees payable on e-forms AOC4, AOC (CFS) AOC-4 XBRL and e- Form MGT-7 upto 30.12,2015, wherever additional fee is applicable vide *General Circular No. 15/ 2015 dated: 30-11-2015.*

- **Guidelines for handling and storage of valuable goods that are seized/ confiscated by the Department**

In terms of Section 110 of Customs Act, 1962 if the proper officer has reason to believe that any goods are liable to confiscation under this Act, he may seize such goods that may include valuables such as gold. In the recent past, the smuggling of high value goods, especially gold is on the rise, as evidenced by the increasing number of seizures made by Directorate General of Revenue Intelligence and the field formations. In order to prevent such loss/theft of valuables in future, the following guidelines are issued re-inforcing/ re-iterating and in continuation of the existing instructions/circulars in this regard for strict compliance by all field formations.

Valuables

For the purpose of these guidelines, the valuables include:

i. diamonds, precious and semi-precious stones, pearls, gold/silver;
ii. articles including jewellery made of or containing these valuables mentioned at (i) above;
iii. high value watches;
iv. currency including foreign currency; and
v. such other articles of small bulk and high value as Commissioner of Customs may by special or general order specify as valuables.

Custodian

❄ Only experienced officers whose integrity is absolutely beyond doubt, should be posted as in charge of the strong room/ valuable godown. Similar check from vigilance & integrity angle should also be ensured for the superior officer who is given the overall supervision of the strong room and custody of the second key.

❄ Whenever the Custodian or his superior officer is transferred, a regular substitute should be provided, who shall take proper charge of the strong room/valuable godown.

Source: Instruction [F.No.394/97/2015-Cus (AS)] dated: 01-12-2015, GOI, Ministry of Finance, Department of Revenue, CBEC

Read the full notification at: http://www.cbec.gov.in/resources//htdocs-cbec/customs/cs-instructions/cs-instructions-2015/guidlns-handlng-strg-goods-cs-asu.pdf

- **Excise duty exemption to units in North Eastern Region**

CBEC clarified that new units or units undertaking substantial expansion after 01.12.2014 and upto the cut-off date of 31.03.2017 shall continue to the eligible for excise duty exemption under notification No.20/2007-Central Excise dated 25.04.2007 subject to the conditions specified there under vide *Circular*

No.1012/19/2015-CX [F. No. 332/03/2014-TRU] dated: 2nd December, 2015.

Read more at: http://www.cbec.gov.in/resources//htdocs-cbec/excise/cx-circulars/cx-circulars-2015/circ1012-2015cx.pdf

Banking

● Interest Rates on Advances

A reference is invited to paragraph 22 of the first Bi-monthly Monetary Policy Statement 2015-16 announced on April 7, 2015 which stated that in order to improve the efficiency of monetary policy transmission, the Reserve Bank will encourage banks to move in a time-bound manner to marginal-cost-of-funds-based determination of their Base Rate'. Accordingly, draft guidelines on computation of Base rate based on marginal cost of funding were hosted on the RBI website on September 1, 2015 for comments/ feedback from stakeholders.

Taking into consideration the feedback received, it has been decided that banks shall follow the following guidelines for pricing their advances:

a) Internal Benchmark

i. All rupee loans sanctioned and credit limits renewed w.e.f. April 1, 2016 will be priced with reference to the Marginal Cost of Funds based Lending Rate (MCLR) which will be the internal benchmark for such purposes.

ii. The MCLR will comprise of:

a. Marginal cost of funds;
b. Negative carry on account of CRR;
c. Operating costs;
d. Tenor premium.

iii. Marginal Cost of funds

The marginal cost of funds will comprise of Marginal cost of borrowings and return on net worth. The detailed methodology for computing marginal cost of funds is given in the Annex.

iv. Negative Carry on CRR

Negative carry on the mandatory CRR which arises due to return on CRR balances being nil, will be calculated as under:

Required CRR x (marginal cost) / (1- CRR)

The marginal cost of funds arrived at (iii) above will be used for arriving at negative carry on CRR.

v. Operating Costs

All operating costs associated with providing the loan product including cost of raising funds will be included under this head. It should be ensured that the costs of providing those services which are separately recovered by way of service charges do not form part of this component.

vi. Tenor premium

These costs arise from loan commitments with longer tenor. The change in tenor premium should not be borrower specific or loan class specific. In other words, the tenor premium will be uniform for all types of loans for a given residual tenor.

vii. Since MCLR will be a tenor linked benchmark, banks shall arrive at the MCLR of a particular maturity by adding the corresponding tenor premium to the sum of Marginal cost of funds, Negative carry on account of CRR and Operating costs.

viii. Accordingly, banks shall publish the internal benchmark for the following maturities:

a. overnight MCLR,
b. one-month MCLR,
c. three-month MCLR,
d. six month MCLR,
e. One year MCLR.

In addition to the above, banks have the option of publishing MCLR of any other longer maturity.

b) Spread

i. Banks should have a Board approved policy delineating the components of spread charged to a customer. The policy shall include principles:

To determine the quantum of each component of spread.

To determine the range of spread for a given category of borrower / type of loan.

To delegate powers in respect of loan pricing.

ii. For the sake of uniformity in these components, all banks shall adopt the following broad components of spread:

a. Business strategy: The component will be arrived at taking into consideration the business strategy, market competition, embedded options in the loan product, market liquidity of the loan etc.

b. Credit risk premium: The credit risk premium charged to the customer representing the default risk arising from loan sanctioned should be arrived at based on an appropriate credit risk rating/ scoring model and after taking into consideration customer relationship, expected losses, collaterals, etc.

iii. The spread charged to an existing borrower should not be increased except on account of deterioration in the credit risk profile of the customer. Any

such decision regarding change in spread on account of change in credit risk profile should be supported by a full-fledged risk profile review of the customer.

iv. The stipulation contained in sub-paragraph (iii) above is, however, not applicable to loans under consortium / multiple banking arrangements.

c) Interest Rates on Loans

i. Actual lending rates will be determined by adding the components of spread to the MCLR. Accordingly, there will be no lending below the MCLR of a particular maturity for all loans linked to that benchmark

ii. The reference benchmark rate used for pricing the loans should form part of the terms of the loan contract.

d) Exemptions from MCLR

i. *Loans covered by schemes specially formulated by Government of India wherein banks have to charge interest rates as per the scheme, are exempted from being linked to MCLR as the benchmark for determining interest rate.*

ii. Working Capital Term Loan (WCTL), Funded Interest Term Loan (FITL), etc. granted as part of the rectification/restructuring package, are exempted from being linked to MCLR as the benchmark for determining interest rate.

iii. *Loans granted under various refinance schemes formulated by Government of India or any Government Undertakings wherein banks charge interest at the rates prescribed under the schemes to the extent refinance is available are exempted from being linked to MCLR as the benchmark for determining interest rate. Interest rate charged on the part not covered under refinance should adhere to the MCLR guidelines.*

iv. The following categories of loans can be priced without being linked to MCLR as the benchmark for determining interest rate:

(a) Advances to banks' depositors against their own deposits.

(b) Advances to banks' own employees including retired employees.

(c) Advances granted to the Chief Executive Officer / Whole Time Directors.

(d) Loans linked to a market determined external benchmark.

(e) Fixed rate loans granted by banks. However, in case of hybrid loans where the interest rates are partly fixed and partly floating, interest rate on the floating portion should adhere to the MCLR guidelines.

e) Review of MCLR

i. Banks shall review and publish their Marginal Cost of Funds based Lending Rate (MCLR) of different maturities every month on a pre-announced date with the approval of the Board or any other committee to which powers have been delegated.

ii. However, banks which do not have adequate systems to carry out the review of MCLR on a monthly basis, may review their rates once a quarter on a pre-announced date for the first one year i.e. upto March 31, 2017. Thereafter, such banks should adopt the monthly review of MCLR as mentioned in (i) above.

f) Reset of interest rates

i. Banks may specify interest reset dates on their floating rate loans. Banks will have the option to offer loans with reset dates linked either to the date of sanction of the loan/credit limits or to the date of review of MCLR.

ii. The Marginal Cost of Funds based Lending Rate (MCLR) prevailing on the day the loan is sanctioned will be applicable till the next reset date, irrespective of the changes in the benchmark during the interim.

iii. The periodicity of reset shall be one year or lower. The exact periodicity of reset shall form part of the terms of the loan contract.

g) Treatment of interest rates linked to Base Rate charged to existing borrowers

i. Existing loans and credit limits linked to the Base Rate may continue till repayment or renewal, as the case may be.

ii. Banks will continue to review and publish Base Rate as hitherto.

iii. Existing borrowers will also have the option to move to the Marginal Cost of Funds based Lending Rate (MCLR) linked loan at mutually acceptable terms. However, this should not be treated as a foreclosure of existing facility.

h) Time frame for implementation

In order to give sufficient time to all the banks to move to the MCLR based pricing, the effective date of these guidelines is April 1, 2016.

Source: Notification No. RBI/2015-16/273 [DBR.No.Dir.BC.67/13.03.00/2015-16] dated: December 17, 2015

Read more at: https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10179&Mode=0

● **Guidelines on trading of Currency Futures and Exchange Traded Currency Options in Recognized Stock Exchanges – Introduction of Cross-Currency Futures and Exchange Traded Option Contracts**

Market Participants, i.e., residents and FPIs, are allowed to take positions in the cross-currency futures and exchange traded cross-currency option contracts without having to establish underlying exposure subject to the position limits as prescribed by the exchanges. The existing position limits of USD 15 million for USD-INR contracts and USD 5 million for non USD-INR contracts, all put together, per exchange, for residents and FPIs, without having to establish underlying exposure, shall remain unchanged. The hedging procedure for residents as laid down in A.P. (DIR Series) Circular No. 147 dated June 20, 2014 and for FPIs as laid down in A.P. (DIR Series) Circular No. 148 dated June 20, 2014 shall also remain unchanged.

AD Category-I banks may undertake trading in all permitted exchange traded currency derivatives within their Net Open Position Limit (NOPL) subject to limits stipulated by the exchanges (for the purpose of risk management and preserving market integrity) provided that any synthetic USD-INR position created using a combination of exchange traded FCY-INR and cross-currency contracts shall have to be within the position limit prescribed by the exchange for the USD-INR contract.

Source: Notification No. RBI/2015-16/267 [A.P. (DIR Series) Circular No. 35] dated: December 10, 2015

Read more at: https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10172&Mode=0

● Inclusion of "IDFC Bank Limited" in the Second Schedule to the Reserve Bank of India Act, 1934

"IDFC Bank Limited" has been included in the Second Schedule to the Reserve Bank of India Act, 1934 vide Notification DBR.PSBD. No.5270/16.01.0146/2015-16 dated October 13, 2015, and published in the Gazette of India (Part III - Section 4) dated November 07- November 13, 2015.

Read more at: https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10172&Mode=0

● Section 24 and Section 56 of the Banking Regulation Act, 1949 - Maintenance of Statutory Liquidity Ratio (SLR)

As announced in the fourth Bi-Monthly Monetary Policy Statement 2015-16 by the Reserve Bank of India on September 29, 2015, it has been decided to reduce the Statutory Liquidity Ratio (SLR) of scheduled commercial banks, local area banks, primary (Urban) co-operative banks (UCBs), state co-operative banks and central co-operative banks from 21.5 per cent of their Net Demand and Time Liabilities (NDTL) to:

(i) 21.25 per cent from April 2, 2016;
(ii) 21.00 per cent from July 9, 2016;
(iii) 20.75 per cent from October 1, 2016; and
(iv) 20.50 per cent from January 7, 2017

Read more at: https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10167&Mode=0

● Regional Rural Banks - Priority Sector Lending – Targets and Classification

The comprehensive revised guidelines on Priority Sector Lending – Targets and Classification for Regional Rural Banks are enclosed as Annex. The revised guidelines supersede all earlier guidelines mentioned in the Master Circular RPCD.CO.RRB.BC 5/03.05.33/2014-15 dated July 1, 2014 on Regional Rural Banks - Lending to Priority Sector.

Some of the salient features of the guidelines are as under:-

Targets:

75 per cent of total outstanding to the sectors eligible for classification as priority sector lending and sub sector targets as indicated in subsequent paragraphs.

Categories of the Priority Sector:

Medium Enterprises, Social Infrastructure and Renewable Energy will form part of the Priority Sector, in addition to the existing categories, with a cap of 15 per cent of total outstanding.

Agriculture:

18% per cent of total outstanding should be advanced to activities mentioned under Agriculture.

Small and Marginal Farmers:

A target of 8 percent of total outstanding has been prescribed for Small and Marginal Farmers within Agriculture.

Micro Enterprises:

A target of 7.5 per cent of total outstanding has been prescribed for Micro Enterprises.

Weaker Sectors:

A target of 15 per cent of total outstanding has been prescribed for Weaker Sections.

Monitoring:

Priority Sector Lending will be monitored on a quarterly as well as annual basis.

Read more at: https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10155&Mode=0

● Interest Equalisation Scheme on Pre and

Post Shipment Rupee Export Credit

The Government of India has announced the Interest Equalisation Scheme on Pre and Post Shipment Rupee Export Credit to eligible exporters. The scheme is effective from April 1, 2015. Accordingly, scheduled commercial banks are advised to adhere to the following operational procedure for claiming reimbursement:

A. Procedure for passing on the benefit of interest equalisation to exporters:

❆ For the period April 1, 2015 to November 30, 2015, banks shall identify the eligible exporters as per the Government of India scheme and credit their accounts with the eligible amount of interest equalisation.

❆ From the month of December 2015 onwards, banks shall reduce the interest rate charged to the eligible exporters as per our extant guidelines on interest rates on advances by the rate of interest equalisation provided by Government of India.

❆ The interest equalisation benefit will be available from the date of disbursement up to the date of repayment or up to the date beyond which the outstanding export credit becomes overdue. However, the interest equalisation will be available to the eligible exporters only during the period the scheme is in force.

B. Procedure for claiming reimbursement of interest equalisation benefit already passed on to eligible exporters

❆ The sector-wise consolidated reimbursement claim for the period April 1, 2015 to November 30, 2015 for the amount of interest equalisation already passed on to eligible exporters should be submitted to RBI by December 15, 2015.

❆ The sector-wise consolidated monthly reimbursement claim for interest equalisation for the period December 2015 onwards should be submitted in original within 15 days from the end of the respective month, with bank's seal and signed by authorised person, in the prescribed format given in Annex I.

❆ The claims should be accompanied by an External Auditor's Certificate (with stamp and membership number) certifying that the claim for interest equalisation of Rupees................ for the month ended .... has been verified and found to be strictly in accordance with the provisions of the Government scheme enclosed with the circular DBR.Dir.BC.No.62/04.02.001/2015-16 dated December 4, 2015. Claims for reimbursement will be considered for settlement only after receipt of this certificate.

❆ The claims may be submitted to the Chief General Manager, Department of Banking Regulation, Reserve Bank of India, Central Office, Shahid Bhagat Singh Marg, Fort Mumbai – 400 001.

❆ The reimbursement of interest equalisation claim will be made as and when the funds are received from Government of India.

Read more at: https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10159&Mode=0

● **Mobile Banking Transactions in India - Operative Guidelines for Banks – Customer Registration for Mobile Banking**

A reference is invited to para 7 of the Master Circular on Mobile Banking transactions in India – Operative Guidelines for Banks dated July 1, 2015. Given the high mobile density in the country, the policy focus of RBI has been to encourage banks to leverage on the mobile channel for widening the access to banking services. Irrespective of whether the services are offered through SMS, USSD or application channels, customer registration for mobile banking is critical. Towards this end, RBI has been reiterating the need for simplification of procedure and greater degree of standardization in procedures relating to registering of customers for mobile banking.

❆ **Mobile Banking Registration through ATMs**

As advised by us, the National Payment Corporation of India (NPCI) has since developed the mobile banking registration service / option on the National Financial Switch (NFS). After a pilot with a few banks, the service is ready to be deployed on ATMs of all the NFS member banks. The necessary instructions for integration have been issued to banks by NPCI.

In view of the above, all the banks participating in NFS should carry out necessary changes in their respective ATM switches and enable the capability of customer registration for mobile banking at all their ATMs latest by 31st March 2016.

❆ **Registration through other Channels and Customer Awareness**

In addition to the above, banks should also strive to facilitate customer registration for mobile banking through other channels including internet banking, IVR, phone banking, etc. As customer registration is an important pre-requisite for offering mobile banking services, banks should also use multiple channels to create awareness among their customers regarding mobile banking services and options available for customer registration.

Source: Notification No. RBI/2015-16/269 [DPSS.CO.PD. No./1265/02.23.001/2015-2016] dated: December 17, 2015

SEBI

● Review of Annual Custody / Issuer Charges

SEBI vide circular no. MRD/DoP/SE/Dep/Cir-4/2005 dated January 28, 2005 has allowed the custody/issuer charges to be collected by the depositories from the issuers in the manner specified therein. Subsequently, the charges and the methodology were revised vide Circular Nos. MRD/
DoP/SE/Dep/Cir-2/2009 dated February 10, 2009 and CIR/MRD/DP/05/2011 dated April 24, 2011 respectively.

The Depository Systems Review Committee (DSRC) has, with an objective of promoting financial inclusion and expanding the reach of depository services to tier II and tier III towns, recommended that the revenue source of the depositories may be augmented and Depository Participants (DPs) may be incentivized by having a revenue sharing mechanism between depositories and DPs. It has also suggested that the annual issuer charges may be enhanced and the incremental revenue be shared suitably by the depositories with their Participants for promoting the Basic Services Demat Accounts (BSDA) and opening new accounts in tier II and tier III towns. After deliberation, it has been decided to revise the per folio charges from Rs 8.00 (eight) to Rs. 11.00 (eleven), subject to a minimum as mentioned below:

Nominal Value ofadmitted securities (Rs.)	Annual Custody Fee payable by an Issuer to each depository (Rs.)
Upto 5 crore	9000
Above 5 crore and upto 10 crore	22,500
Above 10 crore and upto 20 crore	45,000
Above 20 Crore	75,000

Source: Circular CIR/MRD/DP/18/2015, dated: December 09, 2015
Read more at: http://www.sebi.gov.in/cms/sebi_data/attachdocs/1449659863183.pdf

● Introduction of system-driven disclosures in securities market

SEBI has specified the disclosure requirements relating to acquisition, sale and pledge of securities under the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 (hereinafter referred to as "SAST Regulations") and SEBI (Prohibition of Insider Trading) Regulations, 2015 (hereinafter referred to as "PIT Regulations") in order to bring in transparency and promote orderly conduct in the market. Since the Stock Exchanges, Depositories and Registrar and Share Transfer Agents (hereinafter referred to as "RTAs") have adopted advanced systems and technologies, it has been decided to explore the possibility of disclosing such information based on these systems.

Source: Circular - CIR/CFD/DCR/17/2015, dated: December 01, 2015
Read more at: http://www.sebi.gov.in/cms/sebi_data/attachdocs/1448970446882.pdf

● Facility for Basic Services Demat Account (BSDA)

SEBI vide circular no. CIR/MRD/DP/22/2012 dated August 27, 2012 had introduced the facility of "Basic Services Demat Account" (BSDA) with limited services for eligible individuals with the objective of achieving wider financial inclusion and to encourage holding of demat accounts.

Further, vide the aforesaid circular, the Depository Participants (DPs) were advised to provide an option to all the existing eligible individuals to convert their demat account into BSDA. So far, few demat accounts have actually been converted into BSDA during the last three years despite large number of demat accounts being eligible for conversion into BSDA.

In order to facilitate the eligible individuals to avail the benefits of BSDA, DPs are advised to convert all such eligible demat accounts into BSDA unless such Beneficial Owners (BOs) specifically opt to continue to avail the facility of a regular demat account. The DPs shall assess the eligibility of the BOs at the end of the current billing cycle and convert eligible demat accounts into BSDA.

The Depositories are advised to:-

a) make amendments to the relevant bye-laws, rules and regulations for the implementation of the above decision as may be applicable / necessary; and

b) communicate to SEBI, the status of implementation of the provisions of this circular by the DPs in the Monthly Development Report.

Source: Circular - CIR/MRD/DP/ 20 /2015 dated: December 11, 2015

(For further details on these issues, please visit the Institute's website: www.icmai.in for the complete CMA e-Bulletin, January 2016, Vol 4, No 1 in the "Research and Publications" section.)

Eastern India Regional Council

Cuttack Jagatsinghpur and Kendrapara Chapter of Cost Accountants

The Chapter organized an Evening talk on 'Forensic Accounting' on August 2, 2015 at its premises. CMA N Mishra, CCM, was the chief guest of the occasion and CMA S.P Padhi chairman, EIRC discussed various issues on Forensic Accounting. CMA M K Mohapatra, chairman of the chapter explained the role of CMAs in Forensic Accounting and CMA A.K Biswal, vice chairman extended the vote of thanks. The Chapter conducted a seminar on 'NPA Management & Corporate Debt Restructuring-Role of CMAs & "Indradhanush" The Banking Reforms For Growth & Sustainability-Role of CMAs' on December 6, 2015. Sri Venkatarameya Surapaneni, Zonal Manager, Corporation Bank was the Chief Guest on the occasion who described about various segments of NPA Management and "Indradhanush", the Banking reforms organised by the Central Government. CMA Mihir Kumar Mohapatra , Chairman of the chapter explained the role of CMAs in NPA Management. CMA Sridipta Kumar Nanda and CMA Asim Roy narrated the plans and procedures of the reforms under Indradhanush Scheme.

Patna Chapter of Cost Accountants

The Chapter conducted an Investor Awareness Programme on 'Opportunities For Small Investors in Capital Market' on December 19, 2015 at the Institute of Engineers, Bihar State Centre. CMA Vikash Burnwal was the speaker for the programme.

Bhubaneswar Chapter of Cost Accountants

The Chapter organized a seminar on November 22, 2015 on the theme 'Cost Auditing Standards' for its members. CMA P. Raju Iyer, Council Member and Chairman Cost Auditing Standards Board of the Institute, Guest Speaker CMA B.B. Goyal, Advisor, ICWAI-MARF of the Institute, deliberated in details about the provisions in the newly approved Cost Auditing Standards duly approved by the Ministry of Corporate Affairs, Govt. of India. CMA Niranjan Mishra, Council Member, Chairman of RCs' & Chapter Coordination

Committee and Member of Cost Auditing Standards Board of the Institute and CMA Shiba Prasad Padhi, Chairman, EIRC graced the seminar as guest of honour. CMA Bikram Keshari Das, Chairman, Professional Development Committee delivered the welcome address and CMA Bibhuti Bhusan Nayak, Chairman of the Chapter gisted on the topic.

The chapter observed the communal harmony campaign week from November 19 till November 25, 2015 and Flag Day on November 24, 2015 of the National Foundation for Communal Harmony as per the order issued by the Ministry of Corporate Affairs, Govt. of India and subsequent communication received from the Institute at its premises. In reference to the circular of the Institute and as per the communication of Ministry of Corporate Affairs, Govt. of India the chapter celebrated the Constitution Day on November 26, 2015 at its premises in the memory of 125th Birth Anniversary of Dr. B.R. Ambedkar. The Chapter with South Odisha Chapter & Cuttack-Jagatsinghpur - Kendarapara Chapter of the Institute jointly organized a Two Days National Conference 2015 on the theme 'CMAs'- Factor of Value Addition in Power and Mining Sector' on December 12 & 13, 2015 inaugurated by Dr. R.C.C Patnaik, Hon'ble Members of Legislative Assembly (MLA), Berhampur Constituency, the chief guest in the conference. Smt. K. Madhavi, Mayor, Berhampur Municipal Corporation, Shri Subash Ch. Moharana, Chairman, BDA, Berhampur were the guests. In the technical session I, on the theme 'Cost Records and Cost Audit in Power and Mining Sector Need, Utility and Implementation', CMA Kunal Banerjee, Past President of the Institute, Guest Speaker in the session, CMA Balwinder Singh, Council Member & Chairman, Cost Accounting Standard Board of the Institute were the resource persons who deliberated regarding maintenance of Cost Records and Cost Audit in Power and Mining Sectors. CMA Dr I. Ashok, Council Member & Chairman, CAT Committee extended formal vote of thanks in the said technical session. The technical session II on 'Tariff Mathematics in Power Sector' had been held where CMA Santosh Kumar Sahu, Director (Finance), Odisha Hydro Power Corporation Ltd was the Guest speaker. Shri Subash R. Sethi, Ex-Advisor, University of Petroleum & Energy Studies, Dehradun, Er. Priyabrata Patnaik, Director (Regulatory Affairs), Odisha Electricity Regulatory Commission, Bhubaneswar were other resource persons on the said topic. CMA Biswarup Basu, Council Member & Chairman, Members Facilities Committee of the Institute extended formal vote of thanks in the session. CMA Khirod Kumar Parida, Director (Finance), Mahanadi Coal Fields Ltd., Sambalpur, CMA Pravakar Mohanty, Director (Finance), Nilachal Ispat Nigam Ltd., Jajpur, CMA Kulamani Biswal, Director (Finance), National Thermal Power Corporation Ltd., CMA Santosh Kumar Sahu, Director (Finance), Odisha Hydro Power Corporation Ltd. attended the CFOs meet held on December 12, 2015. CMA Kulamani Biswal, Director (Finance), NTPC Ltd., New Delhi was the Guest speaker in the technical session – III on the sub -theme 'Sustainable Cost Reduction in Power & Mining Sector'. Dr. D.V. Ramana, Professor, Xavier Institute of Management (XIMB), Bhubaneswar, CMA Sunil Baran Mahapatra, former General Manager, Coal India Ltd. & CMA Santosh Kumar Sahu, Director (Finance), OHPC Ltd were the resource persons on the said topic. CMA K. Biswal, Director (Finance), NTPC Ltd., New Delhi and Dr. D.V. Ramana, Professor, XIMB, Bhubaneswar deliberated in detail regarding cost reduction both in power and mining sectors. CMA Sunil Baran Mahapatra, former General Manager (Finance), Coal India Ltd. & CMA S.K. Sahu, Director (Finance), OHPC Ltd. delivered regarding sustainable cost reduction in mining sectors & power sectors respectively. CMA Biswajit Dey, Sr. General Manager (Accounts), J.K. Paper Mills,

Raygada, Odisha also highlighted about the cost reduction in paper mills. The technical session IV was based on the sub -theme 'IND AS: Issues and Challenges for implementation' where CMA Mrityunjay Acharya, Associate Vice President, Balmer Lawrie & Co Ltd., Kolkata and CMA Baidyanath Maharana, General Manager (Finance), North Eastern Electric Power Corporation Ltd., Shilong were the guest speakers. In the valedictory session, Er. P.C. Tripathy, Authorized Officer, SOUTHCO Utility, Berhampur, Odisha was the Chief Guest and CMA N. Mishra, Council Member & Chairman, RCs & Chapter Coordination Committee, CMA Shiba Prasad Padhi, Chairman, EIRC, CMA C. Venkata Ramana, RCM, CMA Bibhuti Bhusan Nayak, Chairman of the Chapter, CMA Binod Bihari Nayak, Chairman, South Odisha Chapter and CMA M.K. Mohapatra, Chairman, CJK Chapter were the dignitaries attending the valedictory session. To mark and highlight the conference, one press meet was also organized by the Conference Committee on December 11, 2015 and in the said press meet the chapter also launched its 3rd edition of News Letter (December,2015) of 2015-16.

Guwahati Chapter of Cost Accountants

The Chapter organized a seminar on 'GST Business Processes and ERP in Supply Chain Management' on November 29, 2015. CMA S K Saha, Chairman of the chapter discussed on GST Legislation and Shri Anurag Goel, IAS, Commissioner of Taxes, Government of Assam the Chief Guest mentioned about GST law. Shri Gautam Dasgupta, Deputy Commissioner of Taxes, Government of Assam and Shri Rakesh Agarwal, Deputy Commissioner of Taxes, Government of Assam graced the occasion as Guest of Honour. Shri Gautam Das Gupta shared his ideas on GST. CMA Mrityunjay Acharjee, Associate VP (Finance) of Balmer Lawrie & Co Ltd, Kolkata, deliberated presentation in the 1st Technical session on GST business processes covering all the aspects of Draft GST legislation, demerits of existing Indirect Tax System and Industry Expectation from GST. In the Technical session II, CMA TCA Srinivasa Prasad, Past Central Council Member of the Institute deliberated on ERP in SCM and discussed implementation of ERP and importance of ERP in Supply Chain Management. Both the session was interactive and there was active participation by delegates from OIL India Ltd, Power Grid Corporation of India Ltd, Assam Electricity Grid Corporation Ltd, Assam Power Generation Corporation Ltd, Axis Bank Ltd and Yes Bank Ltd.

Northern India Regional Council

Jaipur Chapter of Cost Accountants

The Chapter conducted career counseling programs at Kanodia Girls College, Jaipur on November 28, 2015 and also at R.L Saharia Govt P.G College, Kaladera, Jaipur, on November 30, 2015. CMA P.D. Agrawal, Director - Coaching explained the students about CMA

course including its career prospects. Ms. Neha Rani, Academic Coordinator (CAT) delivered audio visual presentation followed by career counseling. Pre-placement Training Program was conducted at the chapter from September 20, 2015 till October 4, 2015 for June 2015 final qualified students.

Southern India Regional Council

Trivandrum Chapter of Cost Accountants

On November 24, 2015, the Chapter and ICSI, Thiruvananthapuram Chapter jointly organised a Professional Development Programme at its CMA Hall on 'Recent Changes in Labour Laws – the proposed changes before the winter session 2015 and their implications for the Working Class and employers in the era of Globalization' where the guest speaker was Adv. Anil Narayan, Specialist in Labour Laws.

Hyderabad Chapter of Cost Accountants

On November 7, 2015 the chapter organized a programme on 'Overview of IND AS' held at CMA Bhavan. CA D.K. Astik, CEO & Director, i2i IFRS highlighted the major concept of IND AS which moved from 'Principle' based accounting to 'Rule' based accounting. On November 9, 2015, a programme on 'Overview of IND AS' was held at BDL campus for their employees. CA Sekkizhar Balasubramanian, Deloitte Haskins & Sells was the keynote speaker of the programme who explained in detail about IFRS-Ind GAPP-UK-GAPP-USA-GAPP etc. The programme was graced by CA Piramanayagam, Director (Finance), BDL. CMA D. Zitendra Rao, RCM, SIRC expressed that the implementation of Indian Accounting Standard is being adopted for Indian Accounting practices to make it at par with global practices. A programme on 'Service Tax Compliance and Documentation Procedures' was held at CMA Bhavan on November 21, 2015. Sri S. Suresh Kumar, Superintendent, Central Excise Customs & Service Tax was the resource person in the programme and he explained sectionwise compliance and documentation procedures for the benefit of participants. On the same day the chapter held a programme on 'Cost Auditing Standards – 2, Cost Audit Documentation & Prevention of Fraud' at CMA Bhavan. CMA D. Zitendra Rao, Chairman-SC was the resource person in the programme. On November 24, 2015 a programme on 'Service

Tax Audit' was held at CMA Bhavan. Sri S. Suresh Kumar, Superintendent, Central Excise Customs & Service Tax was the resource person. Three Investor Awareness Programmes were conducted by the chapter at different dates of November 2015. On November 5, 2015 the chapter arranged an education visit for all CMA students. On November 23, 2015 career counseling was held at Avanthi Degree College, Barkatpura. On November 26, 2015 Constitution Day celebrations was held by the chapter at CMA Bhavan, Hyderabad. CMA Dr. R. Chandra Sekhar, Chairman, Student Services highlighted the purposes of celebration of the day.

Visakhapatnam Chapter of Cost Accountants

SIRC of the Institute organized Regional CMA Summit-2015 on November 27 and 28, 2015 jointly hosted by Visakhapatnam Chapter and Ukkunagaram Chapters on the theme 'Cost and Management Accountant (CMA) - A Game Change in strengthening the National Economy through Sustainable Management of Natural Resources'. Sri T. V. S. Krishna Kumar, Director Finance, RINL, Sri. Ravi Kant, Former IAS and Director General, Administrative Staff College of India, Hyderabad, CMA K Narasimha Murthy, Management Consultant and Independent Director, Sri N V N Ram Sai, Executive Director (Finance), Indian Oil Corporation Ltd, CMA V Kalyanraman, Past President of the Institute and SAFA were the guests of honour. CMA P V Bhattad, President of the Institute was the Chief Guest in the valedictory session. CMA Manas Kumar Thakur, Vice President of the Institute was the chief guest of the summit. On December 20, 2015, the chapter organized a professional development programme jointly with Indian Institute of Material Management (IIMM) Visakhapatnam branch on 'Material Management, Make in India – Role of CMA' at CMA Bhawan. CMA K.N. Hari Hara Prasad, Dy. Director, Central Excise & Service explained the role of CMAs in coordination with material management in Make in India. Dr Rabi Narayana Padhi (HAL) discussed the contribution of supply chain professionals in Make in India as the future global manufacturing hub of world. Sri N. Udaya Bhanu, BOS Member, IIMM explained the activities of IIMM Visakhapatnam Branch and Sri A.K. Rajendra Kumar, Secretary of IIMM proposed vote of thanks.

Mettur Salem Chapter of Cost Accountants

The chapter organized a meet on November 18, 2015 at its premises on the theme 'Standards on Cost Auditing'. CMA P Raju Iyer, Chairman, Cost Auditing Standard Board detailed the standards and also communicated the 5 Exposure Drafts. He also said that the MCA expects at least 15 more standards to be finalized before the end of current financial year. The programme concluded after an interactive session.

Mysore Chapter of Cost Accountants

The Chapter organized a full day seminar on 'Goods and Service Tax' on November 22, 2015 inaugurated by Sri. Umesh K Shenoy, Vice President (Works), JK Tyres, Mysore. He emphasised the necessity for Goods & Service Tax which has the potential for improving GDP and provide better business atmosphere. CMA G N Venkataraman, past president of the Institute said that CMAs being professionals should make themselves prepared to help the business by proper advise, while the Goods & Service Tax is implemented. Mr. K Bhaskar, Director, M/s Deloitte, Bangalore was the resource person who explained the various aspects of the proposed act with illustrations and details available on the subject. Mr. Vageesh Hegde, Sr. Manager (Taxation), JK Tyres & Industries Ltd., Mysore chaired the session and summed up the proceedings.

Madurai Chapter of Cost Accountants

The Chapter organized an interactive session on Goods & Service Tax (GST) in association with Tamil Nadu Chamber of Commerce & Industry, Madurai on the theme 'GST Business Processes Reports' held at Tamil Nadu Chamber of Commerce Building Auditorium on November 24, 2015. Chief Guest, CMA Ashok Naval, Central Council Member and Chairman, Taxation Committee of the Institute inaugurated the meeting and delivered key note address on GST Business Reports. Shri N. Jegatheesan, President, TN Chamber welcomed all the participants and delegates. Council Member, CMA. Dr. I. Ashok also presided over the meeting. Shri. S. Rethinavelu, Sr. President, TN Chamber briefed in detail about the concept paper of GST and also the registration process. The panel experts, CMA J. Balasubramanian & CA. G. Saravanakumar explained about the return process, refund process and adjustment of GST Credit.

Western India Regional Council

Nagpur Chapter of Cost Accountants

The Chapter held a workshop on 'Opportunity for CMAs in Bank' at their premises on November 21, 2015.

Prof. D.N. Panigrahi, CMA T.B. Raman Murty, Zonal Manager, Bank of Maharastra, CMA P.V. Bhattad, President ICAI, CMA S.N. Mahankaliwar, Secretary WIRC-ICAI, CMA K.V. Kasiviswanathan, Vice-Chairman were present at the program

Ahmedabad Chapter of Cost Accountants

The Chapter organized CEP program on 'Management of Emotions at Work Place and Life (Scientific approach) for Mastering Emotions' on October 30, 2015. CMA PD Modh was the eminent speaker of the program. The chapter observed Rashtriya Akta Diwas, National Unity Day-Shapath (Pledge) on October 30, 2015 in the memory of Late Sardar Vallabhbhai Patel. The chapter celebrated the communal harmony campaign week during November 19 till 25, 2015 and Flag Day on November 24, 2015 as per the order of HQ. The chapter celebrated the constitution day on November 26, 2015 at its premises in the memory of 125th birth anniversary of Dr. B R Ambedkar.

Pimpri Chinchwad Akurdi Chapter of Cost Accountants

The Chapter organized Members in Industry Fortnight seminar on the theme 'Cost Management as an effective tool for better financial management' in the month of November 2015 conducted by CMA Ajay Kumar, Head (Corporate Finance), Minda Corporation Ltd at CMA Bhawan. CMA L D Pawar, RCM felicitated the speaker, CMA Ajay Kumar who explained the practical applications of cost management techniques and explained in detail the challenges faced by cost accountants in industry while presenting reports to higher management and how to overcome these challenges. The chapter organized a second session of CEP seminar on 'GST Return, Payment and Refund' on November 28, 2015 at CMA Bhawan. The first session of CEP seminar was held on GST Registration in the month of October 2015. In the Technical session, CMA L D Pawar, RCM, the guest speaker explained in detail the provisions regarding return, payment and refund procedure involved in GST.

Surat South Gujarat Chapter of Cost Accountants

A CEP on 'Role of Cost Accountants in Direct Taxation' had been organized by the chapter on November 29, 2015 at its office. CA Surendra Kumar Rakhecha, a Practicing Chartered Accountant discussed comprehensively on the topic and gave various ideas and explained role of Cost Accountants in Direct Taxation.

Bharuch Ankleshwar (Twin City) Gujarat CEP Study Circle

The inaugural function of Gujarat newly formed study circle was held on October 10,2015. CMA S .N. Mundra was the convener of the study circle and CMA R.K. Rathi was the Dy. Convener of the study circle. Dr. Uttam Pandit, OSD - Ministry of Commerce being the chief guest of the function inaugurated the GST Seminar in presence of CMA A.B. Nawal, Chairman – Taxation Committee of the Institute, Shri Sumit Dutt Majumder, former chairman C.B.E.C. & other senior members of the Institute. Dr. Uttam Pandit assured full support of Government of India for betterment of profession and proper recognition of CMA profession in nation building. First key note address cum technical session on GST was taken by Shri Sumit Dutt Majumder former chairman C.B.E.C. and the second technical session on operation challenges and way forward on GST was taken by CMA A.B .Nawal Chairman of Taxation Committee of the Institute. He explained the various steps to be taken up by industry for smooth transition of GST. Many senior official from Reliance, NTPC, GNFC and esteemed organization were present and they appreciated the efforts of the CMA profession in organizing such useful seminar.

THE INSTITUTE OF
COST ACCOUNTANTS OF INDIA
(STATUTORY BODY UNDER AN ACT OF PARLIAMENT)
CMA BHAWAN
12, SUDDER STREET, KOLKATA – 700 016.

Telephones : +91-33- 2252-1031/1034/1035
+ 91-33-2252-1602/1492/1619
+ 91-33- 2252-7143/7373/2204
Fax : +91-33-2252-7993
+91-33-2252-1026
+91-33-2252-1723
Website : www.icmai.in

Ref. No.: G/128/12/3/2015-16 Date: December 23, 2015

CIRCULAR

Sub: **Details regarding Foundation Course Examination**

Further to our earlier Circular Ref. No.: G/128/12/2015-2016 dated 3rd December, 2015, this is for the information of all concerned that all students enrolled for Foundation course on or before October 31, 2015 shall be permitted to take the MCQ based online examination to be held during March, 2016. This is in addition to all those unsuccessful candidates of December, 2015 term of Foundation examination, who will be given a final opportunity to appear in online examination in March, 2016.

(Kaushik Banerjee)
Secretary

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory Body under an Act of Parliament)
PUNE CHAPTER
GOLDEN JUBILEE CELEBRATIONS

CORDIAL INVITATION

ICAI-Pune Chapter is celebrating its **Golden Jubilee** in the year 2015-16. It is a proud moment for all of us and we propose to celebrate the Golden Jubilee in befitting manner. The theme of the Golden Jubilee is **"Together we make – Great India Greatest"**. The programme is formulated as under.

Thursday, 21st January 2016	
Venue: ICAI-Pune Chapter, Laxminagar Premises	
08.30 am to 09.30 am	Satyanarayan Puja
09.30 am to 06.00 pm	Blood Donation by members/students and well wishers

Students Day: Friday, 22nd January 2016	
Venue: Alpabachat Bhavan, 7, Queens Garden, Near Council Hall, Pune 411 001	
08.30 am to 09.30 am	Registration and High Tea
09.30 am to 11.00 am	Inaugural session and felicitation of meritorious students
11.45 am to 01.00 pm	Motivational Programme for students
01.00 pm to 02.00 pm	Lunch
02.00 pm to 03.30 pm	Debate Competition for students
03.30 pm to 03.45 pm	Tea & Coffee
03.45 pm to 05.45 pm	Cultural Programme by students

Golden Jubilee Function: Saturday, 23rd January 2016	
Venue: Alpabachat Bhavan , 7, Queens Garden, Near Council Hall, Pune 411 001	
08.30 am to 09.30 am	Registration & High Tea
09.30 am to 11.00 am	Inaugural session
11.30 am to 11.45 am	Tea & Coffee
11.45 am to 01.30 pm	Theme Session 1: Simulating Economy, Industry, Agriculture and Infrastructure
01.30 pm to 02.30 pm	Lunch
02.30 pm to 04.00 pm	Theme Session 2 : Advancing in Science, Technology and Environment
04.00 pm to 04.15 pm	Tea & Coffee
04.15 pm to 05.30 pm	Theme Session 3 : Creating Social Harmony-Laws, Justice and Equilibrium
06.30 pm to 09.00 pm	Cultural Programme
09.00 pm to 10.00 pm	Dinner

Golden Jubilee Function : Sunday, 24th January 2016	
Venue : Alpabachat Bhavan, 7, Queens Garden, Near Council Hall, Pune 411 001	
10.00 am to 11.30 am	Theme Session 4 : Upgrading Security and Quality of Life
11.30 am to 11.45 am	Tea
11.45 am to 01.30 pm	Valedictory Function
01.30 pm to 02.30 pm	Lunch

Delegate fee –
Your Presence along with Your Better Half
(Voluntary Contributions from Members/Participants – Cheque/DD may be drawn in favour of Pune Chapter of Cost Accountants)

In and around Pune –

In month of January, Pune will have best climatic conditions and we assure you best of our hospitality and you can visit following places (each place you can cover in one day)

- Shirdi, Ashtavinayaka's, Jejuri, Sinhagad, Panshet, Karla Caves, Ellora Caves
- Mahabaleshwar, Lonawala Khandala, Matheran (Hills Stations)
- Pune Darshan

Accommodation Options –

- Limited number of rooms are available at walking distance from the venue: Rs.1,200/- to Rs.1,500/-for AC Rooms Double Occupancy, Rs.800/-to 1,000/- for Non AC Rooms Double Occupancy
- Many other options are available in Pune to suit the individuals requirements. ICAI-Pune Chapter will assist in finding suitable option for you on your advance intimation (min. 15 days)

CEP Points –

ICAI-Pune Chapter will be making application for CEP Credit Hours in due course of time.

Kindly make your travel plan and inform us. We will also be happy to provide any further assistance you may require.

With Warm Regards,

Chairman ICAI – Pune Chapter, Golden Jubilee Committee and Team ICAI – Pune Chapter

Renowned Personalities will share their vision to Make Great India Greatest

Q&A

CMA Vijendra Surana
CFO of RS Software (India) Ltd.

Q RS Software has focused exclusively on the payments industry. How this strategy help your organisation to hold a pioneer position in this field?

RS started its operations in early 90s when India was getting established as a leading global outsourcing player. RS took a strategy to be a domain focused player in 2005 as it could foresee the changing face of global IT Industry where niche players will play a pivotal role in enhancement of Indian IT industry. Being a domain focused niche player, RS grew its volume and business,which is evident in its reported Revenues which grew from Rs 100 cores in 2008 to ~Rs.400 Crores in 2015

Q What trends are you observing in e-payment solutions in India? Give us an idea of the market size and potential?

Technology has moved up the chain from phone-line to online to mobile. Cash is being replaced by Cards; Cards are now being replaced by e-wallet. Transactions are becoming easier and faster. Everything is getting digitalized. India is also moving towards Digitalization as we hear the call for digital India. India is fast adopting e-payments and ecommerce. From statutory payments to donations and gifts, from shopping to cabs, from restaurants to movies, we see a surge in e-transactions.

With new policies of the government being in place, the e- payment will get a great boost which in turn will be a booster for Indian economy.

Emerging Key Trends in e-payments are use of mobile application, growing prepaid cards market and emergence of a number of players with mobile wallet.

The mobile payment market has grown 4 times over last four years. The market is ever growing and will continue to grow multifold in coming years.

Q How do you keep yourself ahead from your competitors? What is the Success Mantra of your organization?

Think of yourself as the customer- is the RS philosophy and RS believes in optimizing the cost of ownership for its customer.

Cost Management and optimal resource utilization wherein resources include physical infrastructure and human resources. This gives economic edge to RS.

Q Kindly share with us some of your brand management strategies for sustainable growth of your organization.

I always believe that let your performance speak. RS performance has enabled RS to create a Brand for itself and at the same time we took initiative to educate investors about our business and payments industry. We frequently communicate with Analyst Community.

Q What is RS Global Execution Methodology? How would you manage risk in this concept?

It is common for custom software development companies to use a variety of methodologies and processes in the work they do with their clients. Many of these methodologies and processes are standardized and generalized for use across a variety of industries.

RS Software has focused exclusively on the payments industry since its inception. No other custom software solutions provider delivers more industry-specific knowledge and experience to clients competing for market share in the payments space.

The RS Global Execution Methodology™ (RS GEM™) was designed for and based on the unique dynamics of the payments industry. It is a proprietary methodology based on three components that are tailored to mitigate risk and improve time to market for organizations offering payment products and services: The RS School of Payments™, The RS Project Delivery Framework™, and The RS Customer View™.

Q Is the acceptance/adoption of government enterprises to digital payments platform good enough for our economic progress or do you feel we are lagging behind? What would you suggest we do?

It is good that Government has taken such an initiative and certainly it is going to be rewarding for our economy. At the same time we need to accelerate usage of such payment in our C2B and C2C and C2G sector of payments. A large population is not yet tech savvy. There are initiatives being taken to encourage the usage of e-payment and this will also help in economic progress but participation of consumers & businesses will give added boost

Q As a token of advice to our young CMA achievers, kindly mention at least 3 qualities that they must possess to excel in their career.

a. Believe in yourself
b. Have Work-life balance
c. Challenge Yourself

Q Cost Management always plays a pivotal role to gain competitiveness and risk management. Please suggest in what ways Cost and Management Accountants may offer their expertise more effectively in this quest.

They must -
a. Optimize Available resources
b. Look at Big Picture
c. Align cost strategy with organization Strategy.

ABOUT THE INSTITUTE

The Institute of Cost Accountants of India (erstwhile, The Institute of Cost and Works Accountants of India) was established by a special Act of Parliament, namely, the Cost and Works Accountants Act, 1959 as a statutory professional body for the regulation of the profession of cost and management accountancy in India. Since then it has been continuously contributing to the growth of the industrial and economic climate of the country. The main mission of the Institute is to drive the enterprises globally by creating value to stakeholders in the socio- economic context through competencies drawn from the integration of strategy, management and accounting.

The Institute of Cost Accountants of India is second largest body of CMAs in the World after the Chartered Institute of Management Accountants (CIMA). Its Head Quartered in Kolkata, with Delhi Office, 4 Regional Councils in 4 Metro Cities, 96 Chapters spread all over India and 9 Overseas Centres, 3 Centre of Excellence in India, 84 CMA Support Centres. It is under the administrative control of the Ministry of Corporate Affairs, Government of India. There are about 69,000 members in employment & practice and about 475,000 students pursuing the Course. The ICAI-CMA, a national accounting body, is also a founder member of International Federation of Accountants (IFAC), Confederation of Asian and Pacific Accountants (CAPA) and South Asian Federation of Accountants (SAFA).

Objectives of the Institute

- To develop the Cost and Management Accountancy function as a powerful tool of management control in all spheres of economic activities.
- To promote and develop the adoption of scientific methods in cost and management accountancy.
- To develop the professional body of members and equip them fully to discharge their functions and fulfill the objectives of the Institute in the context of the developing economy.
- To keep abreast of the latest developments in the Cost and Management Accounting principles and practices, to incorporate such changes are essential for sustained vitality of the industry and other economic activities.
- To exercise supervision for the entrants to the profession and to ensure strict adherence to the best ethical standards by the profession.
- To organise seminars and conferences on subjects of professional interest in different parts of the country for cross-fertilization of ideas for professional growth.
- To carry out research and publication activities covering various economic spheres and the publishing of books and booklets for spreading information of professional interest to members in industrial, education and commercial units in India and abroad.

Vision Statement

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

Mission Statement

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

"Work with integrity and succeed with integrity"

- Late Dr. A.P.J. Abdul Kalam, Former President of India

57th National Cost Convention, 2016

Behind Every Successful Business Decision, There is always a CMA

The Institute of Cost Accountants of India
(Statutory body under an Act of Parliament)

MESSAGE OF PRESIDENT

Dear Professional Colleagues,

Shri Narendra Modi, Hon'ble Prime Minister of India launched Mission ***"Make in India"*** with an aim to provide India an economic global recognition. It is intended that investors should take it as an opportunity and not as market in India. The program is also aimed to renew an Indian economy from services-driven growth model to the labour-intensive manufacturing-driven growth. A successful implementation of the program may generate employment for more than 10 million people in India. The initiative is also supposed to attract top foreign companies to set up their business here in India.

Competitiveness pertains to the ability and performance of a firm, sub-sector or country to sell and supply goods and services in a given market, in relation to the ability and performance of other firms, sub-sectors or countries in the same market. Where the competitiveness is derived from cost factors, it is called cost competitiveness. One of the most important factors is pricing; to get right price, the company must identify the actual costs involved in supplying the service or product — right across the enterprise. Understanding the competitive market is the key element to this, but it is also critical to have a full understanding of how customer "value" is created and to ensure that full information on costs is available to the pricing decision-maker. A delicate balance is required to successfully deliver price increases without reducing competitiveness.

The major sectors which are critical to the success of Make-In India initiative are Healthcare, MSME, GST, Social Sector and empowerment of Local Bodies amongst many others. This constitutes the agenda for 57th National Cost Convention of Cost Accountants to be held at Delhi on 30th – 31st January 2016. Renowned and reputed speakers from every walk of economy will be deliberating the role of CMAs in all these important sectors. The contribution of CMAs in Healthcare, MSMEs, Social Sector and other important sectors is critically significant as these segments of economy are still low on efficiency and productivity. If we are able to find way to improve these sectors they will have multiplier effect in resurgence of the country's economy.

CMAs are a preferred source for sharing knowledge to spread tax-literacy and GST-awareness, as the economy is getting geared to shift the tax-incidence from Origin-to-destination principle. CMAs pledge to extend professional expertise for seamless roll-out and effective implementation of GST in India.

It is necessary that the impact of the Social sector is appropriately assessed and evaluated from time to time so that these can be appropriately modified wherever needed to make them more effective for implementation, otherwise phased out if their utility is rationally acceptable. The professional evaluation of the whole gamut of aspects relating to the social schemes by CMA would enable identification of vulnerabilities and deficiencies in the process of roll out and implementation of various social schemes.

The competitiveness of MSMEs comes from both intellectual capital as well as the capacity to absorb new technologies. The current need for competitiveness is cost and quality. With the competition from other countries with low cost products, it is important for MSMEs to focus on cost and the role of CMAs as a facilitator to MSMEs by providing them technological support and help in financial and tax-related matters is very significant.

Coverage of new industries like Education and Healthcare in the ambit of Cost Rules is a great opportunity to understand business models of these industries and develop the competencies of CMA fraternity to support them in developing management accounting models to enable them to provide essential services at affordable cost and also to improve the governance system to ensure the quality of services and effectiveness of resource utilization match with the global standards.

Such mega events can be successful only with the support from leading Corporate Houses of the Country. I request for your kind support by nominating delegates and sponsoring one or more events to make this Mega Event a Grand Success. I also urge upon all the regional councils, chapters and members of the Institute to combine their efforts to show the strength of CMA profession to all stakeholders by mobilising resources and attending the event in large numbers.

I am confident that with the live participation and valuable support of distinguished guests and delegates from profession, industry, regulators and government this NCC-2016 will be another feather in the cap of the Institute and CMA profession.

(CMA PV Bhattad)
16th December 2015

57th National Cost Convention, 2016
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CHAIRMAN MESSAGE

Dear Sir / Madam,

The Institute has been organizing its "National Cost Convention (NCC)" annually for last 56 years in various constituencies across the country to focus on contemporary issues and challenges faced by the nation, fellow citizens, corporates, and professionals. The Convention aims to provide optimal solutions with the help of mutual discussion by panelist, experts and well experienced professionals. This year, the Institute has planned to organize the 57^{th} National Cost Convention (NCC-2016) on 30^{th} and 31^{st} January, 2016 at New Delhi on theme Building Cost Competitiveness-Mission "Make in India".

NCC-2016 seeks to address the challenges in building cost competitiveness and explore the contributions that CMAs can make to nurture the Indian economy by playing catalyst role in accomplishment of the mission *"Make in India"*.

Competency can be achieved by organizations through one and many ways, but being in the consumer's marketplace, attaining cost competence is very crucial. While achieving cost competitiveness, the India Inc. will have to focus on continuous innovation and process re-engineering to offer super quality products at affordable prices in the global market. The aim is to explore huge domestic markets and attract foreign investments. On the social front, the nation may benefit with growth in employment opportunities and better standards of living for masses.

This two day National Cost Convention-2016 has one plenary session- Building Cost Competitiveness- Mission "Make in India" and six technical sessions- (i) Develop Yourself- Develop III-Tier; (ii) Your Health- Economic Health; (iii) Cost Competitiveness- Through Cost Audit; (iv) Nation Needs-Goods and Service Tax (GST); (v) You and Your MSME; and (vi) Reach the Unreach that shall have focused and objective discussions to accomplish the National Mission: "Make in India". Varied topics would be discussed by senior bureaucrats, eminent experts, and dignitaries from industry, academia and professional bodies. The take away for the participants will be clarity in identifying role for partnering into this national programme. The participants shall be able to simulate new ideas and inputs for formulating strategies to empower their own businesses and professional practices in line with the national agenda of "Make in India".

We look forward to meet you at the convention and seek your active contribution towards making this National Cost Convention a huge success.

Wishing you a very prosperous and Happy New Year 2016.

Thanking You,

With Best Regards,

CMA Manas Kumar Thakur **Chairman,** **Convention Committee**	**CMA S.K. Bhatt** **Co-Chairman** **Convention Committee**	**CMA Vijender Sharma** **Convenor** **Convention Committee**

57^{th} National Cost Convention, 2016

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ABOUT THE THEME

Building Cost Competitiveness – Mission "Make in India"

Our Hon'ble Prime Minister Shri Narendra Modi has given the nation an ambitious national programme, *"Make in India"*, that envisions to make India a self-reliant economy while ensuring its sustainable future. To achieve this mission, the Government of India has launched several programmes, schemes and initiatives to reach the masses at the grassroot level and target *'inclusive growth'* for the nation.

The government is facilitating *'Ease of Doing Business'* by making India an attractive destination for foreign investment and international trade. Under the mission "*Make in India"*, the government has also identified 25 sectors where incentives and support will be provided to foster growth. The implementation of GST in India would further enhance investor confidence, promote transparency and good governance in the corporate environment. Also, various schemes have been launched by the government to promote and boost entrepreneurship development and skill enhancement. Initiatives through *"Make in India"* will provide the impetus to the Micro, Small and Medium Enterprises (MSMEs) in the country. The MSME sector not only contributes significantly in the GDP of the country but also generates employment for the skilled and unskilled labour. With the expansion of the MSME base, not only does the nation target self-reliance and widening of the domestic markets in the country but also employment generation and prosperity for the masses.

The government has also introduced several schemes for financial and social inclusion for the vulnerable sections of the Indian society to provide them adequate protection and security.

In this National Programme *"Make in India"*, it is the responsibility of each and every responsible citizen to partner with the government and make this national agenda a huge success. As a part of its inherent responsibility, the Institute of Cost Accountants of India, proudly associates itself with this national programme and identifies its role for making this programme a success.

The Institute understands and advocates that *'Cost Competitiveness'* shall be the strategy, with which the India Inc. can create and sustain its position as an ideal destination for attracting foreign investments and carrying out manufacturing excellence. With this strategy in place, India can emerge as the hub for international trade. Being cost competitive, the organizations need to continuously reengineer their working methods, products and activities to simultaneously create value at competitive prices for the consumers.

On the social front, CMAs have a major role in ensuring that the intended benefits of the social schemes launched by the government are actually percolating down to the grassroot level. They may also valuably contribute in the projects associated with the development and sustenance of *smart cities* in the country, a mission to be achieved under the vision *"Make in India"*. For this, they may engage in project monitoring, project evaluation and performance and project appraisal activities including social audit of these projects. Apart from above, CMAs may also play significant role in prevention of misappropriation of funds and perpetuation of frauds that may hinder the pace and dignity of the national development agenda.

The Institute appreciates the visionary agenda of *"Make in India"*, being mentored by our Hon'ble Prime Minister. The Institute has been organizing various programmes and seminars to devise ways for cost accountants to add value and partner in this mission.

Although, there is nothing confining to the role of the Institute in the nation building exercise, but in order to be more focused and objective, the two day National Cost Convention, will include one plenary session and six technical sessions that shall discuss and deliberate upon the key facets of the National Programme ***"Make in India"*** and the role of CMAs in making this programme a success.

57th National Cost Convention, 2016

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PROGRAMME SCHEDULE

Day 1: 30th January 2016 (Saturday)

08:30 Hrs to 09:30 Hrs	Registration
09:30 Hrs to 11:00 Hrs	Inaugural Session
11:00 Hrs to 11:30 Hrs	Tea Break
11:30 Hrs to 13:00 Hrs	Plenary Session: Building Cost Competitiveness-Mission "Make in India"
13:00 Hrs to 13:45 Hrs	Lunch break
13:45 Hrs to 14.15 Hrs	Spiritual Session: Stress Management
14:15 Hrs to 15:30 Hrs	Technical Session-I: Develop Yourself-Develop III-Tier
15:30 Hrs to 15:45 Hrs	Tea Break
15:45 Hrs to 17:00 Hrs	Technical Session-II: Your Health-Economic Health
18:00 Hrs to 20:00 Hrs	Cultural Programme
20.00 Hrs to 21.00 Hrs	Convention Dinner

Day 2: 31st January 2016 (Sunday)

09:30 Hrs to 11:00 Hrs	Technical Session-III: Cost Competitiveness through Cost Audit
11:00 Hrs to 11:30 Hrs	Tea Break
11:30 Hrs to 13:00 Hrs	Technical Session-IV: Nation Needs- Goods and Service Tax (GST)
13:00 Hrs to 13:45 Hrs	Lunch break
13:45 Hrs to 15:00 Hrs	Technical Session-V: You and Your MSME
15:00 Hrs to 16:15 Hrs	Technical Session-VI: Reach the Unreach
16:15 Hrs to 17:15 Hrs	Valedictory Session

Venue for the Two-Day NCC-2016:
Vigyan Bhawan,
Maulana Azad Road, New Delhi- 110001

Venue for the Cultural Programme on 30th January 2016:
Siri Fort Auditorium,
Asian Games Village Complex, New Delhi – 110049

Contact Details

HEAD QUARTERS:
THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
CMA Bhawan, 12 Sudder Street, Kolkata-700016.
Ph: + 91-33-22521031-35, Fax + 91-33-22527993
E-mail: ncc2016@icmai.in, Website: www.icmai.in

DELHI OFFICE:
THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
CMA Bhawan, 3, Institutional Area,
Lodhi Road, New Delhi 110003.
Ph: + 91-11-24666100, Fax + 91-11-43583642

NORTHERN INDIA REGIONAL COUNCIL
THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
Northern India Regional Council, CMA Bhawan,
3, Institutional Area, Lodhi Road, New Delhi 110003
Ph: + 91-11- 24626678

57th National Cost Convention, 2016
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SUB THEMES

Plenary Session : Building Cost Competitiveness – Mission "Make in India"

On September 25, 2014, Hon'ble Prime Minister of India, Shri Narendra Damodar Modi launched a visionary agenda "Make in India" for achieving sustainable growth and resilient economy. This is a major National Programme designed to transform India into a global manufacturing hub and to foster the country's economic growth at a faster pace. If we want this to happen, we all Indians have to become a part of this vision of our Hon'ble Prime Minister. We, the CMAs, have pledged to make "Make in India" a great success.

The focus of "Make in India" is on job creation, innovative revival, skill development, building intellectual and physical infrastructure and state-of-the-art technology deployment, primarily, in twenty-five sectors of Indian economy. While attaining this agenda, the country envisions not only to be self-sufficient but also to be a global hub for high quality manufacturing products. One of the missions of the "Make in India" programme is "enhancing global competitiveness of the India's manufacturing sector". Collaborating into this national initiative, Cost & Management Accountants have taken a lead role in building "Cost Leadership" in the India Inc. for attracting inflow of investment and resources from abroad.

The global manufacturing landscape has been evolving at a very fast pace. Existing dynamism and fierce competition in the global market space compel all players to maintain their products and services at competitive price without compromising on the quality. CMAs with their acumen in managing costs and providing cost-effective business models, can be instrumental in ensuring cost competitiveness in Indian manufacturing companies by reducing wasteful activities & waste production; continuously innovating and improving the processes and systems to reduce "avoidable costs", and attain quality standards of production; fostering an environment of vigilance & monitored controls for avoiding all kinds of frauds and financial misappropriations; and positioning themselves as a low-cost hub of manufacturing quality products.

The propagation of cost-effective and cost-efficient methods of implementing and managing projects by cost accountants shall also be instrumental in the agenda of developing *smart cities* across the country. Development of *smart cities* require infrastructural, social and technological support by the government in implementing various schemes and projects for sustainable development of cities. Cost accountants can assure that these support schemes and projects are implemented in cost-effective and cost-efficient manner.

This plenary session will include discussions & deliberations upon the National Programme of *"Make in India"* and the imperative of providing cost competitive environment to encourage global players to come and make in India. This is the key to transform India into a global manufacturing hub; to achieve the targeted economic growth; and to pull India's poor from poverty. And this is going to happen.

Technical Session I : Develop Yourself - Develop III-Tier

With a vision to establish democracy at the grassroot level, Government of India vide 73rd Amendment, passed in 1992, provided Constitutional status to the Panchayati Raj Institutions (PRIs) and formalized a system of Local Self-Government in India. As part of this framework, we have Gram Panchayats, Panchayat Samitis and Zila Parishads at the rural level; and Municipal Corporations, Municipal Councils and Nagar Panchayats at the urban level; all governed by elected bodies.

Local government is, in real sense, a government of the local people, by the local people and for the local people. They serve the local citizenry from "cradle to the grave". This III-Tier of governance act as rallying point for identifying

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pressing spatial needs and an advantage to mobilise human and ancillary resources to hammer out situation specific solutions. To achieve this, they need to be given administrative and financial powers with a degree of autonomy in decision making, enabling them to play the strategic functions of economic stabilisation and redistribution, with a view to make development more inclusive.

Therefore, main objective of PRIs is to develop a system of democratic decentralization of powers with an aim of fostering rapid social and economic development and prompt justice through greater participation in local government by people and more effective implementation of development programmes. Government, from time to time, has launched various programs for development of people at the grassroot level, such as National Rural Health Mission (NRHM), National Rural Employment Guarantee Act (NAREGA), Sarva Shiksha Abhiyan (SSA), Mid-Day Meal (MDM), Accelerated Rural Water Supply Programme (ARWSP), Total Sanitation Campaign, Janani Suraksha Yojana (JSY) etc.

For the effective functioning of this III-Tier of governance, it is essential that appropriate accountability and fund utilization mechanism is put in place. CMAs have an imperative role in facilitating the PRIs to meet their set objectives by assisting in effective utilization of allocated resources; monitoring procurements; design and maintenance of delivery systems; designing project appraisal, evaluation and monitoring techniques; preparation of various reports and returns prescribed under the scheme; preventing leakage of funds; capacity building and training for PRIs; and implementing requisite controls.

For the national & state governments, CMAs can assist in periodical reporting of all cost and financial data, linking resources with the outcomes; undertaking social accounting and audit together with performance appraisal & impact analysis; and acting as key resource person for the rural business hubs.

This technical session shall focus on how efficiency of the III-Tier of Governance is instrumental in the overall growth of the nation and the distinct contribution of CMAs in ensuring all inclusive development.

Technical Session II: Your Health - Economic Health

India is bestowed with world's largest youth population; by 2020, India will have 116 million strong workforce in the bracket of 20-24 years; and within next two decades, India's average age will be just 29 years. Young people are the innovators, creators, builders and leaders of the future. They can transform the future if they have skills, health, decision making, and real choices in life. India with large youth population could see her economy soar, provided the country invests heavily in young people's education and health. With the right policies and investments in human capital, India can empower young people to drive economic and social development and boost per capita income. India should translate the demographic advantage to yield productive results.

To achieve this, first we need to strengthen our Economic Health; then to provide education, good health and decent living to all citizens. Helped by positive policy actions and lower global oil prices, Indian economy is fast reviving. Last quarter, our GDP growth was at 7.4%, manufacturing activity grew by 9.3%, both fiscal deficit & CAD are in the comfort zone, and the services have shown resilient performance. To continue on this trend, India is revitalizing the investment cycle and has accelerated economic and structural reforms. Indian economy has become a bright spot in the global landscape, becoming one of the fastest growing big emerging market economies in the world, surpassing China.

The challenge for any country around the world today is to keep good health for its citizens at affordable cost.

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While many factors contribute to success in the global economy, no country can be competitive without a healthy and productive population. Total cost of an unhealthy population is growing at an unsustainable pace. An acute challenge to the maintenance and sustenance of healthcare is the rising costs; especially the high indirect costs. Perhaps, the reasons could be over dependence on technology. Standardization of clinical procedures, practices and costs may bring in equilibrium in the entire process of healthcare to achieve the nation's objective to provide affordable healthcare to all, including free healthcare to the economically weaker section of society.

Cost Management and business sustainability are essential for the interplay of an efficient healthcare sector. There is huge opportunity for the private healthcare providers for the sustenance and growth if they can micro manage their costs within the benchmark levels. Cost management is emerging as a major need in the healthcare sector. Cost control and cost reduction are the most challenging issues being faced by the healthcare industry today. Healthcare professionals and CMAs working together can optimize the costs. Health care sector unfolds enormous opportunities to CMAs who can provide their expert services in enhancing the organization's competitiveness enabling it to provide quality healthcare at minimal prices and to the customer's satisfaction.

Technical Session III: Cost Competitiveness Through Cost Audit

Financial Accounting is a system based on aggregates using only one dimensional values viz. amounts. In contrast, Cost Accounting is a system based on disaggregates. In this system, the records/data/information is captured for each unit/location, each product and each activity separately. Further, this system uses bi-dimensional values viz. quantities and amounts. Therefore, as per the International Federation of Accountants [IFAC], the Cost Accounting and Assurance mechanism is considered as the most effective & useful framework for tariff determination, tax optimization, dealing with transfer pricing matters, valuation of inventories, segmental reporting, and for pricing in rate regulated entities.

As per IFAC, financial reporting satisfies the compliance requirements but falls short of a performance based reporting for improved Board governance. Costing methodologies applied in organization measures the consumption of resources and support the accountability of business performance. IFAC suggested six key principles underlying good practice in evaluating and improving costing in organizations, external reporting and providing assurance to stakeholders; recognizes traceability and assurance of costs as a good practice.

Cost Audit is an innovation introduced for the first time in the world. India took this innovative step with a view to regulate vital industries on healthy and sound lines. The concept and scope of cost audit is much wider and emphases on the evaluation of efficiency of operations and propriety of management actions and decisions, and executive programs and policies. In this sense, cost audit appears to be synonymous with efficiency audit. Cost Audit aims to provide requisite data analytics that helps the management to take correct business decisions, reduce costs, and improve efficiency, productivity, profitability, and sustainability. It also helps in providing cost effective products and services to the customers; enhances Government revenues and assures higher returns to all other stakeholders.

Companies (Cost Records and Audit) Rules 2014 (Rules 2014) framed under Section 148 of the Companies Act, 2013 prescribe maintenance of cost accounting records and audit thereof in host of industries/sectors covered under Table-A and Table-B of the Rules. In the present competitive scenario of globalization, this framework provides reliable and authentic feedback to the government and its various departments/agencies that is used for various purposes such as anti dumping measures, competition laws, transfer pricing etc. Revenue authorities also use this data for verifying assessee claim relating to ex-factory prices of excisable goods especially in cases of inter-unit transfers and goods produced for captive consumption.

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This technical session will focus on bringing out the essence of Cost Audit as an important tool in attaining 'Cost Competitiveness' in the manufacturing and service sector of the Indian economy.

Technical Session IV: Nation Needs – Goods and Service Tax (GST)

Indian indirect tax system is plagued with multiplicity of taxes - at different rates - at multiple points. Absence of proper setting off mechanism coupled with huge compliance cost results in cascading effect and high tax cost, which is clearly unsustainable in the current scenario.

Goods and Service Tax (GST) is a long pending indirect tax reform which India has been waiting for, and is expected to iron out all wrinkles in the existing tax system. Implementation of GST would result in abolition of multiple taxes and would bring the much needed uniformity and certainty in tax rates. It will subsume indirect taxes like excise duty, countervailing duty and service tax; plus certain state levies like value added tax (VAT), octroi, entry tax and luxury tax. GST would also avoid double taxation and reduce the cost of manufacturing.

GST is one of the major policy initiatives that would certainly instil investor confidence and attract foreign investors in India. This would alleviate the present situation of multiplicity of taxes and would pave way for achieving the dream project of our Hon'ble Prime Minister, "Make in India" that would enable India to become a global manufacturing hub. GST would be one of the most important reforms in contributing to the India growth story. As per experts, it is expected to add about 2% in the country's GDP.

GST is aimed to make the taxation regime more transparent and simple. It will also help in increased compliance, boost tax revenues, reduce tax outflow in the hands of the consumers and make exports competitive. It would have magnanimous impact on every business in the country; would ensure investor friendly tax policies; and create congenial business environment in India. GST is a win-win situation with the consumer, industry, government and economy – all gaining in the long run. The Revolutionary Tax Reform is on board pending the penultimate leg of receiving the legislative approval for its implementation.

Government of India has released the draft GST Act. A panel headed by Chief Economic Adviser has recommended standard GST rates of 17-18%; revenue neutral rate in the 15-15.5% ranges; and scrapping of 1% additional levy.

GST implementation will lead to immense scope for CMAs who with expert knowledge on manufacturing, costing and pricing will assist the industry in determining the correct cost of manufacturing goods or rendering services. CMAs may also educate the suppliers/vendors about GST and ensure input tax credit is availed correctly; help in arriving at the cost of the products correctly by considering/availing input tax credit; can ensure tax compliance; e-filing monthly returns, availing of credit and payment of taxes; and can ensure tax planning and correct interpretation of the Act and educating the various departments like strategic sourcing, payables, supply chain management, marketing etc. Further, CMAs may actively engage in sharing knowledge to spread tax literacy and GST awareness in the Country and extend professional expertise for seamless roll out and effective implementation of GST in India.

This technical session will include a panel discussion of learned dignitaries who will deliberate upon the readiness of the country to welcome the introduction of the GST regime of indirect taxation. The deliberations will surround associated benefits and opportunities GST shall bring along and the role of CMAs in ensuring smooth and hassle free integration of the indirect taxation regime with the GST.

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Technical Session V: You and Your MSME

Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country.

As per latest estimates, there are about 50 million MSMEs working in the manufacturing, services and wholesale or retail trade. They employ more than 110 million people, having total market value of their fixed assets of more than USD$ 200 billion. Apart from providing wide range of services, MSMEs produce more than 6000 products ranging from traditional to high tech items.

MSME sector has emerged to be the backbone of Indian economy with sustained growth rate of 10% (over the past few years). The sector contribute about 38% in the nation's GDP and its share in the country's exports stands at commendable 40% with total production of nearly US$ 300 billion. It is also playing a pivotal role in the social-economic growth of the country by means of employment generation and technology deployment at the grassroot levels, even in the rural areas.

Where the "Make in India" programme of the Government of India is poised for attracting domestic and foreign investments in the sector, making a significant impact in the area of indigenization; the role of CMAs in enabling the MSME sector shall be of high pertinence.

MSME sector has limited structured training on costing, resource planning, capital management and labor management. As a result, this sector is struggling in managing the cost and quality of their products to provide them at competitive price. CMAs can play pivotal role by providing their helpful services to the MSMEs in areas of financial management, cost management, cost computation for tendering, performance monitoring etc. CMAs can apply their expertise and experience in helping MSMEs to manage risks, reduce costs, evaluate strategy, create new opportunities, preferably for women entrepreneurs and preserve & enhance value. In addition, CMAs could provide training on issues like working capital management, cash flow management, raising both short-term and long-term funds, managing working capital, designing systems for monitoring cost efficiency and developing early warning systems. This shall thereby help MSMEs in appropriate pricing of their products and services.

Institute of Cost Accountants of India has signed two MOUs with ASSOCHAM to offer the coveted "Virtual Centre for Development of MSMEs" and "SME Excellence Award" jointly to promote, develop and enhance competitiveness of MSMEs in the country as well as to spread the importance and awareness about MSME sector in the Indian economy.

Technical Session VI: Reach the Unreach

India is the seventh largest country by area and second largest by population on the world map. It is the most populous democracy in the world. It has huge divide between the urban and rural population; and is home to people from different religions, castes, beliefs and cultures. For achieving accelerated growth, it is essential that all sections of society jointly contribute to achieve prosperity and better standards of living. 'Inclusive Growth' shall ensure creating

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equitable growth opportunities for all sections of the society. The target of achieving 'inclusive growth' is more challenging for a country like India, which has huge diversities.

Real problem of India's rural development lies in an urgent need to impart literacy, skill development, and education of the teeming masses. The under privileged masses of Indian population, whose per capita income is very low, suffer from several social, economic, religious and other barriers. Further, India's performance in the matter of education and skill development of the under privileged masses cannot be considered satisfactory. The Government of India notified six religious communities, viz.; Muslims, Christians, Sikhs, Buddhists, Zoroastrians (Parsis) and Jains as minority communities. There are many challenges for these masses ranging from education, health, housing, sanitation, purchasing power parity etc. With these challenges on face, the government is advancing all possible projects and initiatives to citizens from all diverse backgrounds and with varied economic status and classes.

Ministry of Minority Affairs, through its Vision committed for empowering the minority communities and creating an enabling environment for strengthening the multi-racial, multi-ethnic, multi-cultural, multi-lingual and multi-religious character of our nation. Also, through its Mission statement committed to improve the socio-economic conditions of the minority communities through affirmative action and inclusive development so that every citizen has equal opportunity to participate actively in building a vibrant nation; and to facilitate an equitable share for minority communities in education, employment, economic activities and to ensure their upliftment.

The Pradhan Mantri Jan Dhan Yojana (PMJDY) is a major initiative to ensure financial inclusion and social security, especially for the vulnerable class of the society. Furthermore, under the "Make in India" national programme of the Government, all efforts are being advanced to generate employment and enhance skill development amongst the youth while developing the domestic Indian market and attracting foreign investments. Government is also making laws to completely eliminate child labour and prescribing standards for ensuing dignified working environment for labour. The government has also initiated a process of providing an umbrella card to the unorganized sector workers. Government has introduced and implemented Skill Development Programme (SDP) and Additional Skill Development Programme (ASDP) in all states of the country. Our Institute is humbly the first partner in the two programmes in the state of Kerala. All these initiatives by the Government of India are a part of its Nation Building Exercise.

Many other projects like Atal Pension Yojana, Pradhan Mantri Jeevan JyotiYojana, Pradhan Mantri Suraksha Beema Yojana, BalikaSamridhiYojana are aimed at providing social cover to the vulnerable sections of the society. The Mudra (Micro Unit Development and Refinance Agency) Bank Yojana has been launched to promote entrepreneurship amongst the capable youth of India. Also the other parallel national projects to Make in India, such as Skill India, Digital India, Smart Cities Project etc. are all working hand in hand to take all efforts to reach the unreached sections of this country with a wide geographical spread.

The CMAs working as a partner in the nation building exercise of the Government acknowledges its role in ensuring that all these schemes and programmes live up to their intended objectives and provides optimum benefits and welfare to all the sections of the India society. This technical session shall include discussions on the need and relevance of the inclusive growth for the nation and the role CMAs can play in optimizing the benefits of the government projects and schemes targeting financial and social inclusion for all.

COMMITTEES - NATIONAL COST CONVENTION - 2016

CONVENTION COMMITTEE

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CMA Manas Kumar Thakur, Vice President

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CMA PK Chakrabarty, Secretary, EIRC

CMA Ajit Behl, Chairman, Gurgaon Chapter

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SPONSORSHIP DETAILS

PLATINUM SPONSOR (₹ 10,00,000/-)

Delegates fee (non-residential) exemption for 10 delegates. Prominent Display on the Convention Backdrop as Platinum Sponsor and all other prominent places Sponsor logo in badges and all Convention Material

GOLD SPONSOR (₹ 5,00,000/-)

Delegates fee (non-residential) exemption for 8 delegates. Prominent Display on the Convention Backdrop as Gold Sponsor and all other prominent places Sponsor logo in badges and all Convention Material

SILVER SPONSOR (₹ 3,00,000/-)

Delegates fee (non-residential) exemption for 6 delegates.
Prominent Display on the Convention Backdrop as Silver Sponsor and all other prominent places

SPONSOR FOR DINNER (₹ 3,00,000/-)

Delegates fee (non-residential) exemption for 6 delegates. Display at Convention Dinner
Display on Convention Backdrop as Sponsor

SPONSOR FOR LUNCH (₹ 3,00,000/-)

Delegates fee (non-residential) exemption for 5 delegates. Display at Convention Lunch
Display on Convention Backdrop as Sponsor

SPONSOR FOR CONVENTION KIT (₹ 2,50,000/-)

Delegates fee (non-residential) exemption for 4 delegates. Display on the Convention Backdrop as Sponsor
Sponsor name printed on Convention Kit

SPONSOR FOR MEMENTOES (₹ RS 1,50,000/-)

Delegates fee (non-residential) exemption for 2 delegates. Display on the Convention Backdrop as Sponsor
Sponsor name printed on Mementoes

SPONSOR FOR CULTURAL EVENT (₹ 1,50,000/-)

Delegates fee (non-residential) exemption for 2 delegates. Display at Convention Cultural Event as Sponsor

OTHER SPONSORSHIP (₹ 75000/-)

Banner / Stall / Publicity Material on request

NOTE : One colour full page advertisement in the Souvenir for all above mentioned categories.

PAYMENT

The Cheque / Demand Draft to be drawn in favour of "The Institute of Cost Accountants of India - 57th NCC 2016" payable at NEW DELHI, Details for **NEFT / RTGS payment:** Name of Bank: Punjab National Bank, Lodhi Road, New Delhi-110003; **Saving Bank A/c No.:** 0128000100648224; **MICR Code:** 110024060; **IFSC Code:** PUNB0012800 **PAN No.:** AAATT9744L

57th National Cost Convention, 2016

Behind Every Successful Business Decision, There is always a CMA

The Institute of Cost Accountants of India
(Statutory body under an Act of Parliament)

57th National Cost Convention - 2016

DELEGATE FOR CONVENTION

Dear Sir/Madam,

The Institute invites you/your company to register /sponsor delegates for the 57th National Cost Convention 2016 to be held on 30th to 31st January 2016 at Vigyan Bhawan, New Delhi.

PARTICIPANTS

Corporate Directors, CFOs and Management Accountants and other Senior Management Executives in the Corporate Sectors, Practicing Professional in Secretarial, Financial, Legal, Management and Academics who would benefit from participation in the convention.

DELEGATE FEES

PARTICULAR	FEES
Corporate Delegates	₹ 5,000/-
Cost Accountant – in –Practice / Self Sponsored Members	₹ 3,500/-
Spouse	₹ 2,000/-
Foreign Delegates	USD $ 300/-*

***The Foreign Delegate Fee of USD $ 300/- is inclusive of charges for one day trip to Agra. Agra is 206 Kms away from the National Capital, Delhi and its main attraction is Taj Mahal the 7th Wonder of the World and Red Fort).**

Other Delegates may also opt for one-day trip to Agra on additional payment of ₹ 3000/-, For details please refer to the separate leaf "Added Attraction"

The Entire fee is payable in advance and is not refundable once the nomination is received. The Delegate Registration Form duly filled in along with delegate fess may please be sent to:

The Chairman
Delegate Committee
THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
3, Institutional Area, Lodhi Road, New Delhi-110003

Thanking you,

Yours sincerely
CMA BALWINDER SINGH
Chairman, Delegate Committee

PAYMENT

The Cheque / Demand Draft to be drawn in favour of "The Institute of Cost Accountants of India - 57th NCC 2016" payable at NEW DELHI, Details for **NEFT / RTGS payment:** Name of Bank: Punjab National Bank, Lodhi Road, New Delhi-110003; **Saving Bank A/c No.:** 0128000100648224; **MICR Code:** 110024060; **IFSC Code:** PUNB0012800 **PAN No.:** AAATT9744L

CEP CREDIT: 6 HOURS

57th National Cost Convention, 2016

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The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

57th National Cost Convention - 2016

ADVERTISEMENT TARIFF FOR SOUVENIR

Dear Sir/Madam,

We are proud to inform you that 57th National Cost Convention 2016 is being organized by The Institute of Cost Accountants of India.

The Institute of Cost Accountants of India, established under an Act of Parliament, is the premier professional body imparting Education, Training and propagating Cost and Management Accountancy in India and abroad. There are over 69,000 members in Service and Practice. The Members in service with Government, Public and Private Sectors, are occupying high positions like Chairman & Managing Directors, CEOs, CFOs and so on.

The Theme of the convention is **Building Cost Competitiveness – Mission "Make in India"**. The convention is scheduled for 30th - 31st January 2016 at Vigyan Bhawan, New Delhi. This mega convention will be attended by a large number of delegates from India and abroad. On the occasion of this convention, the committee has decided to bring out a Souvenir which will be released in Valedictory Session. The Convention of this nature can be success only with the support in the form of Advertisements.

We request you to participate in this mega convention by releasing an advertisement in the souvenir.

Looking forward to your kind co-operation and active participation.

Thanking you,

Yours sincerely

CMA AVIJIT GOSWAMI

Chairman- Souvenir Committee

ADVERTISEMENT SPACE	TARIFF (₹)
Back Cover	₹ 1,00,000/-
Front/Back Cover Inside	₹ 75,000/-
Color Full Page	₹ 75,000/-
Color Half Page	₹ 50,000/-
Black & White Full page	₹ 40,000/-
Black &White Half Page	₹ 30,000/-

PAYMENT

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57th National Cost Convention, 2016

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ABOUT DELHI

Delhi, the capital of India, is situated in northern India and stands on the west bank of Yamuna River bounded by Uttar Pradesh in east and on the north, west and south by Haryana. Delhi is spread over an area of 1483 sq. kilometers, and has a population of around 14 million.

Delhi is an amalgam of many cultures, with a foothold in the past; it is also gaining in importance and significance as a powerhouse for the future

The city has its historical importance as it had been the home to Mughal Empire. It was the capital of seven empires in Indian history and has several monuments built over several millennia.

Apart from its historical importance, Delhi also happens to be the political hub of India, where every political activity in the country traces its roots to Delhi.

Delhi is the fifth most populated urban area in world with satellite towns like Ghaziabad, Faridabad, Gurgaon and Noida making it a NCR, called the National Capital Region.

Apart from being the political capital of India, Delhi is an important administrative unit of Government of India. Major ministries of Government of India are situated in Delhi. The Parliament of India - emblem of Indian democracy - is situated in Delhi. All the major government offices and departments find their place in Delhi.

Delhi has the advantage of its cosmopolitan society where there are people from all regions of India. This makes the city multi linguistic and multi cultured. Being the capital of the world's largest democracy, Delhi has embassies of more than 160 countries. It is also becoming the major Corporate Hub, Information Technology destination of India.

Delhi has tourist attractions like, India Gate, Lal Quila, Jama Masjid, Akhsardham Mandir, Qutab Minar, Birla Mandir, Lotus Temple, Connaught Place etc.

More Tourist details can be found from website of Delhi Tourism at www.delhitourism.gov.in and Tourist City Information Service No. 1280.

ADDED ATTRACTION

The delegates opting for excursion to Agra, are requested to add ₹3,000/- in the delegates Fee as given in "Delegate Registration Form". The delegates are requested to confirm and pay extra amount towards excursion to Agra by 24th January 2016 so that the Institute may make necessary arrangements accordingly.

Agra is situated on the west-bank of River Yamuna, 204 km south of Delhi.
Agra is one of the most visited destinations of the World Tourism map with the heritage monuments – Like Fatehpur Sikri and the world famous The Taj Mahal. The most precious jewel of India, the "Taj Mahal"is also listed in the Seven Wonders of the World and a very wonderful monument of India. It is considered as the finest of all the architecture of Mughals. It is a perfect combination of Islamic, Turkish, Ottoman and Indian architecture. It is one of the beautiful palaces build with white marble, build by Mughal Emperor Shah Jahan for her beloved wife Mumtaz.

- The participants paying premium registration fee will be taken for an excursion to the city of Agra on 1st February 2016 along with the foreign delegates.
- The premium registration amount of ₹ 3000/- includes charges for transportation [deluxe bus- to and fro(Delhi to Agra)], arrangements for all logistics and meals).
- The participants who wish to opt for premium registrations may mention the same in the Registration Form.

The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

HOTEL TARRIFS & DISTANCE FROM VENUE/ AIRPORT/ RAILWAY STATION

S. No	Hotel	Address	Ph. No.	E-Mail	Distance in kms to....			Tariff in Rs. Taxes Extra	
					Venue	Airport	New Delhi Railway Station	Single	Double
1	Jaypee Vasant Continental	Vasant Vihar	011 2614 8800	reservations.jvc@jaypeehotels.com	10.8	9.2	13	8000	9000
2	Samrat Hotel	Chanakyapuri	011 2611 0606	hotelsamrat1@yahoo.co.in	4.6	10.5	8	6000	6500
3	The Ashok	Chanakyapuri	011 2611 0101	ashokrooms@gmail.com	4.6	10.5	8	7000	8000
4	Vivanta by Taj - Ambassador	Sujan Singh Park	011 6626 1000	bookvivanta.ambassador@tajhotels.com	2.1	15.8	6	7500	8500
5	Le Meridien	8 Windsor Place	011 2371 0101	reservations@lemeridien-newdelhi.com	1.9	13.4	4	11000	12000
6	The Suncourt Hotel Yatri	Karol Bagh	080101 14400	booking@sunstarhospitality.com	7.2	15	4	2299	2599
7	Hotel Kingston Park	Karol Bagh	011 45023266	reservations@hotelkingstonpark.co.in	7.2	15	4	2000	2500
8	The Corus Hotel	Connaught Place	011 4365 2222	info@hotelcorus.com	4.1	13	3	4000	4500
9	Hotel Forest Green	Sadiq Nagar	011 4524 2424	sales@hotelforestgreen.com	8.6	14	13	3000	4000
10	Hotel Walnut Castle	Karol Bagh	011 4567 9495	query@hotelwalnutcastle.com	7.2	15	4	3000	3500
11	Hotel Crest inn	Karol Bagh	011 2576 0224	sales@hotelcrestinn.com	7.2	15	4	2400	3000

The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

57th National Cost Convention - 2016

Theme : BUILDING COST COMPETITIVENESS – MISSION **"MAKE IN INDIA"**

SPONSORSHIP FORM

The Chairman,
National Cost Convention 2016
The Institute of Cost Accountants of India
CMA Bhawan,3, Institutional Area, Lodhi Road,
New Delhi-110003. Ph: +91-11-24666100

Dear Sir,

I /We wish to Sponsor.. in connection with the 57th National Cost Convention -2016 to be held on 30th and 31st the January, 2016 at New Delhi.

A crossed Cheque/ DD bearing No. ………………………………………………………… Dated .... for Rs. ….. drawn on …..Bank in favour of **"The Institute of Cost Accountants of India - 57th NCC 2016"** is enclosed.

Name of the Organisation ....

Address ....

....

Tel. No. ....

Fax No. ....

Signature ....

Name ....

Designation ....

Mobile ....

E-mail: ....

RATES OF SPONSORSHIP

Particulars	Amounts (₹)	Particulars	Amounts (₹)
Platinum	10,00,000	Gold	5,00,000
Silver	3,00,000	Dinner	3,00,000
Lunch	3,00,000	Convention Kit	2,50,000
Mementoes	1,50,000	Cultural Event	1,50,000
Other Sponsorships	75,000		

DETAILS FOR NEFT/RTGS PAYMENT

Name of Bank: Punjab National Bank, Lodhi Road, New Delhi-110003; **Saving Bank A/c No.:** 0128000100648224; **MICR Code:** 110024060; **IFSC Code:** PUNB0012800 **PAN No.:** AAATT9744L

57th National Cost Convention, 2016

Behind Every Successful Business Decision, There is always a CMA

The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

57th National Cost Convention - 2016

Theme : BUILDING COST COMPETITIVENESS – MISSION **"MAKE IN INDIA"**

DELEGATE REGISTRATION FORM

The Chairman
Delegate Committee
National Cost Convention 2016
The Institute of Cost Accountants of India
CMA Bhawan,3, Institutional Area, Lodhi Road, New Delhi-110003.

Dear Sir,

Please register the following delegates for attending the **57th National Cost Convention – 2016** to be held on 30th – 31st January 2016 at New Delhi. The particulars of the delegates are as under:

Name of the Delegates	Designation	Address of the Delegate

Membership No./ Student Regn. No.	Practicing / Non Practicing	Tel. No.	Mobile No.	E-mail

DELEGATES FEE			
Particulars	Fees (₹)	Particular	Fees (₹)
Corporate Delegate	5,000*	Spouse	2,000*
Cost Accountant-in-Practice/ Self Sponsored Member	3,500*	Foreign Delegate	$300
*Add ₹ 3000/- for Indian delegates, if they opt for an excursion to Agra.			

A crossed Cheque/ DD bearing No. .... Dated ....

for ₹ .... drawn on ....Bank in favour of

"The Institute of Cost Accountants of India - 57th NCC 2016" is enclosed.

Name of the Organisation ....

Address ....

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Tel. No. ....

Fax No. ....

Signature ....

Name ....

Designation ....

Mobile ....

E-mail: ....

DETAILS FOR NEFT/RTGS PAYMENT
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57th National Cost Convention, 2016

Behind Every Successful Business Decision, There is always a CMA

57th National Cost Convention - 2016

Theme : BUILDING COST COMPETITIVENESS – MISSION **"MAKE IN INDIA"**

SOUVENIR ADVERTISEMENT FORM

The Chairman
Souvenir Committee
National Cost Convention 2016
The Institute of Cost Accountants of India
CMA Bhawan,3, Institutional Area, Lodhi Road,
New Delhi-110003, Ph: +91-11-24666100

Dear Sir,

We are pleased to release the following advertisement for the Souvenir to be brought out at **57th National Cost Convention- 2016** to be held during 30th – 31st January 2016 at New Delhi.

Advertisement in	Size	Tariff (₹)	Please Tick
Back Cover	18 cm x 24 cm	1,00,000	
Front / Back Cover Inside	18 cm x 24 cm	75,000	
Colour Full Page	18 cm x 24 cm	75,000	
Colour Half Page	18 cm x 12 cm	50,000	
Black & White Full Page	18 cm x 24 cm	40,000	
Black & White Half Page	18 cm x 12 cm	30,000	

A crossed Cheque/ DD bearing No. ……………………………………………… Dated ………………………………
for ₹ ……………………………… drawn on ………………………………………………Bank in favour of
"The Institute of Cost Accountants of India - 57th NCC 2016" is enclosed.

Name of the Organisation ………………………………………… **Signature** …………………………………………
Address ………………………………………………………… **Name** …………………………………………
………………………………………………………………… **Designation** …………………………………………
Tel. No. ………………………………………………………… **Mobile** …………………………………………
Fax No. ………………………………………………………… **E-mail:** …………………………………………

DETAILS FOR NEFT/RTGS PAYMENT
Name of Bank: Punjab National Bank, Lodhi Road, New Delhi-110003; **Saving Bank A/c No.:** 0128000100648224; **MICR Code:** 110024060; **IFSC Code:** PUNB0012800 **PAN No.:** AAATT9744L

57th National Cost Convention, 2016
Behind Every Successful Business Decision, There is always a CMA

Role of CMAs in Strengthening Indian Banking System

Non Performing Assets Management:

NPA can affect the profit of the bank, asset valuation, bank rating, Capital adequacy ratio and Cost of funds adversely. Thus CMAs can act as consultants and suggest the preventive measures on accounts which provide distress signal. They can help out the banks for effective and regular follow-up of the end use of the funds sanctioned. This process can be undertaken every quarter so that any potential NPA can be properly identified and accounted for. Further can do Credit Audit, Stock Audit and Concurrent Audit to facilitate banks in identifying potential Non Performing Assets (NPA) which would help the management to take necessary action before the assets become bad.

Techno-Economic Viability of the Project:

Due to inapt technology and Management Information System (MIS), market driven decisions on real time basis cannot be taken. If proper MIS and financial accounting system is not implemented in the banks, it will lead to poor credit collection. All branches of the bank should be computerized with techno-viable MIS. Hence professionals like CMAs, with proven expertise and track record can assist in preparation of techno – economic viability study of the projects of the borrowers.

Project Financing:

Project finance is best suited for developing infrastructure where the capital expenditure is relatively high and the revenue visibility is long term in nature. There are several banks/FIs that have been active in undertaking project finance. Considering the long-term nature of project loans and risks involved in specific projects, banks have specialized teams for carrying out due-diligence of projects. CMAs with their professional expertise can carry out due diligence of projects including doing pre-bid advisory, preparing financial model by estimating cash flows for the project, doing promoter analysis and preparing structure of the funding to meet specific requirements in a project.

Selection of Borrower:

CMAs can lend a hand for effective pre-enquiry by the bank for sanctioning the loan to a customer, ensure credibility of the borrower and find out the original purposes of the loan required by the borrower by feasibility study of the project. Combining traditional wisdom with modern statistical tools like Value-at-risk analysis and Markov Chain Analysis CMAs can assess the creditworthiness of the borrowers.

Role of CMAs in Strengthening Indian Banking System

Basel Accords & Risk Mapping:

Risk capital may be the safety cushion for banks, but alone may not be sufficient to protect them from any extreme unforeseen loss events. In reality, risk capital may not be so effective if banks do not evaluate their risk periodically and take well-timed curative action when the risk exceeds the threshold limit. Thus, whether it is Basel II or Basel III, it is crucial that a bank does not depend solely on "regulatory capital". Thus vibrant risk mitigation strategy is the need of this hour. CMAs can help in the risk management procedure by Resource Mapping and Risk Mapping techniques to develop a proper risk culture across the organization and "risk" should be an input for future decision-making. They can also carry out risk-based internal audit to provide reasonable assurance to the Board and top management about the adequacy and effectiveness of the risk management and control framework in the banks' operations.

Corporate Debt Restructuring:

This mechanism is highly applicable in the management of Non Performing Assets. CMAs would help to conduct viability study in case of restructuring or rehabilitation and also aid in ensuring the correctness of methods/systems adopted by borrowers in pricing their products.

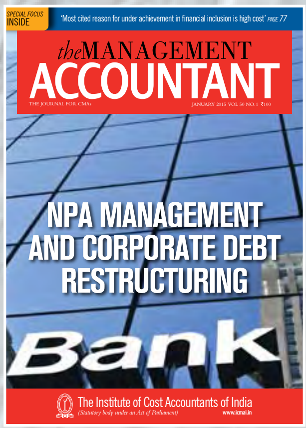
Forensic Accounting and Auditing:

Fraud and its redressal are the major areas of concern in the banking sector. Banking sector frauds include insider trading, stock manipulation, accounting irregularity and have extended to technology based services offered to customers. In this context, CMAs can perform Forensic Audit to investigate fraudulent activities, uncover money laundering and find missing assets through a combination of investigative techniques and financial acumen. They have to communicate their findings in the form of reports, assist the banks in submission of suspicious transaction report to the regulators and can even assist in legal proceedings including appearing in the court trials.

SME Lending:

To alleviate the overall disease of lack of appropriate growth of Indian SMEs – Small and Medium Enterprises, adequate credit delivery to SMEs, better risk management and technological upgradation is a must. Among them, the major problem of inadequate financing to SMEs needs an urgent attention. The CMAs in this regard can facilitate the banks to formulate their own model(s) or choose any intermediary for extending micro credit and formulate the criteria for selection of micro credit organizations. They can lend a hand to the banks to deal with micro credit organizations having proper credentials, track record, system of maintaining accounts and records with regular audits in place and manpower for closer supervision and follow-up.

FLASHBACK 2015



January

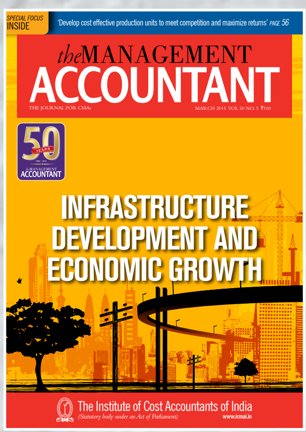
NPA Management and Corporate Debt Restructuring

NPA is defined as an advance where payment of interest or repayment of installment of principal (in case of term loans) or both remains unpaid for a certain period. A proper CDR mechanism is very helpful in India where the Balance Sheets of the lenders show a large number of Non Performing Assets. CMAs can initiate appropriate measures for reduction and recovery of NPA by understanding the psychology of the borrowers, analyzing the causes of default and adopting a practical and pragmatic approach and removing the fear prevailing among the decision makers.

Cost Competitiveness through Leadership

Cost Competitiveness as a level of operation allows an organization to go on winning sales at a price that generates a sufficient level of return both for stakeholders and for the investment needs of the business. A firm pursuing a cost leadership strategy attempts to gain a cost competitive advantage primarily by reducing its economic costs below its competitors. Attaining Cost leadership requires aggressive construction of efficient scale facilities and strong pursuit of cost reductions through experience, tight cost and overhead control, cost of production, advertising etc.

February



March

Infrastructure Development and Economic Growth

Major infrastructure development requires a substantial influx of investment capital. Infrastructural investment is an important motivating power to achieve brisk and sustained economic growth. CMAs can suggest suitable strategies for economic growth and assist in exploring different avenues of research for improving competitiveness, production facilities, infrastructural investment and overall economic development of the nation

FDI and Economic Growth

FDI is considered as a developmental tool which helps in achieving self reliance in various sectors and in overall development of the Indian Economy. CMAs can apply lean manufacturing techniques viz. Kaizen, and other best practices to control cost in all areas of manufacturing businesses to attract foreign investors and to make investments in manufacturing sectors. This would lead to employment generation and will improve the purchasing power for consumers.

April

FLASHBACK 2015

Integrated Reporting and Business Sustainability

Integrated Reporting is actively assisting to become a better and more accountable organization. It causes us to think beyond compliance and financial reporting and to deeply examine the ways in which we deliver sustainable value. CMAs can help to prepare an effective implementation of the IR framework by meeting requirements in the standards related to risk management and governance.

May

June

Skill Development and Productivity

Skill development plays a key role to India's global competitiveness as well as improving an individual's access to decent employment. CMAs will increasingly find themselves as core members of the strategic team using their skills and capabilities in information management and analytics to develop and maintain the distinctive capabilities of their organizations. Skill Building could also be seen as an instrument to empower the individual and improve his/her social acceptance or value.

Micro Finance and Self Help Groups

With financial inclusion emerging as a major policy objective in the country, Microfinance is playing a pivotal role to extend financial services to unbanked sections of population. SHGs can be the community platforms through which women are encouraged to become socially active. The SHG-Bank Linkage programme is a revolutionary step of financial inclusion in rural areas of India.

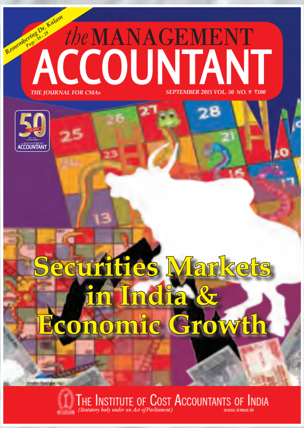
July

August

Business Process Modelling

Business Process Modelling is the activity of representing processes of an enterprise which analyses and improves the current process. It is an important instrument for documenting business operations, facilitating communication between relevant stakeholders and automation as well as execution purposes. CMAs can play a significant role in the problem identification phase of this approach by comparing the business unit's performance with that of other internal groups by benchmarking analysis.

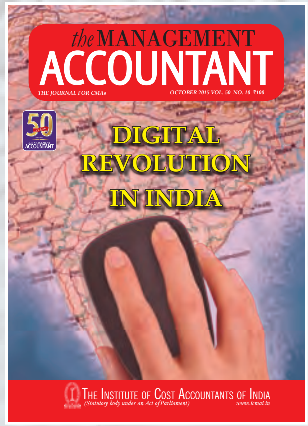
FLASHBACK 2015



September

Securities Markets in India & Economic Growth

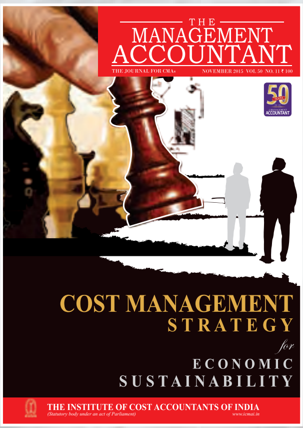
The Indian Securities Markets have witnessed extensive reforms in the post liberalization era in terms of market design, technological developments, settlement practices and introduction of new instruments. India has witnessed all types of financial innovations like diversification, disintermediation, securitization, liberalization, and globalization. As a result today the financial institutions and a large number of new financial instruments lead a fairly diversified portfolio of financial claims.



October

Digital Revolution in India

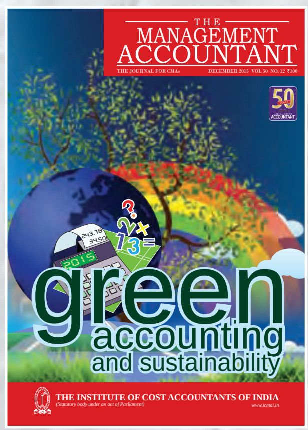
Digital India is an umbrella program which will restructure and refocus several existing schemes to bring in a transformative impact. The vision of Digital India Programme also aims at inclusive growth in areas of electronic services, products, manufacturing and job opportunities. The program aspires to transform the country into a digitally empowered society and knowledge economy.



November

Cost Management Strategy for Economic Sustainability

Sustainability enables a nation to raise living standards through profitable products subject to less environmental hazards by minimization of wastage of wealth, optimum utilization of resources etc. Sustainable Economic Development strategies generate substantial economic and employment growth and sustainable business and community development as a whole. MSME, Healthcare, Tourism and Hospitality, Education, Insurance, Transport are some of the well mentioned sectors to bring economic sustainability of the nation where CMAs have a huge role to play with.



December

Green Accounting and Sustainability

Green Accounting is an emerging aspect of accounting that helps in understanding the influential aspects of natural environment with respect to the economy. It acts as a managerial tool which can be used for the purpose of improving the performances in relation with the environment, controlling the environmental damage, reducing environmental costs. Green Accounts are a vital component of Corporate Social Responsibility and can help in decision making as well as enhance profitability.

Capital Market Corner

● A stock market index is created by selecting a group of stocks that are representative of the whole market or a specified sector or segment of the market. An Index is calculated with reference to a base period and a base index value. As the value of stocks within an index change, the index value also changes.

A. Performance of Important Sectoral Indices under NSE (as on December 31,2015)

Index Name	1 Month Return %	3 Months Return %	6 Months Return %	9 Months Return %	1 Year Return %	3 Years Return %
Nifty Media	8.23	10.50	17.66	20.29	10.30	48.92
Nifty Metal	5.25	10.20	-20.13	-21.41	-31.35	-37.01
Nifty Energy	4.14	12.34	-3.47	3.87	-0.66	8.28
Nifty Pharma	4.09	-7.39	-1.96	-6.86	9.26	98.24
Nfty Commodities	3.27	7.48	-8.48	-7.41	-9.54	-3.58
Nifty PSE	1.80	3.59	-11.05	-9.49	-11.94	8.31
Nifty Consumptin	1.67	4.53	2.04	5.75	7.99	53.45
Nifty MNC	1.67	-0.23	-4.26	-3.12	7.45	64.93
Nifty CPSE	1.02	2.52	-15.00	-12.13	-17.03	NA
Nifty Services	0.16	-1.63	-3.36	-6.11	-3.23	45.05
Nifty 50	0.14	-0.03	-5.04	-6.41	-4.06	34.57
Nifty IT	0.06	-6.81	1.59	-7.20	-0.03	86.10
Nifty Infra	-0.08	-1.99	-14.91	-14.79	-8.91	7.12
Nifty Realty	-0.40	-3.66	-4.61	-20.15	-15.02	-38.64
Nifty FMCG	-0.42	1.18	0.18	1.57	0.33	33.06
Nifty Financial	-0.71	0.16	-5.98	-6.48	-5.41	37.94
Nifty Auto	-2.68	6.38	-1.53	-4.26	-0.32	70.89
Nifty Bank	-2.92	-1.71	-7.51	-7.05	-9.68	35.66
Nifty PSU Bank	-11.47	-7.57	-11.27	-16.01	-32.91	-22.03

Sources: Capitaline Corporate Database;
Methodology: Returns (%) are absolute returns, calculated on point-to-point basis, Return (%) based on closing Index as on December 31, 2015 and with respective previous periods as given.

● Nifty 50 closed at ***7946.35*** as on December 31, 2015, an increase of 11.10 points (0.14 %) as against ***7935.25*** as on November 30, 2015. Nifty Media index gained the most (8.23 %) amongst all the indices during the month whereas the Nifty PSU Bank index (-11.47 %) was the biggest loser during the one month period ending December 31, 2015. During the 3 month period ending December 31, 2015, the biggest gainer is Nifty Energy (12.34 %) and the biggest loser is Nifty PSU Bank (-7.57%). The biggest gainers during the 1 year period ending December 31, 2015 in their respective index categories are Nifty Smallcap 100 (7.21 %).

B. Performance (Share Price) of different companies under Nifty Media (as on Dec. 31, 2015)

Index Name	1 Month Return%	3 Months Return%	6 Months Return%	9 Months Return%	1 Year Return%	3 Years Return%
TV18 Broadcast	32.49	34.18	28.18	56.11	54.32	45.54
T.V. Today Netw.	30.43	22.00	71.04	54.91	58.27	300.00
Netwrk.18 Media	13.75	20.27	-1.01	17.38	-12.64	41.74
Siti Cable	9.53	12.25	3.58	-2.69	3.28	51.46
Den Networks	8.35	-7.23	-20.72	-6.77	-16.16	-42.67
Eros Intl.Media	8.13	-54.12	-54.35	-39.98	-34.81	17.41
Zee Entertainment	7.13	11.42	18.85	27.94	14.84	98.12
Jagran Prakashan	6.90	12.31	34.84	24.00	16.92	50.68
Sun TV Network	5.74	18.69	50.94	-3.50	11.92	-0.16
Inox Leisure	-2.39	4.81	35.03	41.60	31.82	195.73
PVR	-5.44	-1.78	26.26	20.95	14.40	185.98

Sources: Capitaline Corporate Database
Methodology: We have chosen Nifty Media indices only. Returns (%) are absolute returns, calculated on point-to-point basis, Return (%) based on closing Index & Closing price as on December 31, 2015 with respective previous periods as given.

- The Nifty Media Index is designed to reflect the behaviour and performance of the Media & Entertainment sector including printing and publishing. The Nifty Media Index comprises of maximum 15 stocks from Media & Entertainment sector that are listed on the National Stock Exchange (NSE).

The earnings report is a key way for a publicly traded company to tell current and potential investors how it sits financially. Because it is such an important document, and because it is released by the company itself, investors should realize that it is in the company's best interest to present as rosy a picture as possible without violating any Securities and Exchange Commission (SEC) regulations.

c. Synopsys of September Quarterly Results (Nifty Media sector)

Rs. in Cr

Co_Name	NS	NS Gr.%	Other Inc.	Interest	RPAT	RPAT Gr.%	EPS	PBIDTM (%)	PATM (%)	LMP (31'st Dec)	MCap (31'st Dec)	P/E Ratio (NSE)	P/ BV(NSE)	BETA (1Yr.)
Eros Intl.Media	441.47	202.58	4.83	10.38	58.38	183.67	6.27	24.14	13.22	240.70	2252.08	15.39	2.12	0.7594
Inox Leisure	302.82	27.11	2.59	6.13	19.38	211.08	2.11	17.92	6.40	238.80	2303.46	40.82	3.23	0.9709
Zee Entertainment	1021.59	24.94	63.94	0.09	195.04	-17.18	1.65	30.52	19.09	437.25	41993.49	53.45	16.35	1.0481
T.V. Today Netw.	126.42	24.32	8.19	0.05	24.32	84.10	4.08	34.73	19.24	336.00	2004.36	25.93	4.45	1.298
PVR	451.21	21.80	9.13	20.43	38.46	348.25	8.7	21.39	8.52	801.75	3733.36	38.47	4.99	0.7329
Sun TV Network	568.09	11.60	20.35	0.07	218.38	41.37	5.54	79.67	38.44	426.40	16803.57	20.18	4.97	0.9458
Jagran Prakashan	425.29	6.56	1.41	14.91	58.31	4.18	1.78	29.67	13.71	159.65	5219.15	22.42	5.05	0.6007
Siti Cable	145.95	6.28	8.06	33.73	-31.18	-18.93	NA	16.45	-21.36	36.20	2453.03	NA	13.90	0.503
Netwrk.18 Media	16.94	5.81	4.78	13.04	-20.26	9.40	NA	-36.07	-119.60	58.75	6150.82	NA	2.27	1.2064
Den Networks	224.43	2.00	26.5	19.68	-61.28	181.49	NA	-3.99	-27.30	112.30	2001.19	NA	1.21	1.1039
TV18 Broadcast	133.49	-4.90	7.96	4.23	9.83	-66.43	0.06	12.44	7.36	47.30	8108.92	76.29	2.32	1.0714

Sources: Capitaline Corporate Database

Notes: NS-Net Sales, RPAT-Reported Profit after Tax, EPS-Earning Per Share (Adj) (Unit Curr.), PATM- Profit after Tax Margin, LMP-Latest Market Price, MCap-Market Capitalisation, P/E- Price Earnings Ratio and P/BV – Price to Book value ratio as on 31'st December,2015.
Methodology: Nifty Media stocks are considered for the study. Nifty Media Index is computed using free float market capitalization method, wherein the level of the index reflects the total free float market value of all the stocks in the index relative to particular base market capitalization value. NS growth% i.e. (NS on Sept, Qtr. 2015 less NS on Sept, Qtr. 2014) / (NS on Sept, Qtr. 2014) x100. Beta calculated for one year (31.12.2014 to 31.12.2015). LMP, MCap, PE, P/BV is based on 31st December 2015.

National CMA Practitioners' Convention 2016

Jointly organized by

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&

EASTERN INDIA REGIONAL COUNCIL

e-mail: pd@icmai.in / eirc@icmai.in

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J.N. Bose Auditorium
ICAI HQ, 12 Sudder Street
Kolkata - 700016

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