THE JOURNAL FOR CMAs

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INDIAN BANKING SECTOR IN TRANSITION

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory body under an Act of Parliament)


website:www.icmai.in
email:info@icmai.in
THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory body under an Act of Parliament)
Headquarters: CMA Bhawan, 12 Sudder Street, Kolkata - 700016
Ph: 091-33-2252 1031/34/35/1602/1492
Delhi Office: CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110003
Ph: 091-11-24666100
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Toll Free:1800 345 0092/1800 110 910

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 - 700 016. e-mail: editor@icmai.in

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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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EDITORIAL

Greetings!!!

The banking industry today is in a state of flux, with multiple technology, regulatory, and demographic factors cutting across the length and breadth of the value chain. These factors are impacting the way banks conduct their business, as the traditional banking methods are not enough to meet increasing customer expectations and improve profitability. The future of banking in India looks not only exciting but also transformative. Despite the somewhat difficult current operating environment, banks remain the largest financial sector intermediary in India. In future, technology will make the engagement with banks more multi-dimensional even as other entities, markets and instruments for credit and financial services continue to develop and expand.

The current weakness in economic activity has subdued credit demand from banks. Part of this slowdown is due to excess capacities in many sectors, together with increase in leverage on corporate balance sheets, restraining their ability to absorb credit. In addition, alternative sources of financing, both domestic and offshore, have also emerged. Stressed assets in banks' credit portfolios have constrained credit delivery, but the situation is gradually improving. While banks have taken measures to clean their portfolios, with write-offs and provisions, the Reserve Bank of India has facilitated rectification through a number of well-thought-out initiatives. Restricting incremental non-performing assets through early detection, monitoring, corrective action plans, shared information and disclosures as also the proposed mechanisms for asset resolution, including the Bankruptcy Code, will help speedier recovery in the concerned sector.

In wider banking perspective, technology is enabling more effective, lower cost delivery of corporate financial services, as well as rapid and seamless payments. This is increasingly allowing increased access to financial services and many services can now be delivered in almost real time, including credit assessment and loan approvals. Increasing penetration of the internet and mobile connectivity ensure an ever-widening suite of services "on the move". Data analytics, the biggest impact of technology will be the ability to personalize delivery of products and services to the consumers.

The landscape of India's financial sector is changing widely. Banking adopting differentiated channels and technology could enable a multi-fold increase of reach in rural and remote areas. Coupled with the emergence of a new class of bank, the Small and Payments Banks, one of the biggest impacts of technology adoption is rapidly accelerating financial inclusion by making last-mile access more cost effective and is expanding the reach of banking to the unbanked. The Pradhan Mantri Jan-Dhan Yojana has been an outstanding example. Direct transfers to bank accounts coupled with the range of services, envisioned in the Government's Digital India programme will drive customer adoption and promote a savings culture. Partnerships between these specialized entities and universal banks will effectively leverage their networks to deliver financial services, including micro-credit. With demonetization, more people are depositing money at banks which means the banks will have more liquid funds and money to lend, slashing their deposit rates drastically.

This issue presents a good number of articles on the cover story theme 'Indian Banking Sector in transition' by distinguished experts and authors. 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.

THE JOURNAL FOR CMAs

THE MANAGEMENT ACCOUNTANT

-: PAPERS INVITED :-

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

Theme: Cost Leadership and Competitive Advantage — February 2017

Subtopics

- Cost leadership and Value Chain
- Road map to competitive edge
- Cost leadership strategy for sustainability
- Strategic decision & Cost Management tools
- Economies of Scale & Cost leadership
- Make in India & Competitive Advantage
- Role of CMAs

Theme: Environmental Management Accounting — March 2017

Subtopics

- Conventional Accounting & Environmental issues
- Ecological Accounting – Role of CMAs
- Eco – Efficiency & Environmental Management
- Environmental Information, Costing & Sustainable Development
- Environmental Impact Assessment
- EMA Standards & benchmarking
- Environmental Risk Management in business Development
- EMA – Case Studies and emerging issues

Theme: Municipality, Panchayati Raj and Rural Development — April 2017

Subtopics

- Accounting & Audit of Local Bodies
- Smart Cities and e-Town
- Women Empowerment
- NPAM and Control Systems
- Impact of Decentralized Planning
- Livelihoods missions
- Project appraisal through Cost Benefit Analysis
- Performance evaluation - role of CMAs

Theme: Activity Based Costing & its applications — May 2017

Subtopics

- Applications in:
  - ✓ Railways
  - ✓ Aviation
  - ✓ Ports
  - ✓ SME sector
  - ✓ Services sector
- Global practices
- Success and failure of Activity Based techniques
- Time-driven Activity Based Costing
- Activity Based Planning and Budgeting
- Activity Based Management

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

PRESIDENT'S COMMUNIQUÉ

There are greater things to be achieved in every New Year and each & everyone must prepare themselves to be great, not by words of the mouth, but by a lot of sacrifices

- Michael Bassey Johnson

CMA MANAS KUMAR THAKUR
President
The Institute of Cost Accountants of India

My Dear Professional Colleagues,

Namaskar.

Wishing you a very happy new year 2017;

Friends, as we start the New Year, we should relish the challenges that lie ahead. The road of growth and developing the CMA profession and the Institute is a rocky one. The past few years have had a significant impact on the profession and the Institute, but I would like to thank you all for your continued support and dedication during these challenging times. The coming year will bring its own challenges but it also provides an opportunity to reassess ourselves and to plan for the year ahead, taking corrective action and setting new goals. It is a time of hope, a time to make a new beginning with resolve and confidence to achieve these goals. I seek your continued support to the development and growth of the Institute.If you have any constructive suggestion or idea for the development of profession and the Institute, please share with me. I assure suitable implementation of the same.

On behalf of the Institute and Council, I would like to wish all our stakeholders a wonderful and rewarding year. Please celebrate the start of 2017 in good spirits with family and friends. I am looking forward to work together in the New Year 2017 with much more vigour and resolve.Let us all roll-up our sleeves and go to work.

Initiatives with regard to advocacy of Insolvency and Bankruptcy Code 2016

I am very much thankful to **Dr. M.S. Sahoo**, Chairperson, Insolvency and Bankruptcy Board of India (IBBI) for being Chief Guest at "Seminar on Insolvency and Bankruptcy Code 2016" held at WIRC, Mumbai on 23rdDecember 2016 where CMA Sanjay Gupta, Vice President was Guest of Honour. The seminar was addressed by CMA J.K. Budhiraja, CEO, Insolvency Professional Agency of the Institute, Mr. Nikhil Shah, Managing Director, Alvarez & Marsal India (P) Ltd, and Mr. K. C. Jani, Managing Partner, Areion Corporate Advisors (I) Pvt Ltd. The seminar received overwhelming response from participants. I thank Chairman, WIRC of ICAI and his Team for organizing such a good seminar within a short time.

Further, NIRC of ICAI has also organized a "Seminar on Role of CMAs as Insolvency Professionals" on 26thDecember 2016 at New Delhi. The key note speaker was CMA J.K. Budhiraja, CEO, Insolvency Professional Agency of the Institute. This seminar also received very good response from participants. I congratulate the Chairman, NIRC and his Team for organizing this Seminar within a short time.

A "Seminar on Insights- Insolvency and Bankruptcy Code 2016" was organized by Hyderabad Chapter of the Institute on 30thDecember 2016. The Chief Guest of the Seminar was **Shri Suresh N Patel**, MD & CEO, Andhra Bank and was addressed by eminent speakers. I also got an opportunity to address the participant and CMA (Dr.) P.V.S. Jagan Mohan Rao, Central Council Member of the Institute also addressed the Seminar.

Apart from the above Seminars, the Institute HQ in association with EIRC of ICAI is organizing a "Seminar on Opportunities for CMAs as Insolvency Professionals" on **13th January 2017 at Kolkata. Dr. M.S. Sahoo**, Chairperson, Insolvency and Bankruptcy Board of India has kindly consented to be Chief Guest of this Seminar.

I urge members of the Institute and other professionals including Advocates to attend the Seminar in large number and understand the opportunities available for them in Insolvency and Bankruptcy Code 2016.

I am pleased to inform members that 43 Cost Accountants in Practice with 15 years or more practicing experience have enrolled and registered with "Insolvency Professional Agency of the Institute" and "Insolvency and Bankruptcy Board of India" respectively by 31st December 2016. After 31stDecember 2016, the registration as "Insolvency Professionals" shall be after passing "Limited Insolvency Examination". A new website of IPA ***www.ipaicmai.in*** has already been launched by the Institute that provides all sorts of details such as legal framework, eligibility criteria and other relevant information. The first examination was conducted on 31stDecember 2016 by IBBI at 100+ centres all over India. The examination is available any day as per the choice of centres. The members of the Institute having experience 10 years or more experience (practice and employment) are also eligible to function as Insolvency Professionals after passing "Limited Insolvency Examination". IBBI has also issued FAQs on Limited Insolvency Examination along with other details related to insolvency profession are available at the above said website.

I urge Regional Councils and Chapters to organize Seminars/ Workshops in large numbers and help the members in developing technical capacity building, knowledge and skills required to take the new profession as Insolvency Professionals and enable them to provide professional services under Insolvency and Bankruptcy Code 2016. I further urge our members to come forward and take up this new area of practice that is opened to showcase their expertise. This new domain will help our members to take leaps and bound in their business' turnover.

Cost Consciousness Week

As informed in my previous communiques, the Institute celebrated from 1stDecember to 7thDecember 2016 "Cost Consciousness Week" all over the Country. Shri Arjun Ram Meghwal, Hon'ble Minister of State for Finance and Corporate Affairs released a special knowledge pack of the Institute on 'Cost Consciousness - Prelude for Organizational Efficiency' to kick start celebrations of 'Cost Consciousness Week' at New Delhi. Many chapters and regions of the Institute organised a number of programs and seminars to spread the message of cost Consciousness among the Industry and professionals.

CMA Students Connect Month

I am pleased to inform that the January 2017 will be celebrated as the CMA Students Connect Month to help the students know about the CMA Course and the resulting career opportunities.The Institute thrives on the student strength and they are the brand ambassadors of the Institute after passing out from the Institute. I urge the members to come forward and take the initiative of students connect. Please share with prospective students all about the Institute and CMA profession so that their morale can be boostedand they are motivated to join the CMA course. I am hopeful that a proper CMA Student Connect will give students a clear understanding about the CMA Profession.

Meeting with VIPs

- I met **Shri Arjun Ram Meghwal**, Hon'ble Minister of State for Finance & Corporate Affairs to discuss the pending issues like Accountant definition, Institute's Name change. A memorandum in this regard was presented to him and also to **Shri Santosh Gangwar**, Hon'ble Minister of State for Finance. I also met with the Revenue Secretary in this regard. A memorandum was also given to Hon'ble Finance Minister's office through his Personal Secretary. A meeting with **Shri Tapan Ray**, IAS, Secretary, MCA was also held wherein the discussion was centred on these issues.
- I had an opportunity to meet **Dr. Jitendra Singh**, **Hon'ble Union Minister of State (I/c) for DoNER and Minister of State in PMO, DoPT and Space & Atomic Energy** and discuss with them about the initiatives taken by the Institute for the development of North Eastern Region of the Country. This included organising a Seminar for the Capacity Building of the North Eastern Region and exploring the possibility of signing an MoU with Tezpur University for establishing a "North Eastern Development Research Centre" at Tezpur University in collaboration with the Institute. The Hon'ble Minister was very happy and asked us to give further information on this. We will be handing over a detailed proposal to him in this regard.
- I got an opportunity to meet **Hon'ble Lt. Governor of Andaman Nicobar Islands, Prof. Jagdish Mukhi** to discuss the contribution of CMA profession in growth and development of the island state. The talks were very cordial and Hon'ble Lt. Governor was very happy.
- I got an opportunity to meet **Shri Prem Prakash Pandey**, Hon'ble Minister for Higher Education, Government of Chhattisgarh at Raipur to discuss the role of CMAs in the growth of Chhattisgarh.
- I met with **Prof. S.V. Satyanarayana, Head of the Department of Commerce, Osmania University - Hyderabad** to interact with the faculty members of the commerce department. The interaction was focused on conducting mutual programs for students and faculty members jointly and other issues of mutual interest. I was accompanied by CMAs S Papa Rao and Dr. PVS Jagan Mohan Rao, CCMs.

Initiatives by various departments of the Institute

Advanced Studies Directorate

The examinations for the December 2016 term of the second batch of Diploma Courses on Business Valuation, IS Audit and Control and

Internal Audit have been completed. The Dip MA Examinations have also just concluded. These courses being post-qualification courses, the level of knowledge that is required is expert, for qualifying in these examinations. Our members with their practical exposure to the industry and up gradation of their skill and knowledge, I am sure, will be able to do well in these examinations. I wish a grand success to all those, who wrote the examinations for Diploma courses in December term.

CAT Directorate

I feel elated to share with you that as per the MOU signed with AP Skill Development Corporation, CAT course has been launched in 4 Chapters i.e. Vijayawada, Visakhapatnam, Nellore and Godavari and Institute has a commitment to organise placement for these students also. The Institute has also been recognized to offer CAT course in the State of Assam under DDUGKY scheme to enhance the employable capacity of youth of Assam. This way Institute is fulfilling its Professional Social Responsibility towards developing "Skill India".

Cost Accounting Standards Board (CASB)

CASB has released Exposure Drafts for "Limited Revisions" of Cost Accounting Standards: CAS-1, CAS-7, CAS-16 and CAS-17 on account of impact of Indian Accounting Standards (IndAS- converged with IFRS) for public comments. The last date of sending the cost to CASB is 12th January 2017. I urge members and other stakeholders to send their comments within stipulated time so that their comments/ suggestions may be considered by the CASB.

Cost Auditing and Assurance Standards Board (CAASB)

Members may be aware that the Institute in March 2016 sent fifteen new Standards on Cost Auditing (SCAs) seeking Central Government approval in terms of proviso to Section 148(3) of the Companies Act 2013. The Ministry of Corporate Affairs constituted a Technical Committee to study and review the SCAs sent by the Institute including a nominee of the Institute. The Committee has already studied and reviewed some of the SCAs which shall be forwarded by the Committee to MCA for its approval.

International Affair

- I am pleased to inform that the WTO International Affairs & Sustainability Committee of the Institute is planning to issue an Overseas Connect International E-bulletin to connect all Management Accounting Bodies across the globe.
- The committee will also be taking up the matter of expanding the overseas centres network of the Institute be opening new overseas centres shortly.
- I wish to inform that to propagate the role of Cost Accountants in the costing of healthcare services a roundtable presided over by me at Delhi wherein prominent healthcare professionals of the Country were present. As an outcome of this event the Committee is planning to organise an International Healthcare Costing conference which will connect Healthcare professionals across the globe to discuss the Costing of Healthcare Services.
- I wish to inform that a meeting with Shri C. Rajasekhar, IFS, Joint Secretary (West Africa Division), Ministry of External Affairs was attended by me to discuss with him the role of Cost and Management Accounting in the development of economy of theAfrican Countries. The Joint Secretary appreciated the idea and the Committee is now planning to organise a roundtable of High Commissioners of African Countries for the purpose.
- I was invited to address the participants in an evening workshop on 14th December 2016 at New Delhi to discuss & debate the role of professional accountants in smart cities. The event was organised by the Institute Of Directors jointly with Association of Chartered Certified Accountants (ACCA) and the Institute of Cost Accountants of India (ICAI).

Membership Department

I congratulate and welcome all the new 575 Associate Members who were granted membership and all the 84 members who were advanced to Fellow membership during the month of December 2016.

Professional Development Directorate

- I am happy to inform that based on the representation letter sent by the PD Directorate to the Securities and Exchange Board of India (SEBI), the SEBI has issued two notifications dated 30th November,2016 to amended Securities and Exchange Board of India (Real Estate Investment Trusts) Regulations, 2014 and Securities and Exchange Board of India (Infrastructure Investment Trusts), Regulations, 2014 wherein the regulation 2 sub-regulation (1) Clause (zz) and regulation 2 sub-regulation (1) Clause (zzf), respectively are amended beside other regulations and definition of valuer in respect of financial valuation has been modified to include a **Cost Accountant** in whole-time practice.
- In response to the representations made by the PD Directorate, Indian Association for the Cultivation of Science, National Scheduled Tribes Finance & Development Corporation, Indian Rare Earths Limited, IIT Kharagpur, Indian Oil Corporation included **Cost Accountants** in EOIs. Also, based on the representation, REC Power Distribution Ltd issued corrigendum removing the anomaly in scope of work for conducting Cost Audit.
- Further, the eminent organizations like BSNL, V.O. Chidambaranar Port Trust, Kandla Port Trust, National Aluminium Company Limited, Hindustan Aeronautics Ltd, Bharat Heavy Electricals Limited, Orissa Integrated Irrigated Agriculture and Water Management Investment Program, National Health Mission Idukki (Kerala) and DNP Ltd. recognized **Cost Accountants** in their Tenders/ EOIs in the month of December. The list of organizations that were

represented and those who recognized cost accountants can be seen at the PD Portal.

- **Full Day Seminar on Sugar Industry**

The Professional Development, Banking & Insurance Committee jointly with ICAI-Pune Chapter is going to organise a Full Day Seminar on Sugar Industry, on Thursday the 19th January 2017 in Pune to share knowledge and discuss & deliberate on the critical processes and cost components of this industry with the experts. The Seminar will be helpful to CMAs (working professionals and fresh entrants in the profession) as well as representatives of Sugar Mills. The Seminar will cover aspects of Costing & Cost Audit in Sugar Industry. I urge members to attend the seminar and get benefitted from the deliberations.

- **Discussion Meet by the Professional Development, Banking & Insurance Committee**

I attended a Discussion Meet held on December 21, 2016 at J N Bose Auditorium, Headquarters, Kolkata organized by the Professional Development, Banking & Insurance Committee of the Institute in collaboration with The Financial Express on the topic 'Discussion on Effect of Demonetization on cost of doing businesses'. Shri KB Vijay Srinivas, General Manager, National Insurance Co. Ltd, CMA Amit Anand Apte, Chairman, Professional Development, Banking & Insurance Committee, Shri Indronil Roychowdhury, The Financial Express, CMA Biswarup Basu, Central Council Member and Secretary of the Institute were among the eminent speakers in the inaugural session of the meet. Chief Guest, Shri KB Vijay Srinivas spoke on this important theme and he pointed out that this initiative of demonetization could be a move to complete digitalization of the financial systems. In the panel discussion, Professor Dilip Shah, Dean, Bhawanipur Education Society was the moderator of the session. Shri KB Vijay Srinivas, Shri Dhiraj Chakraborty, DGM, Calcutta Stock Exchange, Shri Tridibesh Bandopadhyay, Founder Director & CEO, InQube Innoventures were the eminent speakers in the Panel Session. The programme was attended by officers of various banks and insurance companies as well as students of some colleges. The special vote of thanks was presented by CMA Biswarup Basu, Chairman, Members' Facilities & Services Committee and Council Member of the Institute.

Research & Journal Department

I got an opportunity to attend a 'Social Priority Colloquium' jointly organized by Indo-German collaboration of SOCEO Germany, Childfund Germany and India and Institute held at JN Bose Auditorium, Kolkata, dated December 8 and 9, 2016, to foster creativity and capability among NGOs and Social Entrepreneurs. This event aimed at facilitating long-term collaborations among development agencies & CSR initiatives with a shared vision of the future. On the first day, Shri Sujoy Chatterjee, MD SOCEO Germany, Shri Vijay Wadhwani, Childfund India, CSR specialist CS Rupanjana De, EIRC of ICSI and Prof. Dr. Harald Meier from the Bonn-Rhein-Sieg University of Applied Sciences, Mr Olaf Iversen, the German Counsel General of Kolkata, CMA Dr. I. Ashok and CMA H. Padmanabhan, Council Members of the institute enlightened the session and provided brilliant insights on this project. During the second day of the 3rd Social Priority Colloquium, the proceedings started with an opening address by Ms Sabina Pandey, Regional Director, Indo-German Chamber of Commerce (IGCC). The address was followed by special notes from Shri Dipankar Lahiri, FA & CAO Eastern Railway and Shri H.S. Mushathick, FA & CAO Metro Railway. Some of the corporate representatives also shared brief overviews of the CSR policy of their organisations and their current focus areas of development. The Colloquium in Kolkata was concluded by the Director, Research & Journal and Examination of the Institute with a special vote of thanks.

Initiatives by Regions &Chapters

- I congratulate **EIRC and Bhubaneswar Chapter of the Institute** for successfully organizing 38th Cost Conference-2016 on 9th to 11th December 2016 on the theme "Navigating Global Directions – Value of CMAs" at Bhubaneswar. **Shri Navin Patnaik, Hon'ble Chief Minister of Odisha** was the Chief Guest of the inaugural session. The RCC saw an excellent gathering of professionals and representatives of industry, academicians and students.
- I was invited by the **Raipur Chapter** of Cost Accountants to attend the GST Conclave organised by the Chapter on 3rd December 2016 at Raipur. A press meet was also organised by the Chapter.
- **Asansol Chapter** of the Institute has organised its Annual Seminar on 4th December, 2016 at Asansol on the theme Economic Reforms through GST.
- **Durgapur Chapter of Cost Accountants** organised its Annual Conference – 2016 on the theme 'Indian Economy: 25 years journey in Liberalization, Privatization and Globalization (LPG era) on 18th December 2016 at Durgapur.
- I also got an opportunity to address the members at a members meet organised by the **Hyderabad Chapter of Cost Accountants** and also a press meet on 30th December 2016. I was accompanied by CMAs S Papa Rao and Dr. PVS Jagan Mohan Rao, CCMs, CA V Murli, Chairman, SIRC and CMA D. Surya Prakasam, Chairman, Hyderabad Chapter.

I wish prosperity and happiness to members, students and their families on the occasion of New Year, Guru Gobind Singh Jayanti, Lohri, Makar Sankranti, Pongal, Subhas Bose Jayanti and Republic Dayand pray for the success in all of their endeavours.

With warm regards,

(**CMA Manas Kumar Thakur**)
1st January 2017

ICAI-CMA SNAPSHOTS

Dr. Jitendra Singh, Hon'ble Union Minister of State (IC) for DoNER and Minister of State in PMO, being presented with a report on the initiatives taken by the Institute, to support the Government's decision of Demonetization by CMA Manas Kumar Thakur, President, CMA Sanjay Gupta, Vice-President and Shri Sushil Behl, Council Member and Government Nominee of the Institute

Sri Pullela Nageswara Rao, Chief Commissioner, CBEC inaugurating the one day seminar on 'GST Implementation-Let Us Be Ready For the Roll Out' on November 8, 2016 at Center for Excellence, Cochin, Chalikkavattom, Vyttila, Cochin by lighting the lamp.
CMA (Dr) Anil Anikhindi, Practicing Cost Accountant, CMA Ashok Nawal, Council Member, CMA Madhusudhanan, Chairman, Cochin Chapter, CMA Manas Kumar Takur, President of the Institute, CMA H Padmanabhan, Council Member, CMA Sivakumar P, Vice Chairman, Cochin Chapter, CMA Sankar P Panicker, Member SIRC are also seen

CMA Manas Kumar Thakur, President and CMA H Padmanabhan, Council Member of the Institute lighting the Lamp at CMA Career Counseling Program organised by PPTA Kozhikode. Resource persons of PPTA CMA Support Centre and invitees are also seen

Distribution of sweets, lunch and gifts to incumbents of BABA Gurukulam at Pozhichalur Chennai by the Institute, represented by ICAI students, staffs and Council Member CMA H Padmanabhan

CMA Manas Kumar Thakur, President of the Institute felicitating Shri Prem Prakash Pandey, Minister of Higher Education, Chhattisgarh. CMA B M Sharma, Past President of the Institute, CMA Arindam Goswami, Chairman and CMA Samir Kumar Rakshit, Managing Committee Member of Raipur Chapter of Cost Accountants are also seen

CMA B.B Goyal, former Addl. Chief Adviser (Cost), Ministry of Finance, Government of India and CMA Raju Iyer, Council Member of the Institute presented papers on Chemical Fertilizer, Real Estate, Pharmaceuticals and Power sector Cost Audit at the Cost Audit Workshop organised by the Institute of Cost and Management Accountants of Bangladesh on 17 November 2016

Shri Sushil Behl, Council Member & Government Nominee of the Institute at the ASSOCHAM National Conference on GST held on December 8, 2016 at New Delhi

ICAI-CMA SNAPSHOTS

25th Meeting of Quality Review Board in progress held in Kolkata on November 11, 2016.
From Left: CMA Kunal Banerjee, Member QRB, Shri Shakti Sinha, Chairman QRB, CMA Arup S Bagchi, Secretary QRB, CMA Sivaraman Gopalakrishnan, Member QRB and CMA Narendra Kumar Bhola, Member QRB

Quality Review Board members in interaction with special invitees in Kolkata on November 11, 2016

CMA Manas Kumar Thakur, President of the Institute and CMA Bibekananda Mukhopadhyay, Chairman, EIRC along with Dr N Rajavel, Associate Professor and Head, Department of Commerce, JNRM Collge, Port Blair presenting a publication of the Institute to Shri Jagdish Mukhi, Lieutenant Governor, Andaman and Nicobar islands regarding brief outline of the State of Andaman and Nicobar Islands and contribution of CMAs towards the Economic Development of the State on December 29, 2016 at Raj Niwas, Andaman and Nicobar Islands

CMA Manas Kumar Thakur, President of the Institute felicitating Shri Jagdish Mukhi, Lieutenant Governor, Andaman and Nicobar islands on December 29, 2016 at Raj Niwas, Andaman and Nicobar Islands.

GLIMPSES OF 38TH COST CONFERENCE-2016
ON
'NAVIGATING GLOBAL DIRECTIONS-VALUE OF CMAs'

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EVOLUTION OF NPA MANAGEMENT IN INDIAN BANKING SECTOR

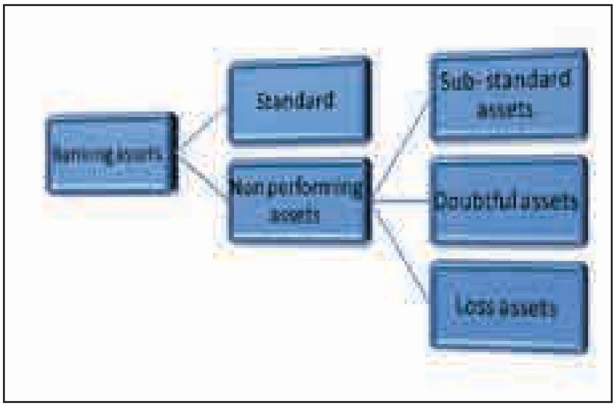
CMA Dr. Smita Mazumdar
Assistant Professor
Narsee Monjee Institute of Management Studies
Mumbai

The Indian banking sector has been witnessing rising NPAs over the last few years(Reserve Bank of India, 2016a)[1]. While research has focused on identifying reasons – whether environmental, or systemic, the Reserve Bank of India has been working on various mechanisms whereby stressed bank assets can be reconverted into being productive. Thus, the Indian banking system has seen a slew of measures over the last few years to combat the NPA issue. This article reviews these measures as the banking sector goes through a transition over the last decade culminating with the Insolvency and Bankruptcy Code 2016.

Types of banking assets

When assets of a bank (loans extended by it) stop generating regular income (interest) and there are possibilities of default/ delay in the principal repayment, the assets can be classified as 'non-performing'. Being in the business of lending, banks always run the risk of 'non performance'. But when such cases increase, not only do the bank balance sheets get impaired, but productive capital at the macro level also gets blocked leading to reduction in economic activity. Thus there is a need to curb/ reduce the incidence of non-performing assets. Figure 1 summarises the asset classification followed by the banking system in India (Reserve Bank of India, 2015a)

Figure 1: Asset classification



Source: R.B. I. (2015)

Non-performing assets are further classified into the following three categories on the basis of the duration for which they have remained non-performing:

Sub-standard assets – assets that have remained NPA for a period of less than or equal to 12 months. There is a distinct possibility of the bank sustaining some losses on such assets if deficiencies are not corrected.

Doubtful assets – non-performing assets that have been in the sub-standard category for 12 months. Given the weaknesses in these assets, collection or liquidation is rendered highly improbable.

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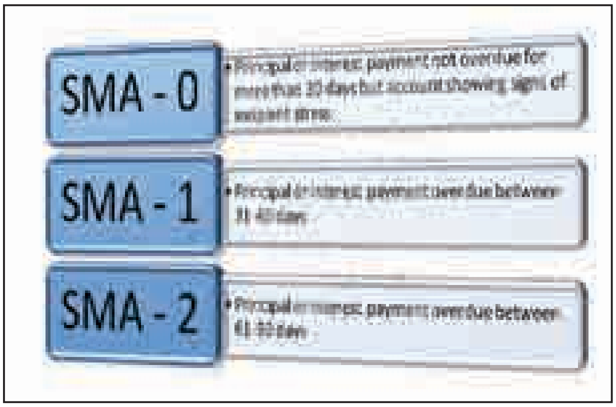
Loss assets – assets where loss has been identified by the bank or external auditor/ RBI team but has not been fully written off. Such assets are considered uncollectible.

Apart from the classification of NPAs, banks are also required to identify financial distress early by monitoring assets that have not yet turned non-performing but are showing signs of incipient stress. This is done by creation of 3 sub-categories under the 'Special Mention Accounts' (SMA) (Reserve Bank of India, 2015a) :

Figure 2 : Categories of Special Mention Accounts



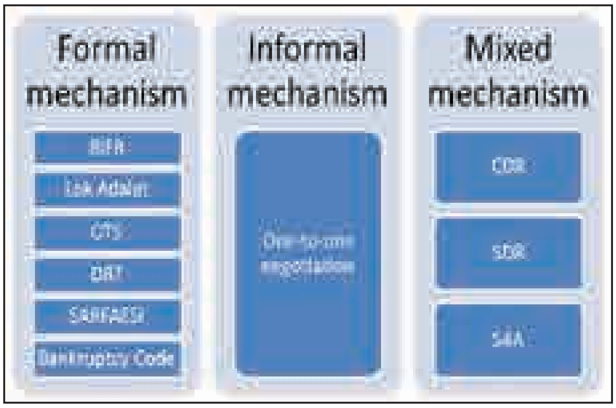
Source: R.B.I. (2015)

Recovery mechanism

Given the burgeoning NPAs, banks employ various tools to recover their dues. Some of these mechanisms derive their structure from laws, policies and regulations made at different points in time, while the others are non-statutory in nature. Two distinct approaches of restructuring are observed across the world: 1) The centralized approach and 2) the decentralized approach (Claessens, 2005). The centralized approach has a larger role for the government typically in the form of establishing asset recovery/reconstruction companies that would dispose of the assets of non-viable firms. The decentralized approach, on the other hand, expects banks to resolve the issues of high debt with the firms individually, on a one to one basis.

The role of the government is limited to providing a framework of norms for aiding this exercise typically in the form of tax concessions and recapitalization of banks. Most countries across the world follow a 'mixed approach' that is a combination of both the centralized and decentralized approaches. The mixed approach involves restructuring of loans of large enterprises in a government supported out-of-court mechanism. Restructuring mechanism in India too has evolved with different instruments being used by banks for rescheduling, renegotiation and rehabilitation for many years. Figure 3 categorizes the various instruments available with Indian banks for restructuring.

Figure 3: Instruments for restructuring



Source: Collated by author

The Board of Industrial & Financial Reconstruction (BIFR) was constituted under the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA) with the intention of determining sickness in industrial companies and providing assistance to viable entities and closing down unviable ones. But, over time, referring to BIFR was considered to be a haven for promoters of sick companies and in June 2016, the government formally closed its operations. Few other ways of recovery were available to Indian banks under the 'Recovery of Debt due to Banks and Financial Institutions Act, 1992'. The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (*SARFAESI Act*, 2002) was constituted to provide larger power for bankers and financial institutions to settle secured corporate debt. It allowed for taking possession, selling or managing the secured assets of defaulters, or sale of assets to asset reconstruction companies. It was expected to provide greater teeth to the recovery process that banks could adopt. The Act allowed for three ways of recovery of non-performing assets: 1) securitization, 2) asset reconstruction and, 3) sale of assets without court intervention. The Act was applicable only in loan cases where the NPA amount was more than 20% of the principal and interest outstanding and was more than Rs 1.00 lakh.

The Reserve Bank of India also provided for a One Time Settlement (OTS) scheme for loans of smaller denominations (Rs 10 crore and below) that were classified as non-performing assets (NPAs) (Reserve Bank of India, 2005). Lok Adalats were also available for settling disputes and focused on working on a compromise which could then be referred back to the court. In addition, Debt Recovery Tribunals (DRT) and Debt Recovery Appellate Tribunals (DRATs) were established under the provisions of Recovery of Debt due to Banks and Financial Institutions Act, 1993. With the implementation of SARFAESI Act 2002, DRTs also implement the provisions of this Act (Debt Recovery Tribunal, n.d.).

'The Insolvency and Bankruptcy code, 2016' passed by the Indian Parliament in May 2016, is set to override all other existing laws pertaining to bankruptcy and insolvency (Ernst and Young India, n.d.). It aims at resolution of individual as well as corporate insolvency in a time bound manner to maximize the value of such assets and balance the interest of all stakeholders (Government of India, 2016).

While there were multiple channels for recovering debt in the formal legal mechanism, individual one-to-one negotiation was the only mode adopted informally. There was no mechanism to address restructuring of consortium based loans. The Reserve Bank of India, thus, initiated the establishment of Corporate Debt Restructuring (CDR) system in India in 2001(CDR Cell, n.d.). The CDR mechanism is a voluntary, non statutory system that covered multiple bank accounts/ consortium accounts of debts of large borrowers having outstanding aggregate exposure exceeding Rs 10 crores. While the restructuring is worked out outside the purview of the legal framework, once an agreement within lenders and also between lenders and borrower has been reached, an individual inter- creditor agreement (ICA) and a Debtor- creditor agreement (DCA) is signed. These are legally binding.

Despite the CDR mechanism, NPAs and restructured loans in the Indian banking system continued to rise, especially after the global financial crisis. Concerns of moral hazard were raised with possibilities of non deserving loans also getting restructured (Chakrabarty, 2012). This was exacerbated by the fact that RBI was practicing regulatory forbearance for all restructured loans before March 2015. With this backdrop, RBI mandated Indian banks to form a Joint Lenders' Forum (JLF) when any borrower having aggregate exposure exceeding Rs 100 crores becomes a SMA-2 category account (Reserve Bank of India, 2014). Lenders have an option of forming a JLF even before these conditions are triggered if they sense stress in the account. This was with the intention of identifying stress in banking assets early so that a corrective action plan (CAP) can be initiated to preserve the economic value of the underlying asset. The JLF can be formed for lending under consortium as well as multiple banking arrangements. The CAP can be aimed towards a) rectification, b) restructuring or, c) recovery. The JLF can propose restructuring under the aegis of the CDR cell or outside it. Either way, the restructuring plan has to ensure that the promoters have more 'skin in the game' with possibility of transferring their equity stake to the lenders, or, promoters requiring to infuse more equity, or, by transferring promoters holding into an escrow account to facilitate change of management control at a later date, if required.

The Strategic Debt Restructuring scheme (SDR) was implemented in 2015 to ensure that the shareholders bear the first loss rather than the debt-holders in cases of restructuring (Reserve Bank of India, 2015b). Accounts that fail to achieve the agreed critical conditions and projected viability milestones after initial restructuring under or, outside of CDR, can be subjected to SDR. If the borrower is not able to achieve the viability milestones and/or adhere to the 'critical conditions' after initial restructuring, the JLF immediately reviews the account and examine whether the account will be viable by effecting a change in ownership. If found viable under such examination, the JLF may decide on whether to invoke the SDR. This involves converting loan dues to equity shares. Post the conversion of debt into equity, all lenders under the Joint Lenders' Forum must collectively hold 51% or more of the equity shares issued by the company. Lenders can appoint professional managers to run the company and are expected to divest their stake in the company as soon as possible. On completion of conversion of debt to equity existing asset classification of the account, as on the reference date continues for a period of 18 months from the reference date.

Bankers find this period of 18 months too less to find a buyer (new management) for their stake in the company, especially in cases of large exposures that require deep financial restructuring and substantial write-down of debt. The current guidelines for SDR require larger provisioning requirements as the asset classification changes after 18 months (on the residual debt as well as Mark-to market provisioning of equity holding). As such, bankers are not comfortable with the SDR scheme for large exposures. Thus, RBI floated the 'Scheme for Sustainable structuring of Stressed Assets' (S4A) in June 2016 (Reserve Bank of India, 2016b). The borrower should have commenced commercial operation on the project and should have an aggregate exposure of Rs 500 crores to be eligible for S4A. Its debt should also meet the test of sustainability. A Debt level is considered sustainable when an independent techno –economic viability study by the JLF/ consortium of bankers finds that the principal can be serviced over the same tenor as that of the existing facilities even if the future cash flows remain at their current level. Such sustainable debt level (called Part A) should be at least 50% for invoking S4A. In the scheme of resolution, no fresh moratorium is granted on the interest and principal pertaining to part A. Even extension of repayment period or reduction in interest rate is not allowed for Part A debt. Part B can be converted into equity/ convertible preference shares or optionally convertible debentures (in case of change in management). Options with regard to the post-resolution ownership of the borrowing entity, methodologies to find the fair value for Part B instruments are also explained in scheme.

Over the last two decades, RBI has widened the scope of NPA management by introducing newer tools to identify stress in banking assets and working towards its early resolution. With the onset of the Insolvency and bankruptcy code, the time taken for resolution/ recovery should come down thereby aiding ease of doing business in India. MA

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Endnotes

[1]Gross NPAs as a percentage of Gross Advances of Scheduled Commercial Banks have risen continuously from 2.3% (2008-09) to 4.3% (2014-15). In absolute terms, Gross NPAs have increased from Rs683.28 billion (2008-09) to Rs 3233.45 billion (2014-15)

smita.mazumdar@nmims.edu
mazumdar.smita@gmail.com

TECHNOLOGY TRENDS IN INDIAN BANKING SECTOR

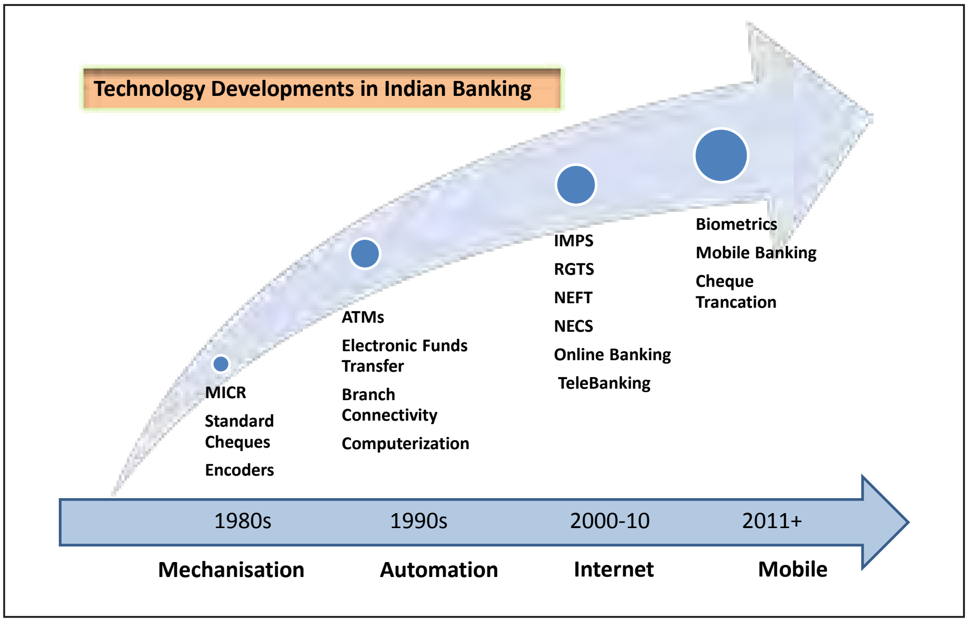
CMA Venkatesvaran P
Group Manager & Vice President
iNautix Technologies
Chennai

Banking is backbone of any economy. The success of an economy is supported by a strong banking system and similarly banks are more successful when the economy does well. For banks to be successful, it is imperative to increase their customer base, retain their existing customer and offer customers the products and services which are most beneficial to them.

In today's technology savvy customer base, it is very important for banks to adapt the latest technology, such that banks are able to catch up with the pace with which customer preferences changes. Adaption of newer technology is also critical to challenge competitor banks and other institutions in offering products and services in the market place.

While we focus this article on the current and future technology trends that impact banking and financial services, let us quickly glance through the technology developments adapted in the Indian Banking thus far.

Snapshot of Technology Developments in the Indian Banking Sector:



Mechanisation - 1980s:

Banking sector in India embraced technology right from 80's, a period which witnessed mechanisation of transactions and processes. This period saw the introduction of encoders, standard cheques and (mechanisation of) cheque processing post the implementation of MICR. This eliminated manual way of processing negotiable instruments particularly cheques and bank drafts.

Automation – 1990s:

A decade starting from early 90's saw massive effort towards computerisation of Indian Banking systems. All branches were computerised. This resulted in high productivity improvements and banks were able to expand their products and services offered to customers. Connectivity between branches was taken up post computerisation. This facilitated cross branch transactions and eventually paved the platform for anywhere banking. Introduction of Electronic Funds Transfer (EFT) was a milestone achievement, which facilitated seamless transfer of funds between customers, branches, banks and other institutions. Core Banking solutions were implemented which introduced seamless transaction processing between different departments within the bank processing various products and services. It also improved the overall efficiency of banking operations. Productivity of bank employees improved substantially.

This decade saw the introduction of ATM as well, which changed the entire gamut of customers' experience in banking for cash transaction and other services like ordering cheque book, account statement,etc.

Tech savvy New Private Banks:

New Private Sector Banks commenced business as a result of New Economic Reform of 1991. These Banks were established as Tech Savvy Banks which introduced advanced technology of the time. These banks not only brought in new technology, but alsoattracted customers from old banks into their fold. This compelled the existing banks to focus on adapting technology in their firms as well.

New Millennium:

The birth of new millennium (year 2000) changed all facets of banking sector. Internet was adapted by banks and brought in all new experience of banking. Customers were not required to visit branches for many transactions. Further down the line, introduction of ECS and subsequently NEFT and RTGS facilitated quick transfer of funds anywhere irrespective of the branch, bank, and location. Cross location funds transfer which took days then was transformed to be completed in hours and in some cases minutes.

In the last few years, we are witnessing development of technology revolving mobile. Mobile Banking is all together a new game. Customers experience banking just by touch of their smart phones.

Current Technology Challenges:

Technology has changed everything that not everyone is able to keep pace with it. Banks have a rough time adapting to new world. In the recent past, Banks were busy with compliance with the regulatory requirements. Some were so busy that they failed to adapt to newer technology. However at the same period, FinTech firms have developed technologies that are disruptive in nature to the critical business of banking. Businesses that were exclusive domain of banking have been eaten away by the new Fintech firms. This has left Banks with no choice but to either innovate newer ways of doing business or collaborate with FinTechs and adapt new technology. This is essential to stay in the business.

Banks vs FinTech:

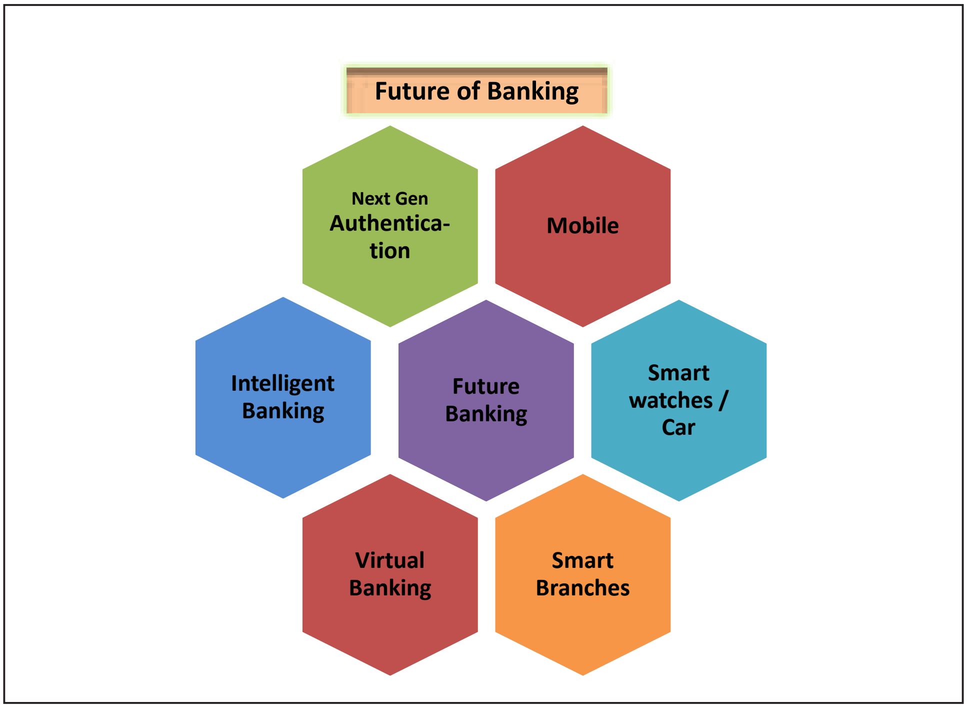
Financial Technology firms also called as FinTechare firms that develop new technology that basically target future needs of financial business and services. In most cases, innovations by FinTech disrupt the current functioning of banks since the business driven by newer technology eats into the business that banks are performing in the traditional way. There has been burst of FinTech in recent times working on various technologies to change the way customers experience financial services.

Future of Banking:

Banks and FinTech around the globe are working in innovating newer technology to change the entire banking and financial space.

Technology will focus on eliminating manual efforts in all transactions and move towards automation. Current methods of login, typingand keying transaction will be replaced with automatic methods like biometrics, speech recognition, gesture recognition. Robotics, kiosk, smart interactive devices and interfaceswill take the place of Banking staff and representatives.

Let us look into few technologies that have been implemented recently or being under development in various parts of the world and how they are going to impact the future of banking.

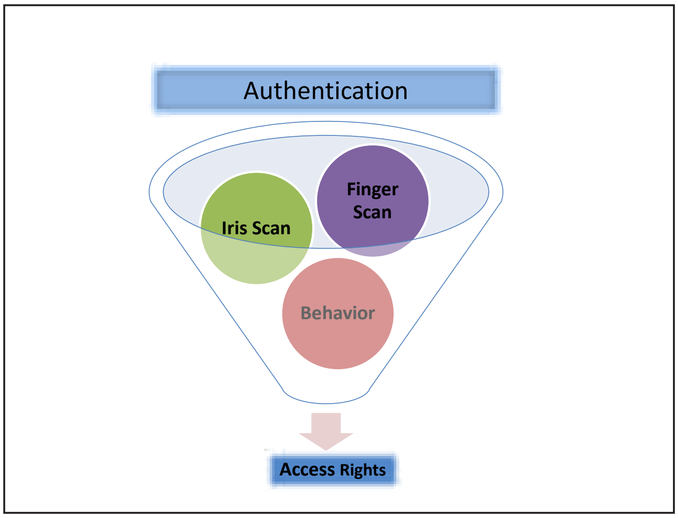


Mobile Wallets

Mobile wallets are mechanism to make and receive payments through mobile phones. Mobile wallets are growing at a phenomenal pace. The convenience of making payments through mobile phones is replacing cash payments and credit card payments. Mobile wallets are changing the way cash transactions take place around the world.

The demonetisation announced by the Indian Government on 8th November 2016 will force more people to move towards mobile wallets rather than cash transactions. With more than a billion smart phone holders in India, the use of mobile wallets is bound to expand to a level that was not originally comprehended.

Next generation Authentication:



By Authentication, I refer to the process of a Banking customer establishing his identity with the banking systems like User ID & password in the case of internet banking, PIN in the case of ATM, Mobile PIN in the case of Mobile Banking, TPIN in the case of telebanking. These methods of authentication will be replaced by Biometrics like fingerprints and Iris scan,behavioral biometrics like the way customers type in the key board, click the mouse, facial expression (smile on the face, blink of eyes), gestures and speech recognition.

Banks and FinTechs together are working on technologies where customers can enter branches after their identity being authenticated by their eye scan (Iris scan). Iris Scan authentication technology is becoming less expensive to a fraction of the cost that was few years ago.

Also technology is being developed where customers can enter branch by scanning their smart watch.

Many banks in US and Europe have already implemented them and few banks in India too have started using these methods. With more and more of banking happening through Mobile and Internet, innovative biometric authentication will become order of the day. This will not only serve the purpose of customer convenience and usability, but also enhance the security features associated with authentication.

Banking on the drive:

Technology has been developed to perform banking functions while driving a car. Mobile Banking Apps interact with software in car to recognise voice and transaction can be performed by speaking with the system. Functions like locating a branch or ATM and even transaction like funds transfer and balance check can be performed with this technology. While cars in advanced countries already have interactive systems, it is only matter of time this technology will be widely used in India as well.

Bank on your wrist:

The use of smartwatch like Apple Watch and Android smart watches is growing at phenomenal pace. The technology to build banking app in smart watches (wearable gadgets) is also catching up fast.

Smart watches will be used to carry out banking transactions and interact with bankers. We will also see technology being developed where customers will be able to enter a bank by scanning their smartwatch.

Smart Branches:

Banks in US and Europe have already set up Smart Bank Branches. Smart Branches will be unmanned. They are equipped with smart kiosks through which customers can interact to perform their banking transactions. Smart branches will be tiny in size compared to size of the existing branches (1/10th of the current branch sizes), thus reducing the cost of operating a branch. Next Generation customers will enjoy the experience of banking in a smart branch.

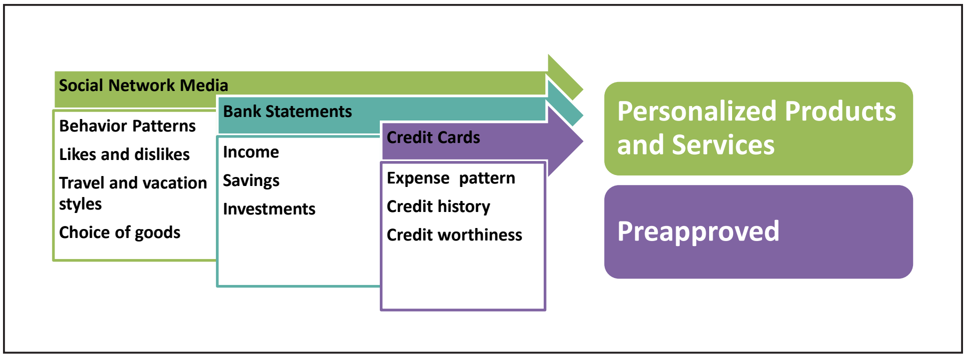
Robotics:

Robotics will take the role of bank staff. Customer will be able to interact with Robots for their banking transactions. Robots will function using speech recognition technology and facial expression recognition. While Robotics may be cost effective in advanced countries where cost of operating banks are very high, it may still take some time in India as the cost of Robotics will be far more than the benefit. However it is again a matter of time these technologies is brought to India.

Video Banking (or) Virtual Reality:

Technology is under development to do banking virtually via video. Customers will be able to virtually enter bank through a virtual reality simulation headset and interact with bank representatives and also perform transactions. This technology is already being piloted in a bank in USA.

Intelligent Banking:



With advancement of technology in Data analytics and Artificial intelligence, banks will use behavior patterns of customers to understand their desires & needs and offer products & services which will suit their needs. Data captured from multiple sources like their social network media, income &expense patterns from credit cards & bank accounts, travel patterns, etc will be mined using data analytics to understand the needs of customersand Banks will be able to offer personalised products to suit their needs.

With the help of Internet of Things (IOT), the various technologies that are being developed (smart watch, smart phone, and social media) will all be integrated and interact with each other enabling seamlessly banking. For instance, data from social network media will be leveraged by banks to offer customised products and services, well before the customer approaches the bank. Big data will facilitate data mining and analysis to arrive at customer needs. The customised products and services will be marketed to their customers through their social media account. When the customer accepts the product, the information will be automatically routed to the banking software which will process the product/service and release the credit facility to the customer or their beneficiary.All these transaction processing will be automatic without any human interference and will be completed in a matter of no time.

While most of these technologies are in advance stages of development and implementation in developed economies, it is only a matter of time India will get there, as India always has the history of leap frogging in adapting newer technologies.

Conclusion

We will see radical changes in the Banking Sector. On one hand, newer banking products and services will be introduced in the market place at a rapid pace. Customers will prefer better products and services irrespective of who offers it, Banks or FinTechs. On the other side, technology will develop leaps and bounds and change everything. It is imperative that Banks keep up to pace in catching with the pace of technology change, so that they are able to offer the products and service that is new in the market and gain a larger pie in the market share. To keep pace with the technology, many banks have created their own innovation incubators where new technology is invented and developed to create Next Generation Banking. All other banks have to follow suit and join the innovation bandwagon. Banks will have to compete with FinTechs or collaborate with them and improve their efficiency. Banks should be able to roll out products and services faster. They need to adapt agile methodology (quick methodology) with a sense of urgency. As the proposition moves to digital, the marginal cost of transaction processing will reduce, which in turn will improve profitability of banks. All said and done, Bank should also focus on developing an effective Risk Assessment and Mitigation system in this era of highly innovative cybercrime. MA

thinkofvenky@gmail.com

KOTAK BANK MERGER WITH ING VYSYA BANK

Dr. Varun Dawar
Assistant Professor
IMT, Ghaziabad

Dr. Debasish Maitra
Assistant Professor
IMT, Ghaziabad

CMA Dr. Ashish Varma
Assistant Professor
IMT, Ghaziabad

Kotak Bank announced on November 20, 2014 that it will acquire ING Vysya Bank in an all stock amalgamation scheme subject to regulatory approvals of Reserve Bank of India, Competition Commissionof Indiaand such other regulatory approvals as may be required. Under the proposed amalgamation, the share exchange ratio had been fixed at 0.725 : 1 which implies that shareholders of ING Vysya were to receive 725 shares of Kotak Bank for every 1,000 shares held in ING Vysya. The merger would also result in issuance of approximately 15.2% of the equity share capital ofthe merged Kotak.

Strategic Rationale for Merger

The merger would give Kotak Bank a wider coverage and balanced footprint in terms of distribution and number of branches. Kotak Bank has 80% of its 641 branches in the Northern and Western regions whereas ING Vysya has two-third of its 573 branches in south thereby providing deepening presence and minimum overlap for Kotak Bank. The merger would also yield significant product complementarities and fuller customer segment coverage by allowing Kotal Bank to leverage the strong corporate clientele of ING Vysya. Finally, the merger provides significant headroom for Kotak Bank with foreign shareholding at 46.9% in the merged entity. Overall, the merger is driven by significant revenue and cost synergies for Kotak Bank with lesser need for branch expansion, savings on product introduction costs and significant value drivers in place.

Branches	ING Vysya	Kotak Bank	Merged Entity
West	12%	46%	30%
North	20%	34%	27%
South	64%	15%	38%
East	4%	5%	5%
Total	**573**	**641**	**1214**

Merged Entity Shareholding	%
ING Group	6.5%
FII	33.6%
Promoters	34.0%
Domestic Investors	19.1%
Other FDI	6.8%

Event Study Review

Event studies inquire into whether a firm-specific event conveys new information to market participants as reflected in changes of security prices variability or trading volumes over a short time period around a specific event (Kothari, 2001). Accordingly if there is a change in level of stock prices or trading volume around an event date, it implies that the accounting event conveys new information and has revised the market expectations (Kothari 2001). Examples of event studies include Ball & Brown (1968), Beaver (1968), Brown and Warner (1980), Wilson (1986, 1987), Bernard and Stober (1989) and Amir and Lev (1996) among others. In essence, event studies can provide a direct test of market efficiency. Under event study, estimation of returns is done in response to announcements and can be considered abnormal relative to a particular benchmark. When the price of asecurity fall more than the normal return ofthe market the outcome is said to be negativeand the news is called a negative newsand vice versa.

Impact of Announcement of the merger news on share prices

The announcement of the merger between the Kotak Bank and ING Vysya led the share price of Kotak Bank to jump 11% from INR 1,077 to INR 1,199 between 19-Nov-2014 and 21st Nov 2014.

Date	Closing Price (Kotak Bank)	% change over previous day
19-11-2014	1077.55	
20-11-2014	1156.70	7%
21-11-2014	1199.15	4%
24-11-2014	1199.75	0%
25-11-2014	1160.55	-3%
26-11-2014	1160.45	0%
27-11-2014	1157.60	0%
28-11-2014	1202.50	4%
01-12-2014	1201.75	0%
02-12-2014	1215.40	1%

Event Study Analysis

	KOTAK BANK		NSE (MARKET)	
Date	Closing Price	% change over previous day	Closing Price	% change over previous day
03-11-2014	1,110		8,324	
05-11-2014	1,128	1.60%	8,338	0.17%
07-11-2014	1,123	-0.47%	8,337	-0.02%
10-11-2014	1,109	-1.26%	8,344	0.09%
11-11-2014	1,107	-0.11%	8,363	0.22%
12-11-2014	1,126	1.71%	8,383	0.25%
13-11-2014	1,112	-1.30%	8,358	-0.30%
14-11-2014	1,094	-1.64%	8,390	0.38%
17-11-2014	1,108	1.34%	8,431	0.49%
18-11-2014	1,085	-2.08%	8,426	-0.06%
19-11-2014	1,078	-0.69%	8,382	-0.52%
20-11-2014	**1,157**	**7.35%**	**8,402**	**0.23%**
21-11-2014	1,199	3.67%	8,477	0.90%
24-11-2014	1,200	0.05%	8,530	0.62%
25-11-2014	1,161	-3.27%	8,463	-0.79%
26-11-2014	1,160	-0.01%	8,476	0.15%
27-11-2014	1,158	-0.25%	8,494	0.22%
28-11-2014	1,203	3.88%	8,588	1.11%
01-12-2014	1,202	-0.06%	8,556	-0.38%
02-12-2014	1,215	1.14%	8,525	-0.36%
03-12-2014	1,221	0.44%	8,538	0.15%
04-12-2014	1,224	0.26%	8,564	0.31%

Regression Statistics	
R Square	0.3119
Standard Error	0.0202
Intercept	0.0010
Slope	2.8634

Abnormal Returns

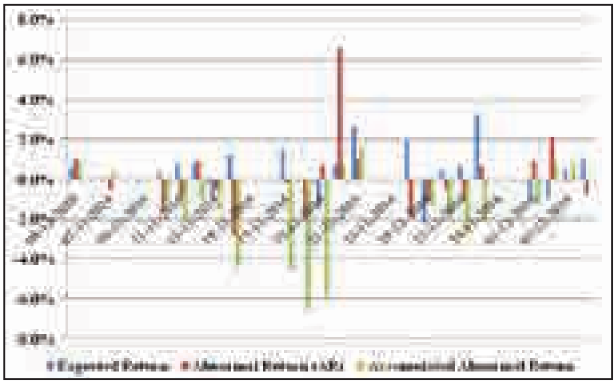
Date	Expected Return	Abnormal Return (AR)	Accumulated Abnormal Return (AAR)	t-stat (AR)	t-stat (AAR)
05-11-2014	0.584%	1.01%	1.01%	2.35**	1.97*
07-11-2014	0.052%	-0.52%	0.49%	-1.21	0.95
10-11-2014	0.346%	-1.61%	-1.12%	-3.73**	-2.17**
11-11-2014	0.728%	-0.84%	-1.96%	-1.94	-3.80**
12-11-2014	0.804%	0.90%	-1.06%	2.09**	-2.05**
13-11-2014	-0.772%	-0.52%	-1.58%	-1.21	-3.07**
14-11-2014	1.195%	-2.84%	-4.42%	-6.57**	-8.58**
17-11-2014	1.491%	-0.16%	-4.57%	-0.36	-8.88**
18-11-2014	-0.068%	-2.01%	-6.59%	-4.0**	-12.79**

Date	Expected Return	Abnor-mal Return (AR)	Accumu-lated Abnor-mal Return (AAR)	t-stat (AR)	t-stat (AAR)
19-11-2014	-1.385%	0.69%	-5.89%	1.6067	-11.44**
20-11-2014	**0.767%**	**6.58%**	**0.69%**	**15.24****	**1.33**
21-11-2014	2.668%	1.00%	1.69%	2.32**	3.27**
24-11-2014	1.880%	-1.83%	-0.14%	-4.24**	-0.27
25-11-2014	-2.154%	-1.11%	-1.26%	-2.58**	-2.44**
26-11-2014	0.525%	-0.53%	-1.79%	-1.23	-3.47**
27-11-2014	0.720%	-0.97%	-2.76%	-2.23**	-5.35**
28-11-2014	3.267%	0.61%	-2.14%	1.41	-4.16**
01-12-2014	-0.982%	0.92%	-1.23%	2.12**	-2.38**
02-12-2014	-0.947%	2.08%	0.86%	4.82**	1.66
03-12-2014	0.532%	-0.10%	0.76%	-0.22	1.47
04-12-2014	0.994%	-0.74%	0.03%	-1.70	0.04

**(*)indicates significance at 5(10) % level

Under the market model, it is observed that ARs are statistically significant and negative forthree days and are significant and positive for two days during the pre-announcement period.AARs are also found significantly negative and positive for three days each during the post-announcement period. Four ARs are found insignificant at the 5per cent level of significance on the second, fourth, sixth, eighth and tenth day during the pre-announcement period. When AAR iscalculated under the same model, it is found that it is negative for eightdays (from third day till tenth day) and positive for two days during the pre-announcement period but during the post-announcement period only one significantly positive AAR is noticed on the first day.It is palpable to note that on the day of merger the abnormal return was 6.58% followed by 1% on the first after the merger announcement. Thereafter, there are negative returns on the second day and third day to counter positive jumps observed for the two days after the announcement. Evidently, it canbe inferred that there are significant abnormal returns (positive or negative or both) upon merger announcement. It can also be drawn, intuitively, from this paper thatthe Indian capital market does not capture the information very rapidly just after the announcement of merger, which is portrayed by the magnitude of average abnormal return. MA

Abnormal Return Chart



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cma.ashish.varma@gmail.com

INDIAN BANKING INDUSTRY IN TRANSITION

Debajyoti Ghosh Roy
Corporate Trainer (Banking & Finance)
Pune

Indian Banking Industry has been in transition right from the days of Mercantile Cooperative Bank Ltd. (Mumbai, the then Bombay) (1853) and Bank of Hindustan (Kolkata) (1874) till now and will remain so ever. The speed, type, variety, essence and complexity of the shape and face of transition have been changing giving strength to the maxim "that the only constant is change".

The Indian Banking Industry has been growing over the period and transiting from one phase to the other sometime facing lots of upheavals (e.g. closure of several banks between 1870 and 1960 and mergers of some since then) and huge expansion in terms of number of branches (reaching out to almost every nook and corner of the country, boasting of having the largest number of bank branches, nearing the figure of 1,15,000, in the world), number of customers (again the largest in the world) and asset creation. There are several outcomes of this growth; one which can be felt by every citizen in the country is that India has become food sufficient (though some still starve today due to lack of opportunities to earn) and also become exporter of agricultural produce. Indian bank can take credit that with these hundred thousand branch outlets along with the help of technology they are reaching more and number of farmers to extend farm and non-farm credit. It is not to undermine the contribution of bank credit in the development of manufacturing, fishing, mining, software development, infrastructure development, transport, individual aspirations (retail loans for automobiles, home, consumer durables, education, vacation, to name a few) and various service industries/ firms.

Transition from Manual Banking to Technology Driven Banking

The process started gingerly with Rangarajan Committee recommendations I and II in 1980s with lots of resistance to accept change, however, gaining momentum when the Reserve Bank of India issued a set of bank licences in 1993 and few private sector banks were set up who had the advantage to make a fresh start with technology driven banking. This transition to technology based banking has not seen any let up since its inception in 1994 and it is not likely to see in decades to come. The earlier public sector banks (who in 1993 had almost 90 per cent of banking business in India), old generation private sector banks (were almost 33 in number then), regional rural banks (were almost 196 in number), urban cooperative banks (were almost 2300 in number) and the district central cooperative banks had no option but to adopt and adapt technology.

The technology driven banking has its own share of pains. It unleashed a considerable unfair competition (competition by nature is not fair and is violent) among the banks in the industry, which led to considerable number of banks being merged and wherever possible (mainly small urban cooperative banks) closed. Transition to technology was not equitable as some western and southern India banks were faster compared to north, central and eastern Indian banks in adopting and adapting technology. It gave them significant edge in doing business and reaching out to the customers, particularly the younger ones below the age of forty. It also led to somewhat sidelining of customers who are older than 60 years (particularly those who are more than 75 years) ostensibly called as senior citizen. Physically, senior citizens are not comfortable with the constant changing nature of technology as they find it increasingly difficult to adopt and adapt. These elderly customers are in greater number, whom one sees populating bank branches and where the servers are not emotionally equipped to deal with them.

However, the biggest gain from technology has been that banking has become increasingly easy and comfortable for the customer in doing business. Today it is not at all necessary for a customer to visit (except for some complex business transaction) any bank branch for doing business, it can be done from home, office, while travelling, having coffee with friends or even from places which one may not like to mention (e.g. toilets). The bank branches have also changed in ambience and texture. Today they look more like coffee machine joints than places where people were putting their life time savings and borrowing for their own or business needs.

Amongst all the above pros and cons of Indian Banking Industry transiting through this maze of constantly changing technology scenario lies the heartening story is that Indian Banking is not only at par with and sometimes even ahead of the world. The job connecting almost 90 percent of hundred thousand branches with online banking with state of the art technology is an incomparable feat in the world of technology. And more than the bank employees it is the illiterate/ semi-illiterate customers who are driving the banks to be more and more technology driven. As a banker, who is associated with the banking industry for more than four decades, it is very satisfying to see my almost illiterate maid making payments to her grocer using her cell phone.

Digital India and Indian Banking Industry

The transition to digital banking has been happening over the last decade. Building of infrastructure for RTGS (Real Time Gross Settlement), NEFT (National Electronic Fund Transfer), ECS (Electric Clearing System for both debits and credits) and National Clearing House were the first few big steps in digitalising the payment and fund transmission in banking which forms a great part of transactional banking. With the advent of Adhar Card and its linking with the accounts of customer was the next step in further digitalising banking in India. The introduction of Payment and Settlement Systems Act, 2007, gave the necessary legal backup, the Bharat Bill Systems and Unified Payments Interface have taken the digitalising transformation further. The Prime Minister Dhan Jan Yojana which aims to provide a RuPay debit card to all households (166.7 million RuPay debit cards have been issued under PMJDY*). This initiative will take digital banking to those people who were not been part of the banking system.

The Indian government as a part of its Digital India initiative, in August 2014, announced a planned investment of 1,330 billion INR in the Digital India project, which aims to provide universal mobile phone access, rural broadband in 250,000 villages, wi-fi hotspots in every city with a population of 1 million plus, and a smart phone in the hands of every citizen by 2020. The impact of this initiative is already significantly felt in the progress of Digital Banking in India. As per PWC India and Assocham, India report dated April 29, 2015 electronic transaction in the Indian economy is still less than 10 % (which means it has immense scope to grow) which constitutes of 11.2 billion annual electronic transactions out of which 74 per cent is by debit and credit cards.

The banks increased their penetration further with the total number of ATMs reaching 0.18 million in 2015. In 2015, about 44 per cent of the ATMs were located in rural and semi-urban centres, non-bank entities were allowed to own and operate ATMs called 'White Label ATMs (WLA)' by the Reserve Bank in 2012. As on October 31, 2015, 10,983 WLAs were installed. Value of Pre Paid Instruments has increased from Rs 79.2 billion in 2012-13 to Rs 213.4 billion in 2014-15*.

The figures for net banking transactions, viz. NEFT, RTGS, issuance of FDs, deposits in PPF accounts, online tax payments, various other online payments are not available, however, the fall in number of transaction vouchers compared to the rise in business in bank branches gives an account of falling footsteps which means more and more customers are opting for digital banking. Banks, themselves, are coming out with attractive products in mobile banking and credit and debit cards are also helping the spread of digital banking.

> ***Transition to technology was not equitable as some western and southern India banks were faster compared to north, central and eastern Indian banks in adopting and adapting technology***

The two key initiatives under the Digital India scheme, Digital Lockers and e-signatures will give further boost to the digital environment. People opting to participate in these two initiatives will help them to become more digital savvy and they in turn will become more inclined to use the various digital products introduced by the banks. *DigiLockers* will allowcitizens to store all their certificates and official documents, including birth certificates, university degrees and income tax documents, in a digital format online and access them using their Aadhaar numbers. Further, the Aadhaar linked e-signatures project will provide greater security to online documents, by allowing an individual to digitally sign electronic versions of documents which would otherwise require dongles for authentication.

Digital banking will help financial inclusion in the same way as the reach of mobile has done in the area of communication. It is said that mobile phones have enabled India to leap frog by 50 years in reaching out to every nook and corner of this country along with reaching out to all strata of people, from the common people on the street to those in high rises. The mobile phones have expanded giving tremendous boost to financial inclusion. With so much of investment (expected to be Rs 1, 13, 000 crores) in building infrastructure for Digital India, the transition to Digital Banking will be a big force event.

*[*Source: Trends & Progress in Banking, RBI Publication, 2014-2015)*

From Basel I to Basel II and Basel III (and soon Basel IV)

Consequent upon the Black Monday October 19, !987, world financial markets crash led to deterioration of asset quality of banks which caused major turmoil across the world, renewing interest in bank regulation. Since 1980 over 130 countries, comprising almost three fourth of the International Monetary Fund's member countries, have experienced significant banking sector distress. The Basel Capital Accord in 1988 proposed by Basel Committee of Bank Supervision (BCBS) of the Bank for International Settlement (BIS) focused on reducing credit risk, prescribing a minimum capital risk adjusted ratio (CRAR) of 8 percent of the risk weighted assets. Although it was originally meant for banks in G10 countries, more than 190 countries claimed to adhere to it, and India began implementing the Basel I in April 1992.

The distribution of CRAR in Indian Banking Industry during the implementation period of Basel I (1996-2006)(No. of Banks)

Level	< 4%	4% -MRR	MMR-10%	> 10%	< 4%	4% -MRR	MRR-10%	> 10%
Year	Nationalised Banks				SBI Group			
1996-97	2	-	6	11	-	-	3	5
1997-98	1	-	6	12	-	-	1	7
1998-99	1	-	4	14	-	-	-	8
1999-00	1	-	4	14	-	-	-	8
2000-01	1*	1	2	15	-	-	-	8
2001-02	1	1	2	15	-	-	-	8
2002-03	-	-	1	18	-	-	-	8
2003-04	-	-	1	18	-	-	-	8
2004-05	-	-	2	18	-	-	-	8
2005-06	-	-	-	20	-	-	-	8

Level	< 4%	4% -MRR	MMR-10%	> 10%	< 4%	4% -MRR	MRR-10%	> 10%
Year	Indian Private Banks (Old and New)				Foreign Banks			
1996-97	3	1	8	22	-	-	14	24
1997-98	2	2	8	22	-	-	12	30
1998-99	2	2	5	25	1	-	14	29
1999-00	2	2	3	25	-	-	5	37
2000-01	2*	1	5	23	-	-	4	38
2001-02	1*	1	3	25	1*	-	2	37
2002-03	2	-	3	25	-	-	-	36
2003-04	1	1	-	28	-	-	-	33
2004-05	1	1	5	22	-	-	1	30
2005-06	2	-	2	23	-	-	2	27

Note: 1) MRR is Minimum Regulatory Requirement (8% till 1998-99, 9% thereafter)

2) Nationalised banks Include IDBI Bank from 2004-05.
*3) - indicates nil, * indicates negative*

[4]***Source: RBI, Reports on Trend and Progress of Banking in India, various issues***

As can be seen from the above table by the end of March 1997, all but 2 nationalised banks and 4 private banks were short of meeting the capital adequacy norm. The SBI group and the foreign banks had achieved the minimum regulatory norm by March 1997. Although a few banks were having negative CRAR during 2000-02, all banks achieved the minimum regulatory level by 2006.

Banks in India have been making efforts to reduce their NPAs post Basel I implementation and thereafter. The following table reflects the efforts made in this regard:

INR in Crores

	2002	2003	2004	2005	2006	2007	2008	2009
Gross NPA	41430	39012	35007	38558	38817	36568	38117	46689
% to Gross Advance	10.4	8.9	7.2	5.3	3.3	2.5	2.3	2.3
Net NPA	20787	18548	13302	14181	14087	14560	16740	21272
% to Net Advance	5.5	4.4	2.9	1.9	1.2	1.0	1.0	1.1

Source: RBI Data

Basel II

On June 26, 2004, The Basel Committee on Banking Supervision released "International Convergence of Capital Measurement and Capital Standards: A revised Framework", which is commonly known as Basel II Accord. Basel 1 initially had Credit Risk and afterwards included Market Risk. In Basel 2, apart from Credit & Market Risk; *Operational Risk* was considered in Capital Adequacy Ratio calculation. The Basel 2 Accord focuses on three aspects:

1 Minimum Capital Requirement
2 Supervisory Review by Central Banks to monitor bank's capital adequacy and internal assessment process.
3 Market Discipline by effective disclosure to encourage safe and sound banking practices

RBI had implemented Basel 2 standardized approach (for credit & market risk) and basic indicator approach in Internationally active banks by March 2008 and other scheduled commercial banks by March 2009. RBI has set a standard of minimum 9% CRAR in comparison to minimum 8% CRAR. Similarly BCBS had set minimum Tier 1 CRAR requirement at 4.5% but RBI has given a target of 6%. That means RBI always took conservative view and set Capital Adequacy standards more than International Requirements.

Now the capital to risk-weighted assets ratio (CRAR) of Indian Banks is maintained well above the stipulated 9 per cent for the system as a whole as well as for all bank groups during 2011-12, indicating that Indian banks remained well-capitalized. Basel II has rewarded banks with better asset quality and the risk weights lower due to risk sensitivity of Basel II. On an average Indian Banks's CRAR become better due to use of Basel II.

BASEL III

Basel III guidelines were released in December 2010. The financial crisis of 2008 was the main reason behind the introduction of these norms. A need was felt to further strengthen the system as banks in the developed economies were under-capitalised, over-leveraged and had a greater reliance on short term funding. Also the quantity and quality of capital under Basel II were deemed insufficient to contain any further risk. The purpose is to promote a more resilient banking system by focusing on four vital banking parameters viz. Capital, Leverage, Funding and Liquidity.

We may conclude from the above discussion that under the supervision of the Reserve Bank of India, Banks in India have made

The Indian government as a part of its Digital India initiative, in August 2014, announced a planned investment of 1,330 billion INR in the Digital India project, which aims to provide universal mobile phone access, rural broadband in 250,000 villages, wi-fi hotspots in every city with a population of 1 million plus, and a smart phone in the hands of every citizen by 2020. The impact of this initiative is already significantly felt in the progress of Digital Banking in India. As per PWC India and Assocham, India report dated April 29, 2015 electronic transaction in the Indian economy is still less than 10 % (which means it has immense scope to grow) which constitutes of 11.2 billion annual electronic transactions out of which 74 per cent is by debit and credit cards.

considerable progress in developing robust Risk Management systems, which have enabled them to withstand, several ups and downs in the banking and economic environments, both domestic and global. Since the year 2011-12 and till now it had not been a good time for the Indian banks in comparison to the previous years. Therefore, Banks in India are facing a litmus test on how robust have been their risk management systems and processes. Fortunately, the Bank Management in India along with the regulator, Reserve Bank of India, is aware of the situation and is in the process of evaluating their performance on a continuous basis. We may look forward to interesting times and may wish happy journey!!!

Basel IV

Basel IV is a proposed standard on capital reserves for banks, to mitigate against the risk of financial crisis. It is expected to follow the third Basel accords, and would require more stringent capital requirements and greater financial disclosure.

Basel 4 is likely to include:

- Banks will be required to meet higher leverage ratios compared to Basel III regime;
- As banks all over the world, including India, had faced considerable difficulties in moving to internal rating based approach to calculate risk weight assets and thereby bring CRAR, simpler or standardised models, rather than banks' internal models, for calculation of capital requirements is being proposed;
- More detailed disclosure of reserves and other financial information.

Challenge and Resolution of Non-Performing Assets in Indian Banks

Indian banks have been facing huge challenges in managing their non-performing assets and bringing them to international standards right from the days of accepting Basel I proposals (1992). The above table on non-performing assets situation after the implementation of Basel I norms confirms that Indian banks have shown considerable resilience to attain global standards.

However, the 2008 subprime crisis in USA and the PIGS (Portugal, Italy, Greece and Spain) crisis in 2010 in Europe, and our banks having considerable exposure in Europe and USA have once again aggravated the situation since 2012.

Comparison of NPA to Total Loans amongst World Top Countries in %

Country	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Brazil	3.5	3.5	3	3.1	4.2	3.1	3.5	3.4	2.9	2.9
China	8.6	7.1	6.2	2.4	1.6	1.1	1	1	1	1.2
Euro area	1.8	1.3	1.8	2.8	4.8	5.4	6	7.5	7.9	6.8
Indonesia	7.3	5.9	4	3.2	3.3	2.5	2.1	1.8	1.7	2.1
India	**5.2**	**3.5**	**2.7**	**2.4**	**2.2**	**2.4**	**2.7**	**3.4**	**4**	**4.3**
Japan	1.8	1.8	1.5	2.4	2.4	2.5	2.4	2.4	2.3	1.9
Russia	2.6	2.4	2.5	3.8	9.5	8.2	6.6	6	6	6.7
United States	0.7	0.8	1.4	3	5	4.4	3.8	3.3	2.5	1.9

Country	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
South Africa	1.8	1.1	1.4	3.9	5.9	5.8	4.7	4	3.6	3.2

[Source: World Bank]

NPAs in Public Sector Indian Banks: Gross NPA in Rs Billion

Years	2011	2012	2013	2014	2015
Gross NPA	732	1214	1645	2273	2785
Net NPA	361	592	871	1306	1600
% Gross NPA	2.1	3.1	3.6	4.2	5.0
% Net NPA	1.1	1.5	1.9	2.5	2.9

[Source: ICRA Research]

NPAs in Private Sector Indian Banks: Gross NPA in Rs Billion

Years	2011	2012	2013	2014	2015
Gross NPA	182	187	209	240	324
Net NPA	45	44	58	84	131
% Gross NPA	2.3	1.9	1.9	1.8	2.1
% Net NPA	0.6	0.5	0.5	0.6	0.9

[Source: ICRA Research]

The above picture is a year old and the readers may be aware that the RBI, Banks and the Government is seized with the gravity of the matter and have been taking several steps in this regard some of which are improved methods of monitoring, supervision and recovery of bad loans by banks; constant supervision and guidance by RBI along with creation of a Bad Loans Bank; and recapitalization of the PSU banks by the government. Detailed figures for 2016 are not available with the author it is understood that it shows a worsening picture. However, if we see how Indian Banks, the Reserve Bank of India and the Government of India had come together and have successfully managed the NPA situation in banks between 1993-1997, it can be believed with certainty that the situation has actually bottomed out and things will now improve. NPA management has been the most difficult transition the Indian Banking Industry is going through and it will make it as ever.

Conclusion

As said in the opening statement of this write up, Indian Banking has been always in transition since 1850s for over the last century and half and the transition will keep on happening as changes in various aspects of banking has been a constant factor. The heartening factor is that the Indian Banking Industry has enough resilience to move along with the transformation despite hiccups and upheavals, which are necessary in managing change. MA

dgr123@gmail.com

theMANAGEMENT ACCOUNTANT

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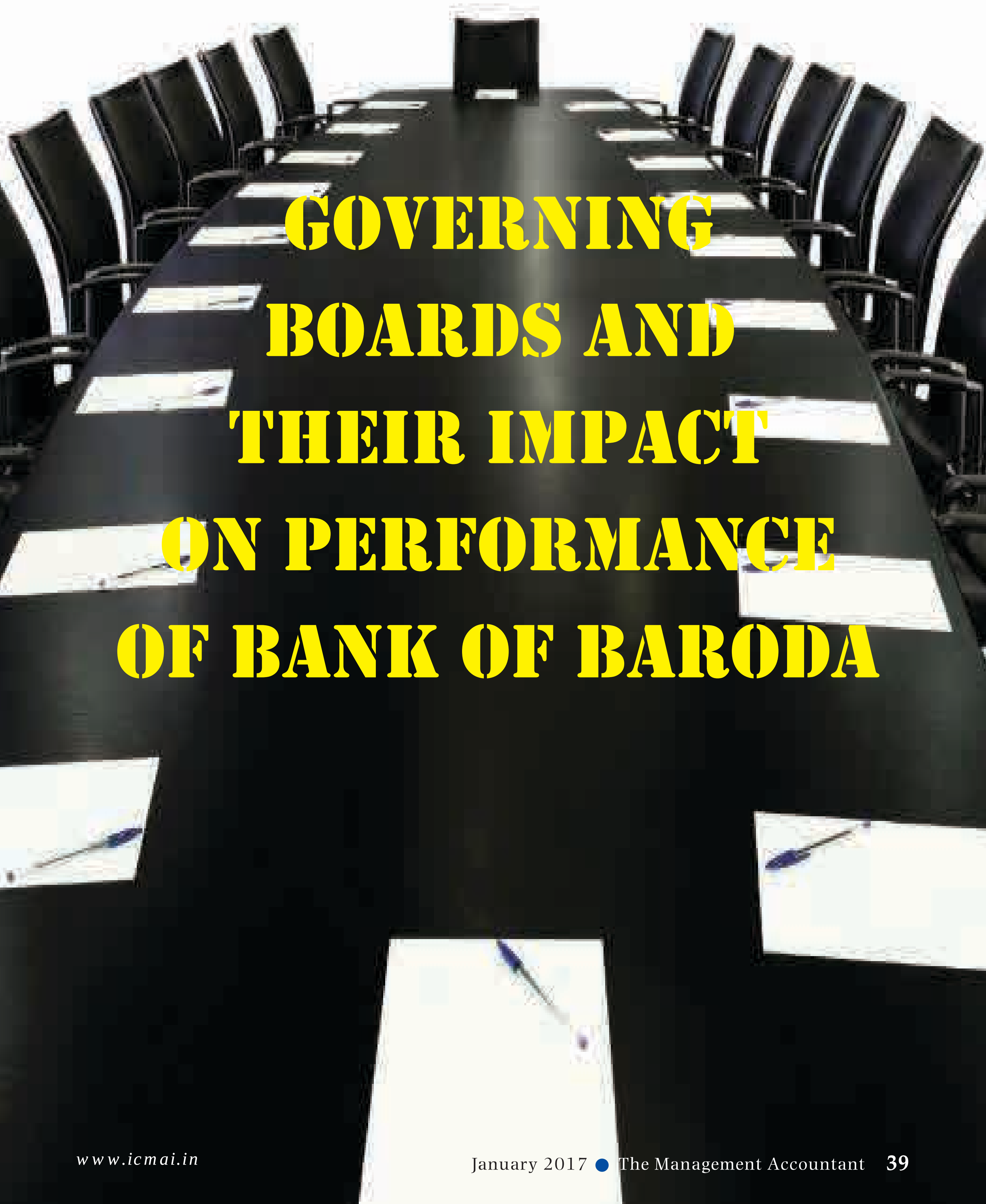

GOVERNING BOARDS AND THEIR IMPACT ON PERFORMANCE OF BANK OF BARODA

D. Ragupathi
Research Scholar
Telangana University
Nizamabad

Dr. K Aparna
Assistant Professor
Telangana University
Nizamabad

Board of Directors and Executive Directors, the elected representatives of Shareholders monitor, manage and control the affairs of an entity in which the shareholders as owners of that entity will take risk by contributing capital. Shareholders are not involved in the day to day affairs and in framing the policies which decides the future prospectus of that entity. To manage an entity effectively keeping in view the reward for bearing risk by the shareholders and other stakeholders, there is a need for well-built and affirmative relationship between the stakeholders who are owners and the managers' i.e Board of Directors and executive directors. The differences in interests of these two parties should peter out. This would result in good governance mechanism. Good governance is one which is transparent and accountable to shareholders, effective and efficient in taking decisions, inclusive and participatory towards all its stakeholders and finally the one which follows the rule of law.

Corporate Governance mechanism differs from country to country and it is shaped by its economical and social history as well as the legal framework existing in that country. The Indian Corporate Governance mechanism is much closer to the East Asian insider model of corporate governance. In this model the founding families generally control the activities by holding majority of the shares. To quote few, promoters of Wipro Ltd. hold 73.38 percent of the shareholding, in Tata Consultancy Services Ltd. promoters hold 73.86 percent shareholding and in Maruthi Suzuki India Ltd. Foreign promoters hold 56.21 percent shareholding.

Great emphasis is laid on the role and responsibilities of various monitoring committees of an entity particularly the banks consequent to the collapse of the banks globally and the resulting financial crisis as well. In India, Reserve Bank as a regulatory authority, is playing a prominent role in regulating the banking system. However, the Advisory Group on Corporate Governance (R.H.Patil, 2001) opined that despite tight vigil and inspects by RBI thoroughly and regularly, the quality of corporate level governance mechanism do not appear to be satisfactory. Further, the group opined that any policy measures to protect banks need to be tempered in such a way that they do not encourage profligate lending by banks.

In this paper an attempt is to analyze the impact of monitoring committees on the financial performance of the Bank of Baroda. The association between the size and the meetings held by the committees, and the performance of the bank is analysed.

Meaning of Corporate Governance

Securities Exchange Board of India (SEBI) Committee report on Corporate Governance defines 'Corporate Governance as the acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders'.

'Corporate Governance is the way a company is organized and managed to ensure that all financial stakeholders receive their fair share of a companys earnings and assets', as defined by Standard and Poor's.

According to Wikipedia, **'**Corporate Governance is the set of processes, customs, policies, laws and institutions affecting the way a company is directed, administered and controlled'.

'Corporate Governance is about promoting corporate fairness, transparency and accountability', as defined by the the president of World Bank James D. Wolfensohn.

The definitions mentioned above gives an overview about meaning of corporate governance. It means 'the manner how an entity is lead by the people who leads it'. It is navigating an entity in an accurate direction and path. The strategies, policies chosen by the leading group will decide the future growth and prospectus.

Literature Review

Akpan, Emmanuel S and Riman, Hodo B (2012), examined the relationship between Corporate Governance and Banks Performance by using data on eleven banks operating in Nigeria for a period of four years from 2005 to 2008 and developed a model taking Return on Assets and Return on Equity and Non-Performing Loans as dependent variables to measure performance of banks. The independent variables were corporate governance variables and control variables. Governance variables selected by the authors were number of Board of Directors as well as number of Shareholders. Total Assets and Total Equity were the control variables. By using semi-log OLS regression data was analyzed and concluded that the relationship between corporate governance and banks performance is commendable. The suggestion made was, keeping the Board of Directors size limited, qualified directors to be selected who have an adequate knowledge in financial and legal aspects and who are conversant with oversight function.

Andres, P.De and Vallelado. E (2008) concluded that bank Board of Directors composition and size are related to director's ability to monitor and advice Management, and that large and not excessively independent Board of Directors might prove more efficient in monitoring and advising functions and create more value. They found an inverted U-shaped relation between bank performance and Board of Directors size and between the proportion of non-Management directors and performance by using econometric model. Authors made a study on 620 bank-year observations from commercial banks in Canada, France, UK, Italy, Spain and US from 1995-2005 in their paper entitled 'Corporate Governance in Banking: The role of the Board of Directors of Directors'. The variables considered by them were ROA, shareholders monthly market return on an annual basis, Board of Directors size, proportion of outside directors, number of meetings per year, total bank assets and loans to bank customers scaled by total assets to book value.

Aminu Bebeji, Aisha Md. and Md.Tanko (2015), found that Board of Directors size has a significant negative impact on the performance of banks in Nigeria. Increase in Board of Directors size resulted in decrease in returns of the banks. In contrast to this another finding of the study is that, there exists a positive relationship between Board of Directors composition and the performance of banks. Authors have analyzed the effects of Board size as well as composition of the Board on the financial performance of the Nigerian banks by selecting data on five banks for a period of nine years.

Arun Upadhyay and Ram Sriram (2010), studied the association between corporate Board size, monitoring committee size and the

Corporate Governance is 'the approach how an entity is lead by the people who leads it'. It is navigating an entity in an accurate direction and path. The strategies and policies chosen by the leading group will decide the future growth and prospectus. Board of Directors and Executive Directors, the elected representatives of Shareholders monitor, manage and control the affairs of an entity in which the shareholders as owners of that entity will take risk by contributing capital. To manage an entity effectively keeping in view the reward for bearing risk by the shareholders and other stakeholders, there is a need for well-built and affirmative relationship between the stakeholders who are owners and the managers' i.e Board of Directors and executive directors. The differences in interests of these two parties should peter out. This would result in good governance mechanism.

After the recent collapse of banks and the subsequent financial crisis, emphasis is laid on the monitoring of activities of a bank by the various committees. In this paper an attempt is made to analyze the impact of monitoring committees on the financial performance of the Bank of Baroda. The association between the size and the meetings held by the committees, and the performance of the bank are being tested. Statistical techniques regression and correlation are employed and SPSS 17.0 is used for analysis of data. It is empirically evident from the study that the banks performance is dependent on both the size and the number of meetings held by the monitoring committees considered for the study.

effectiveness in correlation with accounting earnings measures like Economic Value Added (EVA) and ROA by using data on S&P 1500 firms for four years from 2000-2003. Researchers found strong positive association between Board size and firms performance. They also observed that the firms with large Board are more efficient in their asset utilization. A positive association between firm value and Board size, a relatively weaker association between firm performance and audit and other monitoring committees are also among their major findings.

Inessa Love and Andrei Ranchinsky (2008) explored the link between ownership, corporate governance and bank operating performance using data of fifty banks from Ukraine and 107 banks from Russia. Using questionnaire data about corporate governance practices like commitment to corporate governance, shareholders rights, supervisory bodies, audit and transparency and disclosure was collected and corporate governance index was developed. In addition to this using regression equation was developed with logarithm of the number of shareholders, return on assets as a measure of financial performance and logarithm of total assets to measure bank size as a control variable. Significant but economically unimportant relationship between governance and operating performance is the outcome of the paper. Further, one important finding is that in both countries banks with more concentrated ownership have lower rankings on corporate governance.

Sunaina kanojia (2010) in her article on "Active Board Monitoring and Performance of Banks - A Study of Public and Private Sector Banks" attempted to find empirical evidence towards performance of banks and active monitoring by the Board. She has considered number of Board of Directors, audit and Management committee meetings as proxy for active Board monitoring and the ROA and ROE as the indicators for performance of share holder's wealth of a bank. From the study it is observed that, the meetings at regular interval improved the performance of banks when the effect of all the meetings is captured together.

Objective of the Study

To analyze the impact of size and number of meetings held by the monitoring committees on the financial performance of Bank of Baroda is the objective of the present study.

Corporate Governance Practices of Bank of Baroda

Bank of Baroda act in accordance with the provisions, policies, norms, guidelines and regulations issued by the Securities Exchange Board of India, as it is listed in Indian Stock Exchanges and The Banking Regulations Act, 1970 as well as by the Reserve Bank of India. During the year 2015-16, there are ten directors on the Board. Among them are one non-management chairman, one Managing Director, two Management directors, two non-management directors and four representative directors. The Board of Directors have met thirteen times to review the performance and to frame new policies for effective monitoring against a minimum of six meetings as prescribed under clause 12 of the Nationalized Banks Scheme, 1970.

Fifteen monitoring committees are formed by the Board of Directors and are in operation presently in Bank of Baroda. Audit Committee, Remuneration Committee, IT strategy committee, Committee for monitoring of recovery and Management Committee are few of them.

Hypotheses

The following hypothesis is designed for the present study:

H_{01}: There is no significant impact of size and number of meetings held by the Board of Directors and Management committee on the financial performance of Bank of Baroda.

Further, the hypothesis is divided into two. They are:

H_{02}: There is no significant impact of size and number of meetings held by the Board of Directors on the financial performance of Bank of Baroda.

H_{03}: There is no significant impact of size and number of meetings held by the Management committee on the financial performance of Bank of Baroda.

Methodology

Banks financial performance indicators consist of variables such as Return on Assets (ROA) and Return on Equity (ROE). In the present study ROA and ROE are used as a measure of financial performance. Corporate governance variables selected for the study are the size and number of meetings held by the Board of Directors Committee and Management Committee. Two control variables selected for the present study are the natural logarithm of total assets and natural logarithm of total equity.

Multiple regression analysis is a widely used multivariate technique, which is used to predict dependent variables from the known independent variables. The data is collected from the annual reports of Bank of Baroda for the financial years 2007 to 2016. SPSS 17.0 is used for data analysis.

Return on Assets (ROA) and Return on Equity (ROE) of the bank are considered as dependent variables, size and number of meetings held by the Board of Directors and Management Committee and two control variables are considered as independent variables.

The regression equations developed for the study are:

I. The two regression equations designed to analyze the impact of Board of Directors size and number of Board of Directors meetings held, on dependent variables are:

ROA= α+ β1 BS+ β2 BM+ e …………………Eq- 1

ROE= α+ β1 BS+ β2 BM+ e …………………Eq- 2

Where ROA is the Return on Assets, ROE is the Return on Equity, BS is the size of the Board of Directors and BM is the number of Board of Directors meetings held during a year.

β1 and β2 are coefficients of regression

'α' is constant, and 'e' is the error term.

II.The two regression equations designed to analyze the impact of size of Management Committee and number of Management Committee meetings held on dependent variables are:

ROA= α+ β1 MS+ β2 MM+ e …………………Eq- 3

ROE= α+ β1 M+ β2 MM+ e …………………Eq- 4

Where ROA is the Return on Assets, ROE is the Return on Equity, MS is the size of the Management Committee and MM is the number of Management Committee meetings held during a year.

β1 and β2 are coefficients of regression

'α' is constant, and 'e' is the error term.

III. Regression equations designed to analyze the impact of size of Board of Directors and Management Committee and number of meetings held by the Board of Directors and Management Committee on dependent variables are:

ROA=α+β1BS+β2BM+β3MS+β4MM+ e ………Eq- 5

ROE= α+ β1 BS+ β2 BM +β3 MS+ β4 MM+ e………Eq- 6

Analysis and Inferences

Correlation between the variables considered for the study is presented in Table 1. Board of Directors size and Return on equity is found to be positively correlated with 0.56. Size of the Board of Directors is also positively correlated with Return on assets with 0.49.Correlation with governance variables and that of the Return on assets and Return on equity is found to be positive but not significant.

Table-1
Analysis of Correlation

	ROA	ROE	BS	BM	MS	MM
ROA	1					
ROE	0.99	1				
BS	0.49	0.56	1			
BM	0.37	0.3	-0.5	1		
MS	0.29	0.38	0.81	-0.49	1	
MM	0.24	0.17	-0.41	0.81	-0.7	1

Source: Computed

Impact of size and number of meetings of Board of Directors on the performance of Bank of Baroda:

The results of the regression equations 1 and 2 are presented in Table-2, which reveal that the R- square value is 0.94 and adjusted R-square value is 0.89 for testing the impact of independent and control variables on ROA. In case of ROE, the R-square value is 0.95 and adjusted R-square is 0.90.

Among the two independent variables which are analyzed for their impact on Return on Assets, the coefficient of number of meeting held by the Board of Directors is 3.55 and its t-value is significant at one percent level and the second variable, size of the Board of Directors coefficient is 5.62 and its t-value is found to be significant at five percent level.

In case of Return on equity, the coefficient of number of meeting held by the Board of Directors is 0.17 and its t-value is significant at one percent level and the second variable, size of the Board of Directors coefficient is 0.30 and its t-value is found to be significant at five percent level.

The F value is 18.38 with a significance value of 0.003 (<0.05) for ROA as evident from Table 2. In case of ROE the value of F is 21.62 with a significance value of 0.002 (<0.05). It can be concluded from the analysis that the hypothesis H02 is rejected, and it is concluded that return on assets and return on equity are dependent on the number of meetings held and the size of the Board of Directors.

Table-2
Regression Estimates of Board of Directors size and Board of Directors Meetings

Variable	Dependent variable is Return on Assets		Dependent variable is Return on Equity	
	Coefficient	t-value	Coefficient	t-value
CONSTANT	-223.60	-1.26	-10.73	-1.33
Board of Directors Size	5.62	3.10**	0.30	3.65**
Board of Directors meetings	3.55	5.02*	0.17	5.17*
Log Total Assets	168.83	1.55	7.72	1.56
Log Total Equity	-190.96	-1.86	-8.72	-1.87
R^2	0.94		0.95	
Adjusted R^2	0.89		0.90	
F ratio	18.38*		21.62*	

*Source: Computed, *Significant at 1% level, ** Significant at 5% level.*

Impact of size and number of meetings of Management Committee on the performance of Bank of Baroda:

Multiple Regression applied to know the Impact of number of meetings held by the management committee on the performance of the bank indicate that the size and number of meetings held by the management committee is significantly affecting the performance of the bank (ROA and ROE) as the R square of the two equations i.e equation 3 and 4 is 0.91 (Table 3).

With respect to Return on Assets, the coefficient of number of meeting held by the Management Committee is 2.25 and its t-value is significant at one percent level and the second variable, size of the Management Committee coefficient is 3.91 and its t-value is found to be significant at five percent level. In case of Return on Equity, the coefficient of number of meeting held by the Management Committee is 0.11 and that of the size of the Management Committee coefficient is 0.21. T-value is found to be insignificant.

The F value is 12.06 with a significance value of 0.009 (<0.05) for ROA as evident from Table 3. In case of ROE the value of F is 12.46 with a significance value of 0.008 (<0.05). It is concluded from the analysis that the hypothesis H03 is rejected, and it is concluded that there is a significant impact of size and number of meetings held by the Management committee on the financial performance of Bank of Baroda.

TABLE-3

REGRESSION ESTIMATES OF MANAGEMENT COMMITTEE SIZE AND MANAGEMENT COMMITTEE MEETINGS

Variable	Dependent variable is Return on Assets		Dependent variable is Return on Equity	
	Coefficient	t-value	Coefficient	t-value
CONSTANT	-111.13	-0.80	-4.61	-0.68
Management Committee Size	3.91	2.79**	0.21	3.15
Management Committee meetings	2.25	5.67*	0.11	5.65
Log Total Assets	172.92	1.82	7.49	1.63
Log Total Equity	-213.36	-2.29	-9.39	-2.08
R^2	0.91		0.91	
Adjusted R^2	0.83		0.84	
F ratio	12.06*		12.46*	
Significance of F ratio	0.01		0.01	

*Source: Computed, *Significant at 1% level, ** Significant at 5% level.*

Impact of size and number of meetings of Board of Directors and Management Committee on the performance of Bank of Baroda:

After examining separately the impact of size and number of meetings held by both the Board of Directors and Management Committee on performance of Bank of Baroda, an attempt is made to study the combined impact of both the monitoring committees' i.e Board of Directors and Management Committee on the performance of Bank of Baroda. The results are presented in Table-4.

It is apparent from the results that the R- square value is 0.95 and adjusted R-square value is 0.86 for testing the impact of independent and control variables on ROA. In case of ROE, the R-square value is 0.95 and adjusted R-square is 0.86.

TABLE-4

REGRESSION ESTIMATES OF SIZE AND MEETINGS OF BOARD OF DIRECTORS AND MANAGEMENT COMMITTEE

Variable	Dependent variable is Return on Assets		Dependent variable is Return on Equity	
	Coefficient	t-value	Coefficient	t-value
CONSTANT	-138.43	-0.56	-7.89	-0.64

Variable	Dependent variable is Return on Assets		Dependent variable is Return on Equity	
Board of Directors Size	4.97	0.92	0.27	1.03
Board of Directors meetings	3.07	1.66	0.15	1.62
Management Committee Size	-0.32	-0.09	-0.01	-0.03
Management Committee meetings	0.42	0.30	0.01	0.21
Log Total Assets	135.57	1.05	6.63	1.04
Log Total Equity	-165.92	-1.41	-7.91	-1.36
R^2	0.95		0.95	
Adjusted R^2	0.86		0.86	
F ratio	10.31**		10.05**	
Significance of F ratio	0.041		0.043	

*Source: Computed, *Significant at 1% level, ** Significant at 5% level.*

The F value is 10.31 with a significance value of 0.041 (<0.05) for ROA. In case of ROE the value of F is 10.05 with a significance value of 0.043 (<0.05). From the analysis the hypothesis H01 is rejected, and it is concluded that there is a significant impact of size and number of meetings held by the Board of Directors and Management committee on the financial performance of Bank of Baroda.

Conclusion

Both internal and external factors influence the performance of any organization including banks. Internally the policies framing and effective monitoring by the committees formed to manage the banks improves the performance of banks. It is empirically evident from the study that the banks performance is dependent on both the size and the number of meetings held by the monitoring committees. This is in support of the conclusions drawn by Akpan, Emmanuel S and Riman, Hodo B (2012), Arun Upadhyay and Ram Sriram (2010) who have concluded that the relationship between corporate governance and banks performance is commendable and there exists a strong positive association between Board of Directors size and firms performance. Efficient, experienced, qualified, proficient and resourceful persons should be assigned the post of directors and members of monitoring committees in banks which will enhance the short term as well as long term performance of banks keeping in view the interest og the stakeholders. Meetings of monitoring committees at frequent intervals will facilitate them to take appropriate decisions as per changes in the micro and macro environment. The level of autonomy given to members of monitoring committees also matters with respect to the performance of the committees. Advisory Group on Corporate Governance under the Chairmanship of R.H.Patil (2001) recommended that Board of banks are to be given the required level of self-government to improve the quality of corporate governance in public sector banks. Further, the committee recommended that all the banks to be brought under single Act so that the corporate governance regimes do not have to be dissimilar just because the entities are enclosed under multiple Acts of Parliament or that their rights is in the private or public sector. MA

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ragupathi.dasam@gmail.com

BANKING INNOVATIONS - IMPORTANCE IN

Manju P. P
Assistant Professor
Christ College, Irinjalakuda
Thrissur

The developments in tele-communication technology and electronic data processing have contributed to remarkable changes in banking sector. Also the application of modern information technology has altered the traditional ways of banking. Apart from this, availability of ATMs and plastic money has helped the customers to avoid bank premises for cash. All such developments in banking sector led to the concept of Electronic banking recently.

CASHLESS ECONOMY

Keeping all these in mind, in a country like India, where cash to GDP ratio is 12%, a surgical attack, as the Central Government called demonetization lead to severe crisis. 85% of total money in circulation (in value terms- 14 lakh crores) was demonetized recently in India. In this situation it is important to analyze the situation and find whether it is possible to transform India into a cashless economy and specify the importance of banking innovations. So it is high time of India to be thinking of possibilities of efficient secure payment systems in banking. Payment systems are the backbone of any financial economy. A well-defined payment system is a crucial component of financial infrastructure.

Statement of problem

Demonetization necessitates cashless economy where banks

The Indian Banking regulation act of 1949 defines banking as accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, and order or otherwise. There is wider acceptance of the concept that finance and economic growth are positively related. There is significant transformation of banking sector of India due to financial sector reforms initiated in 1990s. Apart from financing the needs of major sectors in the economy, banking has a lot to do in the modern economy as the payment systems constitute the backbone of economic activities. Recently announced demonetization scheme of high value denomination currencies in India stresses the importance of digital payments and banking technologies. So this paper intends to make familiarize with the innovations in banking.

have to play a key role through innovative technologies.

Scope of study

Technological innovations in the world made a positive impact on payment systems in India. RBI has insisted all banks for the computerization of procedures and promoted Core banking solution. Technology plays key role in banking strategy through which banks made a jump from paper based transactions that includes usage of currency notes, cheque, challan to electronic means that includes RTGS, NEFT and other electronic payment modes like ECS, debit and credit cards.

Electronic Fund Transfer

Electronic Fund Transfer is the process by which money is transferred from one place to other electronically on a real time basis. Salary placed into account by Electronic Fund Transfer, Money withdrawn from ATM is the examples of Electronic Fund Transfer. Through this scheme, work from home becomes easier, quick and safe. Currency and Exchange rate are automatically calculated when funds are being transferred from one country to other. In this system, Encryption, Verification and passwords are used for secure payments. Any transactions of sale, refund, withdrawal, deposit, payments and so on can be performed under EFT. Electronic Fund Transfer Point of Sale technology empowers a retailer to directly debit a customer's bank account by using a debit card. Debit card swiped through a reading machine and the PIN number has to be provided to enhance transaction. Cashless options available in India through banking innovations are,

NEFT

National Electronic Fund transfer mechanism assist fund transfer from one bank to other through RBI server and settlement occurs on net basis. Every day, RBI system enables 3 sessions of electronic clearing and after the completion of each session; the net amount will be settled among banks through their current accounts maintained with RBI. NEFT settlement happens within 24 hours and there is no limit for amount transacted. The condition here is that, the two branches of bank must be Core Banking Solution enabled.

RTGS

Real Time Gross Settlement is a payment mechanism for interbank payments. In this method, one bank makes payment electronically to another bank through RBI. Paying bank sends a message to RBI, based on which it debit current account paying bank and credit current account of receiving bank without a time lag. Banks participating in RTGS have to maintain a current account with RBI and each transaction is settled within 2 hours.

Transaction or remittance made through RTGS can never be cancelled or modified. RTGS is done through interfacing Core Banking Solution of 2 banks with computer server of RBI. The transaction limit under RTGS is minimum 100000 rupees.

IMPS

Immediate Payment Service was introduced by National Payments Corporation of India in 2010. It is an instant real time interbank electronic fund transfer system of India through mobile phone. This facility is available on a 24*7* basis.

UPI

Unified Payment Interface interconnects banks to help transfer funds. In this mode, both money sender and receiver need a UPI identity. Currently thirty banks in India offer this facility.

USSD

Unstructured Supplementary Service Data helps customers to link their mobile number and bank accounts and then to make payments. It was developed by National Payments Commission of India which is technology based service for feature phones through which customers needed to dial *99# and enter short messages for basic banking activities such as balance enquiry and generating mini statement.

Mobile Banking

It refers to conduct of banking operations on mobile. The services under mobile banking involves, making enquiry about bank balance and last few transactions, viewing details of bank account, order demand draft and so on. It is a service provided by a bank or other financial institution that allows customers to conduct financial transactions via mobile device like mobile phone or tablet. Mobile banking uses software called an app for this purpose. This facility is available on a 24 hour basis and some banks impose restrictions on which accounts can be accessed and limits the amount of transaction.

Demonetization

Demonetization is the act of stripping a currency unit of its status as legal tender. It is a necessary scheme where there is a change in national currency. The old unit of currency becomes retired and replaced with a new currency unit. As part of demonetization, the currency losses its public confidence and further it will not be supported by government. The central government plans to promote a cashless economy and people also preferring it due to difficulties with cash holdings and dealings. The countries like Canada, Norway Denmark, Kenya, South Korea etc. have already adopted cashless economy either by penalizing high value cash transactions or by stopping printing of high value currencies. A cashless economy means an economy with cash free transactions where coins and notes replaced by bits and bytes and spending, earning, investment gets updated in real time through smart phones.

Conclusion

The scope of banking innovation sin a cashless economy in the context of demonetization is relevant but in India even though there is 1 billion mobile phones in usage, there is more amount of less sophisticated phones and lack of knowledge also becomes a constraint for the smooth functioning. Creating a basic infrastructure and increasing banking density is the need of the hour. MA

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ppmanju11@gmail.com

Letter to Editor

Hi Team,

Our prestigious Journal 'The Management Accountant' has been improved a lot for past one year in terms of Quality and Content.
The articles are very narrative, illustrative and provide a global information to the members and others.
Thanks for your entire team on this ! Appreciate your efforts !

Regards
CMA Rama Narasimham Nimishakavi

M & A in Banking Sector and the Competition Regime

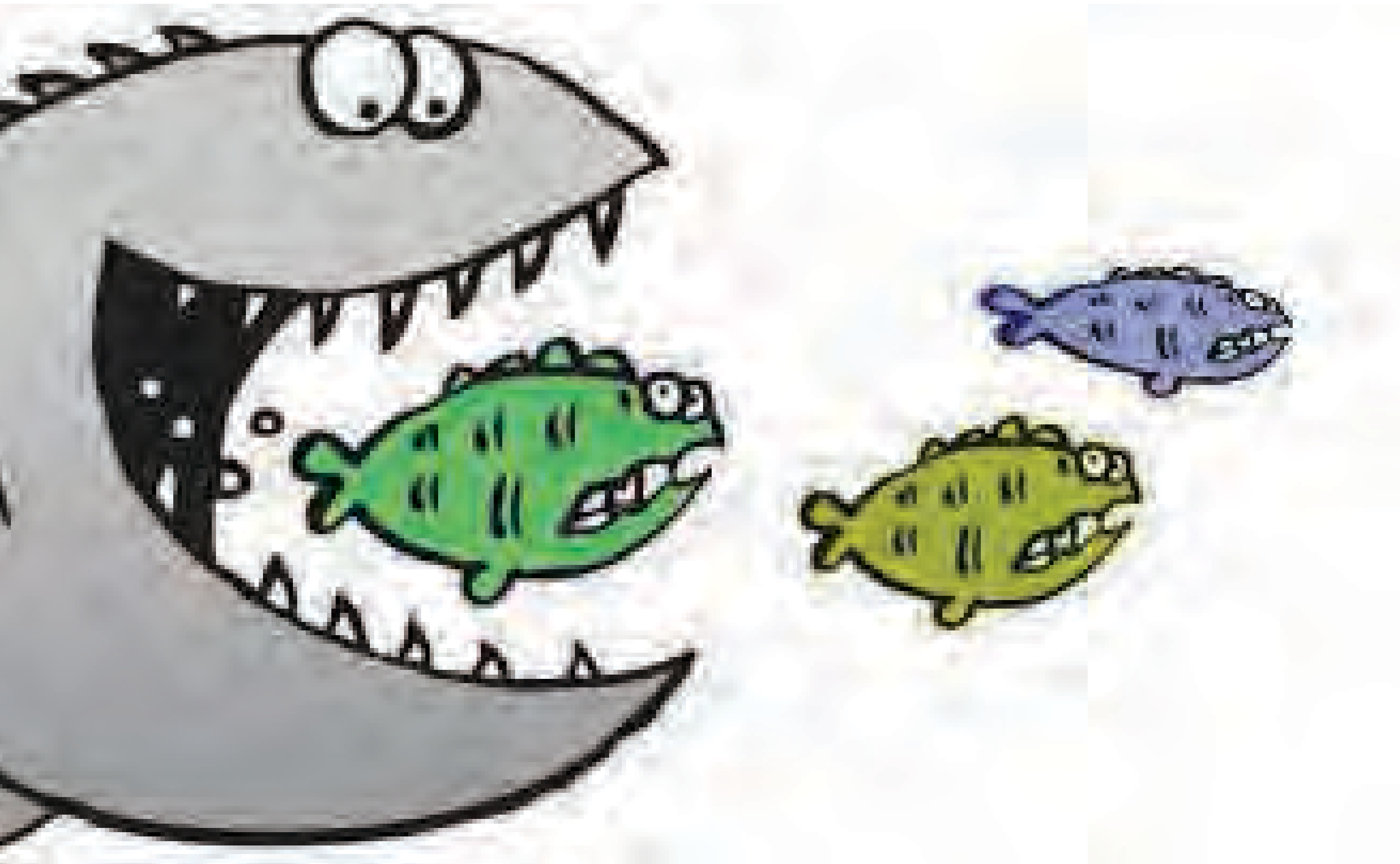
"The benefits of full, effective competition in the financial sector are enhanced efficiency, the provision of better products to final consumers, greater innovation, lower prices and improved international competitiveness. Greater competition also enables efficient banks to enter markets and expand, displacing inefficient banks. Competition should therefore be encouraged, facilitated and protected within the financial sector where it is appropriate. This includes the removal of unnecessary restrictions to competition, which can provide a major source of rents for banks."

Competition and financial markets: key findings, OECD

CS Surendra U Kanstiya
Practising Company Secretary
Mumbai

Mergers and acquisitions in banking sector

Reserve Bank of India being the regulator for the banking sector in India has been empowered to approve all the mergers and acquisitions involving the banking operations in India. However in certain cases, the approval of the Competition Commission of India (Competition Commission) is also needed to ensure that the proposed merger or acquisition does not have an appreciable adverse effect on competition. This paper deals with the role of the Competition Commission in regulating such activities.



The Competition Act, 2002

The Competition Act, 2002 (the Act) which establishes the Competition Commission provides a regulatory regime that prohibits abuse of market power, whether acquired through concert, dominance, or combination, and thereby protects freedom of enterprise sat market place. This enables the enterprises to compete among themselves on merits on a level playing field for a larger share of the market. As a consequence, each enterprise tries to do better than others by improving its efficiencies: technological, productive, dynamic (innovation) and soon. Some enterprises thrive, others lose and may even have to exit, but the economy always gains, for it is only the most efficient ones that survive.[1]

Mergers and Acquisitions under the Act

Mergers and acquisitions under the Act are known as 'combinations'. Section 5 and 6 of the Act are the key section dealing with the combinations under the Act. According to section 5, the acquisition of one or more enterprises or merger or amalgamation of enterprises would be a combination if the assets or the turnover of the parties to the combination exceed the thresholds given under the Act. The acquisition can happen through acquiring of the control, shares, voting rights or assets. Higher thresholds have been prescribed in case the acquisition is effected by a group. Table A gives an overview of the thresholds which were last amended by the Ministry of Corporate Affairs through its notification[2] No. S.O. 675(E) dated4thMarch 2016,and would remain in force for 5 years.

Section 6(2) provides that an enterprise which proposes to enter in to a combination is required to give a notice to the Commission , disclosing the details of the combination, by filing Form I or Form II. Section 6 declares a combination which causes or is likely to cause an appreciable adverse effect on competition (AAEC) as a void combination.

Exemption to certain acquisitions by banks under the Act

Section 6(4) exempts certain acquisitions by certain institutions in certain cases. According to the said provision, exemption is available to share subscription or financing facility or any acquisition, by a public financial institution, foreign institutional investor, **bank** or venture capital fund, pursuant to any covenant of a loan agreement or investment agreement. Of course, the acquirer in such cases is mandated to file the details of such acquisition within 7 days by filing Form III. The details must include the details of control, the circumstances for exercise of such control and the consequences of default arising out of such loan agreement or investment agreement, as the case may be. In its Order[2] relating to Form III filed by GS Mace Holdings Ltd. the Commission held that the provisions of sub-section (4) of section 6 apply to share subscription or financing facility or any acquisition by a public financial institution, foreign institutional investor, bank or venture capital fund, only if it is made pursuant to any covenant of a loan agreement or investment agreement. Till date, the Commission has received and registered 3 valid Form III and none of them relates to acquisition by a bank.

Exemptionto certain banking companies in the public interest

Section 54 of the Act empowers the Central Government to grant exemption from the application of the Act, or any provision thereof, for a specified period. Accordingly, a notification has been issued in public interest by the Ministry of Corporate Affairs vide SO 93(E) dated 8thJanuary 2013 whereby a banking company is exempted from the complying with the provisions of sections 5 and 6 of the Act for a period of 5 years. However this exemption is available to a banking company only if the Central Government has issued a notification under section 45 of the Banking Regulation Act, 1949 with respect to the said banking company. The said Section 45 empowers the Reserve Bank to apply to Central Government for suspension of business by a banking company and to prepare scheme of reconstitution of amalgamation. In view of the Reserve Bank's total involvement in such cases, the exemption of the application of Competition Act is fully justified.In other cases, however, if the proposed combination involves abanking company, the mandate for seeking prior approval from the Competition Commission has a statutory force.

Failed attempt to exempt mergers of banking companies under Competition Act

It is interesting to know that in the year 2011, an attempt was made to give total exemption to banking industry from the application of the Act. An amendment to the Banking Regulation Act, 1949 was introduced in Lok Sabha tabled in the Parliament through the Banking Laws (Amendment) Bill, 2011. This proposal which was not approved suggested the insertion of a new section to the Banking Regulation Act, 1949 reading as under:

2A. Notwithstanding anything to the contrary contained in section 2, nothing contained in the Competition Act, 2002 shall apply to any banking company, the State Bank of India, any subsidiary bank, any corresponding new bank or any regional rural bank or co-operative bank or multi-state co-operative bank in respect of the matters relating to amalgamation, merger, reconstruction, transfer, reconstitution or acquisition under–

(i) this Act;
(ii) the State Bank of India Act, 1955;
(iii) the State Bank of India (Subsidiary Banks) Act, 1959;
(iv) the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970;
(v) the Regional Rural Banks Act, 1976;
(vi) the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980;
(vii) the Multi-State Co-operative Societies Act, 2002; and
(viii) any State law relating to co-operative societies.

The LokSabha was informed that the proposal for exemption of mergers of banking companies from the scrutiny of the Competition Commission of India would allow the Reserve Bank to approve mergers of banking companies in public or depositors' interest, in the interest of the banking system in India and to secure the proper management of the banking company in a timely manner without waiting for the approval of the Competition Commission.

Combinations from the banking industry

From time to time, a number of notifications have been filed by the banks involving acquisition or merger and all of them have been approved by the Competition Commission. Table B gives an overview of the said combinations. Section 20 lists out the factors which are to be considered by the Commission while evaluating a combination. Popularly known as the 'competition test', these factors include parameters like the level of competition through imports in the market; entry barriers; degree of countervailing power; likelihood increase in prices or profit margins; availability of substitutes; market share of the parties; nature of vertical integration in the market; possibility of a failing business; nature and extent of innovation etc. Since a combination which causes or is likely to cause an appreciable adverse effect on competition (AAEC) is a void combination, the Competition Commission is required to assess the relevant market first. In its Order[4] on the combination relating to Kotak Mahindra Bank Limited and ING Vysya Bank Limited, the Commission made the following observations on the relevant market in the banking sector:

> ...... the relevant market for banking services may be divided into distinct relevant product markets, such as, (i) deposits; (ii) home loans; (iii) agricultural banking; (iv) card business; (v) retail banking services other than card business, deposits and home loan; (vi) medium and small business banking; and (viii) wholesale banking other than small business banking, with a possibility of further segmentation in the above.

In another combination relating to the amalgamation of Marudhara Gramin Bank ("MGB"), sponsored by SBBJ; and Mewar Aanchalik Gramin Bank ("MAGB"), sponsored by ICICI bank; into a single regional rural bank ("RRB"), i.e., RMGB with SBBJ as its sole sponsor bank, the Commission concluded as under in its Order[5]:

> For the purposes of competition assessment, the Commission considered market share of the Parties in various segments of banking services and observed that given the low incremental market shares, insignificant change in market concentration and presence of other substantial competitors at the district as well as state level and lack of overlaps at the district level, the Combination does not seem likely to cause appreciable adverse effect on competition in any of possible relevant markets that could be delineated.

Though this amalgamation came into being vide a Gazette of India Notification dated 01.04.2014 issued by the Department of Financial Services, Ministry of Finance, Government of India under sub-section (1) of Section 23A of the Regional Rural Banks Act, 1976, yet the approval under the Competition Act was required.

Conclusion

Both the regulators, namely the Reserve Bank of India and the Competition Commission have different approach in evaluating the merger or acquisition and hence the same should be seen as complementing each other. Prudential regulation by Reserve Bank and competition regulation by Competition Commission have different objectives. Prudential regulation is largely centred on laying and enforcing rules that limit risk taking of banks, ensuring safety of depositors' funds and stability of the financial sector. Competition regulation is aimed at ensuring that banks compete among themselves in fighting for customers by offering the best terms, lower interest rates on loans and higher interest rates on deposits and securities[6]. Even the Report of the Financial Sector Legislative Reforms Commission (FSLRC) has recommended that there is also a need for organised interaction between the Competition Commission and the resolution corporation in the context of non-voluntary mergers and acquisitions. The mechanisms to address the likely effects of the resolution corporation's actions on competition in the relevant market has also been addressed in the draft Code under the part on resolution of financial service providers. MA

1. *Annual Report 2015-2016 of the Competition Commission of India*
2. *[2016] 131 CLA (St) 49*
3. *Registration No. C-L/2011/12/03,*
4. *Combination Registration No. C-2014/12/231*
5. *Combination Registration No.C-2016/02/377*
6. *Pradeep S Mehta, Financial Express, January 10, 2010*

Table A: Thresholds

		Assets		Turnover
Enterprise Level	India	>Rs.2000 crore	OR	>Rs. 6000 crore
	Worldwide (India com-ponent	>USD 1 bn with at least INR 1000 crore in India		>USD 3 bn with at least Rs. 3000 crore in India
		OR		
Group Level	India	> INR 8000 crore	OR	> INR 24000 crore
	Worldwide (India com-ponent	> USD 4 bn with at least Rs.1000 crore in India		> USD 12 bn with at least Rs. 3000 crore in India

Source: FAQs on Combinations released by the Competition Commission of India

Table B: Combinations related to banking sector

Registration Number	Parties to the combination	Subject matter
C-2012/03/46	The Hongkong and Shanghai Banking Corporation Limited (HSBC); The Royal Bank of Scotland N.V. (RBS NV); RBS Financial Services (India) Private Limited (RBS FSPL) and	Acquisition by HSBC of the Retail and Commercial Banking business of RBS NV and the Wealth Management business of RBS FSPL by execution of an Agreement to Restate the Business Sale Agreement
C-2012/11/90	Standard Chartered Bank, India Branch (SCB India); Barclays Bank Pic., India Branch (Barclays India) and Barclays Investments and Loans (India) Limited (BILIL)	Acquisition by SCB India of the performing loan portfolios of personal instalment loans, loans against property and home loan finance of Barclays India and performing loan portfolios of personal instalment loans and loans against property of BILIL by execution of two Framework Deeds
C-2012/12/98	Punjab National Bank (PNB) and MetLife India Insurance Company Limited (MetLife)	Acquisition of 603,865,285 equity shares in MetLife by PNB pursuant to which PNB would hold 30 per cent of the equity share capital of MetLife by execution of the Share Purchase Agreement
C-2013/01/103	Kotak Mahindra Bank Limited (Kotak) and Barclays Bank PLC, India Branch (Barclays India) and Barclays Investments and Loans (India) Limited (BILIL)	Acquisition by Kotak of portfolios of certain unsecured loans of Barclays India and BILIL by execution of two Framework Deeds
C-2013/08/129	Ratnakar Bank Limited (RBL) and The Royal Bank of ScotlandN.V.,(RBS)	Acquisition by RBL, credit card business, mortgage portfolio and business banking business etc. of RBS BY execution of a Master Sale and Purchase Agreement
C-2014/05/171	Doha Bank QSC (Doha Bank) and HSBC Oman S.A.O.G. (HSBC Oman)	Transfer of the Indian business and operations of HSBC Oman to Doha Bank pursuant to a scheme of amalgamation
C-2014/08/197	Kotak Mahindra Bank Ltd (KOTAK) and Financial Technologies (India) Ltd. (FTIL)	Acquisition KOTAK of 15% equity interest in Multi Commodity Exchange of India Limited (MCX) from FTIL, pursuant to the Share Purchase Agreement
C-2014/12/231	Kotak Mahindra Bank Limited (Kotak) and ING Vysya Bank Limited (ING Vysya).	Merger of ING Vysya into Kotak under a scheme of amalgamation
C-2014/12/235	Sumitomo Mitsui Trust Bank Limited (SMTB) and Reliance Capital Limited (RCL).	Acquisition of 2.77 % of the paid up share capital of RCL by SMTB through execution of a share subscription agreement ("SSA") and a strategic alliance agreement
C-2015/11/336	Union Bank of India (UBI) and KBC Participations Renta S.A (KBC)	Acquisition of 49% equity share capital in each of Union KBC Asset anagement Company Private Limited and Union KBC Trustee Company Private Limited by UBI from KBC by execution of 2 separate share purchase agreements
C-2015/12/344	Sarva Haryana Gramin Bank (SHGB) and Punjab National Bank (PNB)	Amalgamation of Gurgaon Gramin Bank (GGB) sponsored by Syndicate Bank; and Haryana Gramin Bank (HGB), sponsored by PNB; into a single regional rural bank (RRB), i.e., SHGB with PNB as its sole sponsor bank
C-2016/02/377	Rajasthan Marudhara Gramin Bank (RMGB) and State Bank of Bikaner and Jaipur (SBBJ)	Amalgamation of Marudhara Gramin Bank (MGB), sponsored by SBBJ; and Mewar Aanchalik Gramin Bank (MAGB), sponsored by ICICI bank; into a single regional rural bank (RRB), i.e., RMGB with SBBJ as its sole sponsor bank
C-2016/03/381	DBS Bank Limited, India Branches and Royal Bank of Scotland N.V., India Branches (RBS India)	Acquisition of certain corporate loans by DBS India from RBS India by execution of Portfolio Sale Framework Agreement
C-2016/11/458	State Bank of India (SBI) and Bharatiya Mahila Bank Limited (BMBL)	Amalgamation by acquisition of the business of BMBL by SBI

surendrakanstiya@gmail.com

Social Priority Colloquium

8 & 9 December 2016, J.N. Bose Auditorium, Kolkata

Against the backdrop of the new Indian CSR bill and development, the Indo-German collaboration of SOCEO Germany, ChildFund Germany, ChildFund India and the Institute has created the platform 'Social Priority Colloquium' at J.N Bose Auditorium of the Institute to connect innovative ideas of NGOs and Social Entrepreneurs to Corporate Social Responsibility (CSR) initiatives on December 8 and 9, 2016. The platform also intends to foster creativity and capability among small and medium-sized NGOs and social entrepreneurs. It aims at facilitating long-term collaborations among development agencies & CSR initiatives with a shared vision of the future.

On December 8, 2016 Shri Sujoy Chatterjee, MD SOCEO Germany, Shri Vijay Wadhwani, Childfund India, CSR specialist, CMA Manas Kumar Thakur, President of the Institute, CS Rupanjana De, EIRC of ICSI and Prof. Dr. Harald Meier from the Bonn-Rhein-Sieg University of Applied Sciences were among the eminent dignitaries who were present in the first day of the sessions. They detailed and analysed regarding the general idea about Corporate Social Responsibility(CSR) and about the Colloquium itself. CMA Dr. I. Ashok and CMA H. Padmanabhan, Council Members of the Institute also provided brilliant insights on this project. In addition, the German Counsel of Kolkata Mr. Olaf Iversen gave a special address in the capacity building workshop of the representatives of the ten selected NGOs/Social Entrepreneurs.

The next day of the session dated December 9, 2016, which was the second and final day of the 3rd Social Priority Colloquium, the proceedings started with an opening address by Ms. Sabina Pandey, Regional Director, Indo-German Chamber of Commerce (IGCC). It offered the audience an overview of IGCC's approach to CSR and of their important initiatives such as Senior Expert Service (SES), which gives NGOs the opportunity to gain from the service and experience of German experts from several domains of expertise. The address was followed by special notes from Shri Dipankar Lahiri, FA & CAO, Eastern Railway and Shri H.S. Mushathick,

FA & CAO Metro, Railway. In the next session, the NGOs presented their projects ideas to CSR representatives from various organisations, such as ITC, Cognizant Technology Solutions, Peerless Securities, Hindustan Aeronautics (HAL), etc. The innovative project ideas presented by the NGOs/Social Entrepreneurs included issues of livelihood, distress migration & trafficking, quality education, safe drinking water, etc. Following the presentations by the NGO/Social Entrepreneurs, the CSR representatives offered their insightful feedbacks on the project ideas to the audience. Some of the corporate representatives also shared brief overviews of the CSR policy of their organisations and their current focus areas of development. The session was very enriching especially for the NGO/Social Entrepreneurs and an opportunity to assess the feasibility of their project ideas for CSR fundings. Subsequently, the final day of the Social Priority Colloquium in Kolkata was concluded by CMA Dr D. P Nandy, Director, Research & Journal and Examination of the Institute with a special vote of thanks.

Surgical Treatment to the Economy
Short term pains with long term cure

CMA Nimishakavi Ram
Manager
GENPACT, Hyderabad

"Brothers and sisters...to check the corruption and black money, it's decided that Rs. 500/- and Rs.1000/- currency notes that are presently in use will no longer be a legal tender from midnight of tonight that is 8th November 2016. That means these two currency notes will not be acceptable for any transaction from midnight onwards. These two notes that are stocked by anti-national and anti-social elements will become just worthless pieces of papers" – PM Narendra Modi while addressing to Nation on demonetisation on 8th November 2016.

This announcement gave a big surprise to the people across regions and a big shock to the black money hoarders. People from all walks of life welcome this historical decision. An overwhelming response has been received from finance and industry experts and various organizational bodies across boundaries. Experts view this as a bold decision which not only helps to check black money and counterfeit currency but also empower our economy to a large extent.

Present context

As per estimations the parallel economy in India is having approximately Rs.30 lakh crores value of black money, which is hampering the growth of our country in spite of various positive measures that have been taken.

Basically the black money is in 3 forms –

1. Unaccounted money stocked in currency
2. Money earned through illegal activities like corruption, dealing in drugs, smuggling etc.
3. Fake or counterfeit currency that is flowing into the country

Significant amount of this black money is going to the hands of anti-social elements and funding terrorism. The Govt decision of demonetisation has twin objectives – one is to attack on anti-social elements / terrorists whose money has now become worthless. The other is to check black money. Though the history says there was demonetisation exercise happed twice earlier, the coverage of present demonetisation is far higher than previous two attempts. Nearly 86% of the value of currency now in circulation has been withdrawn with present move.

As per RBI Report, the total value of currency in circulation as of this September month is Rs.16.55 Lakh crores. The amount of money the government aims to withdraw from circulation now is Rs. 14.18 Lakh crores which is 86% of the total value of currency.

Obviously this move, though aims for the development of our economy, leads to a short term discomfort.

Immediate difficulties

Keeping in mind the percentage of withdrawal of currency from the economy which is 86%, every one across regions and sectors is getting pain in exchanging or depositing their old notes.

The below group of people who are really affected due to this demonetisation move –

Foreign tourists**, **diplomats and delegates those arrived to our country. This is the time normally foreign tourists or delegates prefer to visit India. With demonetization move they are running short of money in terms of new currency and they are approaching Money changers who themselves don't have enough money in new denominations. Foreign embassies were caught off with them for new currency.

Farmers who are ready for Rabi crop. In this sector physical cash is the main source to pay their purchases (for seeds, fertilizers etc.) and for workers. They normally withdraw their loans and spend in cash.

Daily wage earners spread across different sectors like SMEs, Movie industry, Real estate and including small vendors. They get paid in cash on a daily basis and right since the decision came out most of the operations were suspended because of cash crunch.

The families with upcoming *wedding functions*. In general, there is a lot of cash spend during the time of marriage. Due to this cash crunch many such families postponed their functions.

However, the nation welcomes this historical move and views the difficulties as temporary and manageable and worth in the long run. These short term pains will be ceased once free flow of cash in new currency is available.

Long term gains

Demonetisation directly hits the operations of *Maoists and terrorist activities*. The counterfeit currency what they hoard over the years becomes worthless now. This definitely weakens them financially and impact will be there on buying new arms or planning any future activities. This was already witnessed with the cessation of hostile activities in Kashmir right since the decision of demonetisation.

Demand for *Gold* has been dropped drastically with demonetisation move and experts predicting that it would drop further and prices would be softened. The decline in demand will have an affect on import of gold there by helps in keeping India's Current account deficit under control.

Finance specialists expect that *Inflation* will come down in near future. By having large volumes of deposits with banks, they are now able to expand their loan facilities at reduced interest rates. This will definitely encourage the *investment opportunities and* helps in generating employment.

The current move drives the society towards *cashless economy* with more digital or on-line transactions. Already 25 crore bank accounts have been opened so far under Jan Dhan Yojana, a revolutionary financial inclusion program. Demonetisation move already forced them to start using their Debit cards and understand about digital transactions over last few days. Soon this will be a habit-forming result. This is the right moment to shift towards cashless economy.

When more money flows into the economy and all transactions are being done digital, government income will be increased and thereby deficit will come down. This also empowers government to utilize more funds for economic development and to the welfare of society. GST again increases transparency in tax structure and financial experts predicting that at least 1% increase will be there to the present growth rate of our Country with the help of GST.

Challenges

A big challenge to the *Government* is to make free flow of new currency available to the public at the earliest. The percentage of the value of currency that has been withdrawn from economy which is around Rs.14 Lakh crore leads to a huge cash crunch. Approximately Rs.6.00 Lakh crors value of old currency has been returned to the banks (deposited or exchanged) within first 12 days from the time the decision came out. To make new currency available in circulation is really a big task before the government.

Another challenge is on the part of *Banks*, how effectively they are going to deal with this demonetisation exercise. Dispense the necessary cash uninterruptedly and handle huge number of deposits and withdrawals, which require additional efforts from staff. And the increased deposits will sit on the liabilities side of the Banks balance sheet and they have to look for better opportunities to deploy these funds efficiently. They have to manage between attracting right entrepreneurs and providing decent returns to the depositors.

Public should cooperate with government and banks on this historical move, bearing short term discomfort.

Conclusion

Present demonetisation move is definitely a standard prescription for cleaning of our economy. This should be supplemented with other supportive reforms. Which are called for are tax reforms like soften the tax rates and streamline tax administration and electoral reforms where money is floating unlimited. Niti Aayog made few recommendations on this front.

Looking the picture over last few years, India is attracting global attention by implementing various reforms in the form of introduction of Black Money Act, Jan Dhan Yojna program, GST act, Income Disclosure Scheme and now demonetisation. *Any entrepreneur or professional or any citizen feels confident when he believes that the system where he lives in, is moving on right direction* .....this is what the opinion at ground zero. MA

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nimishakaviram@yahoo.com

Demonetization 2016: A War against Black Money and Counterfeit Currency

CMA Dr. T P Ghosh
Professor of Accounting & Finance
Institute of Management Technology
Dubai

The scale of 2016 demonetization banning `500 and `1000 notes that represent 86.4% of the currency in circulation is of gigantic action to wipe out accumulated unaccounted income and income earned through illegal means. It is not comparable to 1978 demonetization drive that banned `500 , `1000 and `10000 that constituted only 10% of the currency in circulation. Because of the skewed distribution of the currency in circulation with higher denomination notes, the difficulties faced by the public is of higher magnitude given that the Indian economy primarily a cash economy wherein as per an estimate 68% of transactions are in cash[1]. However, the magnitude of black held in currency which is likely to trapped (₹ 2,86,000 cr. – author's estimate , see Table 1) and impact of the elimination of counterfeit currency to the tune of ₹360 cr. (author's estimate, See Table 2) is trigger point for which ₹ 55-day cash shortage' period is tolerable and acceptable.

MINISTRY OF FINANCE

(Department of Economic Affairs)

NOTIFICATION

New Delhi, the 8th November, 2016

S.O. 3408(E).—Whereas, by the notification of the Government of India in the Ministry of Finance, vide F. No. 10/3/2016-Cy.I dated 8th November, 2016 published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (ii), dated the 8th November, 2016, the Central Government declared that the bank notes of existing series of denomination of the value of five hundred rupees and one thousand rupees (hereinafter referred to as the specified bank notes), shall cease to be legal tender on and from the 9th November, 2016; ....

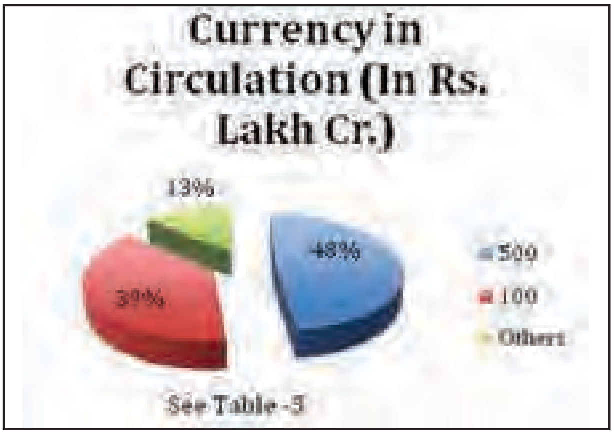
" Demonetisation is not the end but beginning of a long, deep and constant battle against black money and corruption. It will benefit the poor and the common man. The poor and the lower and middle classes have suffered the most due to black money, counterfeit currency and corruption" –

Narendra Modi
Prime Minister of India

The purpose of the demonetization has been explicit clarified in the Press Release of the Ministry of Finance (dated 8th November, 2016):

"With a view to **curbing financing of terrorism** through the proceeds of FakeIndian Currency Notes (FICN) and use of such funds for subversive activities such as espionage, smuggling of arms, drugs and other contrabands into India, and for **eliminating Black Money** which casts a long shadow of parallel economy on our real economy, it has been decided to cancel the legal tender character of the High Denomination bank notes of Rs.500 and Rs.1000 denominations issued by RBI till now. This will take effect from the expiry of the 8th November 2016. Fake Indian Currency Notes (FICN) in circulation in these denominations are comparatively larger as compared to those in other denominations. "

Addressing the country, Prime Minister NarendraModi said: "We need totake a new solid step to **fight black money**. From now on, Rs 500 and Rs1000 notes will not be used. Have 50 days to turn them into banks and postoffices." [2]



Demonetization,the act of stripping a currency unit of its status as legal tender, becomes necessary to change the national currency irrespective of the purpose.

Creation of Euro as a single currency of various European countries required to demonetize the existing currency like French Franc of France, Deutsche Mark of Germany, Lira of Italy, etc.

On 22 January 1991 President of the USSRMikhail Gorbachev signed a decree on withdrawal from circulation and retirement of the 50- and 100-ruble banknotes of then-current 1961 issue around 21.00 hours when virtually all financial institutions and shops were closed for the day. It resulted in confiscate 14 billion rubles. In 1993, the Central Bank of Russia (CBR) unilaterally demonetized soviet era ruble notes and exchanged them for Russian rubles. It is misleading to state that the Soviet Union collapsed because of demonetization. Gorbachev's decision to allow elections with a multi-party system and create a presidency for the Soviet Union began a slow process of democratization that eventually destabilized Communist control and contributed to the collapse of the Soviet Union.[3]

Thinking that black money is stashed away under mattresses or suitcases is not so naïve as it should approximate the ratio of ' currency in circulation in GDP'. Indeed floating of the black money in Jan Dhan account or chartered flight to .By 13 days of demonetization , Jan Dhan Accounts have seen a huge surge in deposits, with A21,000 crore being parked in such accounts following demonetization. West Bengal leads the pack of states which has seen the highest deposits so far followed by Karnataka [4]. Demonetization forces black money in currency to surface which proved to difficult to be traced by various Governmental agencies [Box-1] entrusted with the job and which makes various Acts and Indian Penal Code inadequate.

This article intends to work out the magnitude of black held in currency, highlight failure of the other legal process in curbing black money which is push to adopt the rarest economic tool and currency-GDP linkage to re-verify whether currency shortage will impact GDP and lastly if the currency management needs to be relooked.

Black Money

" There is no doubt that manifestation of black money in social, economic and political space of ourlives has a debilitating effect on the institutions of governance and conduct of public policy in the country.Governance failure and corruption in the system affect the poor disproportionately. The success of aninclusive development strategy critically depends on the capacity of our society to root out the evil ofcorruption and black money from its very foundations. Our endeavour in this regard requires a speedytransition towards a more transparent and result oriented economic management systems in India." – President Pranab Mukherjee (The then Finance Minister) , in Preface to the White Paper on Black Money, Govt. Of India, May 2012

Black money as defined in the White Paper on Black Money (2012) [2] as assets or resources that have neither been reported to the public authorities at the time of their generation nor disclosed at any point of time during their possession.in addition to wealth earned through illegal means, the term black money would also include

- legal income that is concealed from public authorities:
- to evade payment of taxes (income tax, excise duty, sales tax, stamp duty, etc);
- to evade payment of other statutory contributions;
- to evade compliance with the provisions of industrial laws such as the Industrial Dispute Act1947, Minimum Wages Act 1948, Payment of Bonus Act 1936, Factories Act 1948, and ContractLabour (Regulation and Abolition) Act 1970; and / or
- to evade compliance with other laws and administrative procedures.

Black money arising from illegal activities such as crime and corruption has an underlying anti-socialelement or by corruption:

- Black money created out of criminal activities include proceeds from a range of activities including racketeering, trafficking in counterfeit and contraband goods, smuggling, production and trade of narcotics, forgery, illegal mining, illegal felling of forests, illicit liquor trade, robbery, kidnapping, human trafficking, sexual exploitation and prostitution, cheating and financial fraud, embezzlement, drug money, bank frauds, and illegal trade in arms. These offences are included in the Schedule of the Prevention of Money Laundering Act 2002.
- The black money out of corruption arises out of bribery and theft by those holding public office – such as by grant of business, leakages from government social spending programmes, speed money to circumvent or fast-track procedures, black marketing of price-controlled services, and altering land use regularizing unauthorized construction. These offences under the Prevention of Corruption Act,1988.

Box 1 Institutions which are responsible for Prevention of Black Money

- Central Board of Direct Taxes
- Enforcement Directorate (ED)
- Financial Intelligence Unit
- Central Board of Excise and Customs and DRI
  - The Directorate General of Central Excise Intelligence (DGCEI)
  - The Directorate of Revenue Intelligence (DRI)
- Central Economic Intelligence Bureau
- Narcotics Control Bureau(NCB)
- The Central Bureau of Narcotics (CBN)
- SFIO functions under the Ministry of Corporate Affairs
- The Registrar of Companies (ROC)
- The Registrar of Societies (ROS)
- The Bureau of Immigration (BOI)
- The Economic Intelligence Council (EIC)
- The Inter-Ministerial Coordination Committee on Combating Financing of Terrorism and Prevention of Money Laundering (IMCC)
- The National Crime Records Bureau (NCRB)
- The National Investigation Agency (NIA)
- National Anti-Corruption Council and Anti-Corruption Bureaus of States
- CBI and Police Authorities

[See White Paper on Black Money, Government of India , May 2012, Chapter 3].

Box 2 : Offences causing Black Money

Selected Category of Offence	**Relevant Acts/Code**
1. Participation in an organised criminal group and racketeering 2. Fraud 3. Counterfeiting currency 4. Forgery 5. Extortion 6. Illicit trafficking in stolen and other goods	Indian Penal Code, 1986 (s. 120B – criminal conspiracy) – Part B of the Schedule Indian Penal Code 1860 (ss.417 to 424) -Part B of the Schedule Indian Penal Code 1860 (ss. 489A and 489B) - part A of the Schedule The Indian Penal Code, 1860 (ss.467, 471 to 473) – Part B of the Schedule The Indian Penal Code. 1860 (ss. 384 to 389) - Part B of the Schedule The Indian Penal Code, 1860 (ss. 411 to 414) – Part B of the Schedule
6. Tax Evasion	Various direct and indirect tax Acts
7. Corruption and bribery	The Prevention of Corruption Act, 1988 (ss. 7 to 10 and 13) – Part B of the Schedule
8. Illicit arms trafficking	The Arms Act. 1959(ss. 25 to 30) - Part B of the Schedule
9. Illicit trafficking in narcotic drugs and psychotropic substances	The Narcotic Drugs and Psychotropic Substances Act, 1985 (ss.15 to24,25A,27A and 29) - Part A of the Schedule

Cash GDP Ratio (%) in BRICS and Other G7 Economies

	Brazil	Russia	India	China	South Africa
2008-09	3.00	8.60	10.30	10.70	2.40
2009-10	3.20	9.70	9.90	10.90	2.50
2010-11	3.10	10.20	10.40	10.90	2.40
2011-12	3.00	9.90	10.30	10.40	2.50
2012-13	3.10	9.60	10.10	10.10	2.50
2013-14	3.10	9.80	10.00	9.80	2.50

Cash GDP Ratio (%) in BRICS and Other G7 Economies

	Brazil	Russia	India	China	South Africa
2014-15	3.10	9.20	10.20	9.30	2.50
2015-16	3.00	9.00	10.60	9.40	2.40

Source :India tops currency-GDP ratio among BRICS nations, Times of India,http://timesofindia.indiatimes.com/india/India-tops-currency-GDP-ratio-among-BRICS-nations/articleshow/55577925.cms, RBI, IMF

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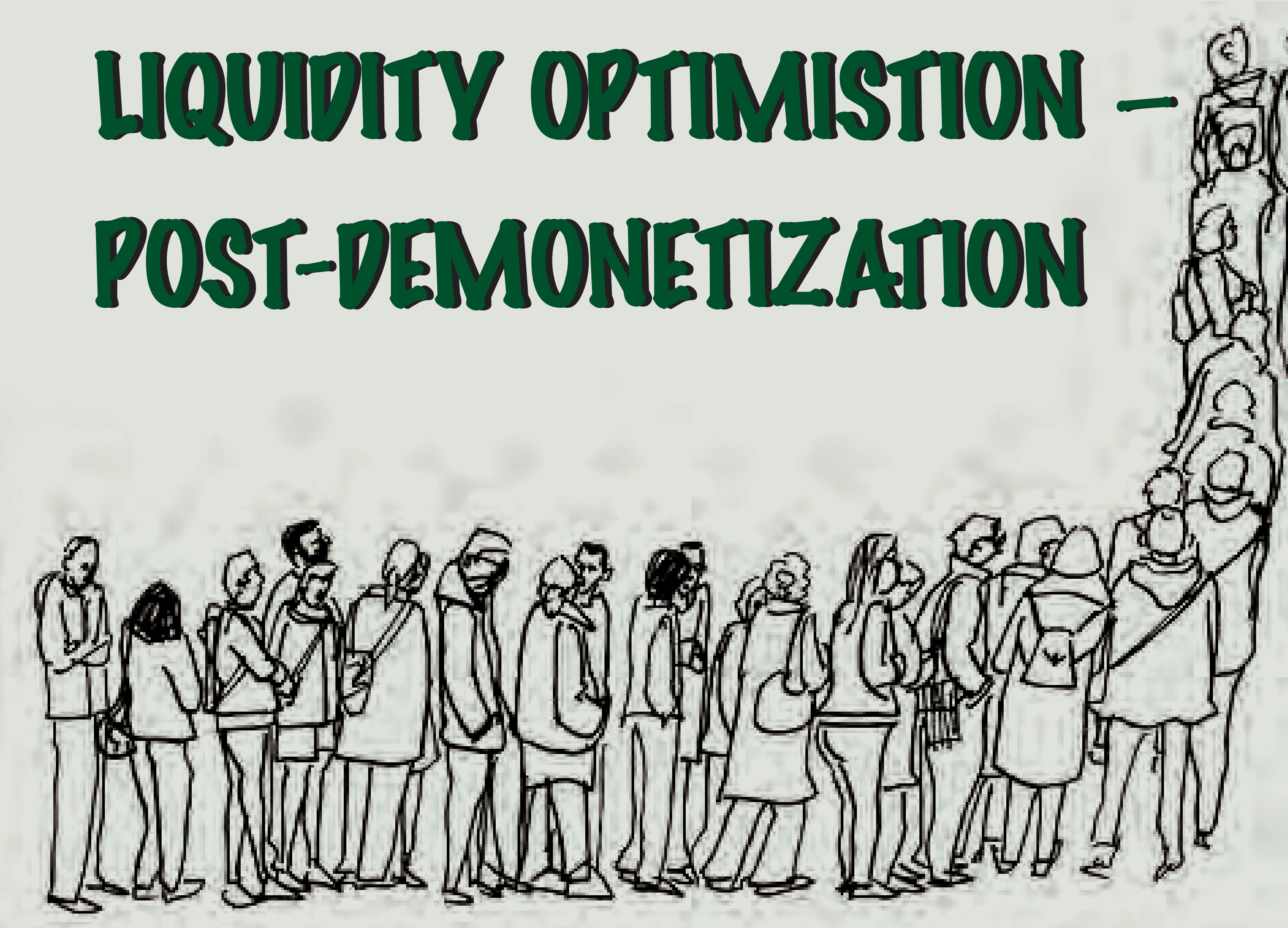
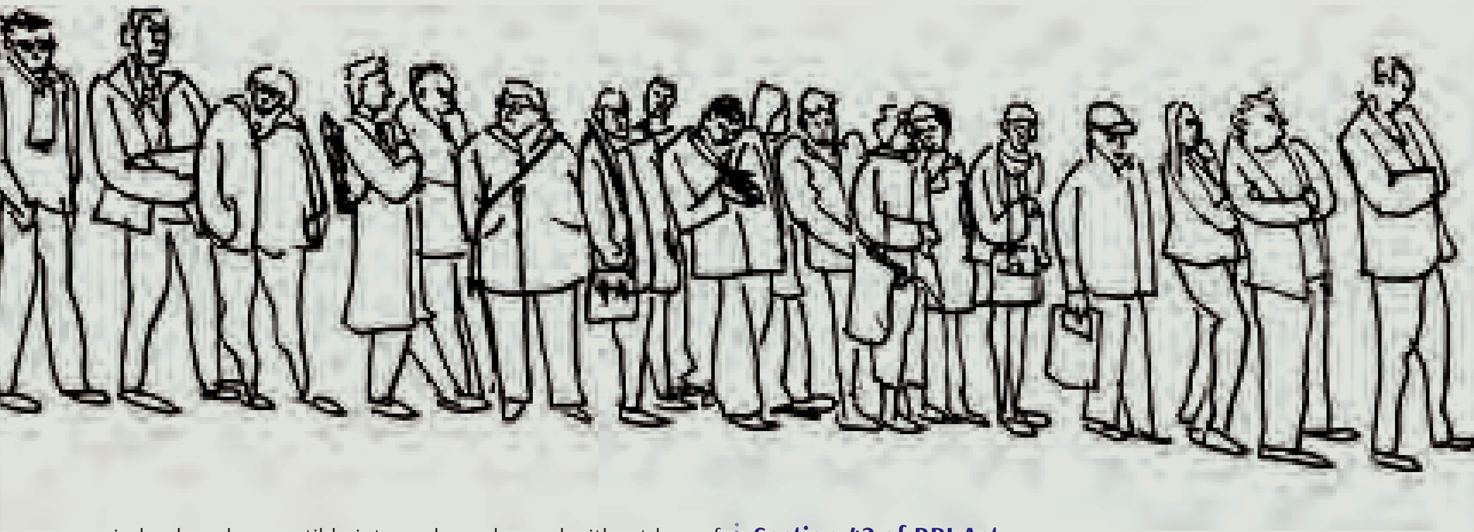
tpghosh@imtdubai.ac.ae

LIQUIDITY OPTIMISTION – POST-DEMONETIZATION



Dr. Jai Deo Sharma
Former Director
Indian Overseas Bank
Chennai

Banking Industry is the lifeline of trade and economy. It is essentially engaged in the business of financial intermediation wherein the banks accept deposits from its customers and extend credit facilities by way of loans and advances to the needy and productive sector of economy. Banking Industry in India is regulated by Reserve Bank of India which is charged with the responsibility of ensuring availability of adequate funds not only to meet the credit needs of the trade and economy but also to ensure that the banks have enough money to meet the demand of the depositors for withdrawing their deposits as and when they need their savings to be used by them. Availability of funds at banks to meet these commitments is known as liquidity. Liquidity is defined as a state of business where the bank or an enterprise can quickly get its hands on cash. Simply put liquidity is to get one's money whenever it is needed. Liquidity is also described as availability of cash on hand and also the money deposited



in bank and convertible into cash on demand without loss of time. Reasonable amount of liquidity is considered desirable so as to meet the emergency situation caused by unforeseen financial set-back. It also helps us to seize an opportunity and in business context such opportunity could be beneficial in terms of bargaining cash discount or trade discount. In the business of banking the amount of cash, balance in Savings and Current Accounts are considered the most liquid type of assets as they have instant purchasing power. An important characteristic of liquidity is that there is no loss in the value of money when it is converted into cash. In this background, the situation of cash rationing for more than a month has created distress and hardship to the lower strata of Society that lives on cash wages.

Institutional framework

As a regulator of banks in India, Reserve Bank of India, has prescribed a regulatory framework to ensure adequate liquidity in the banking system. To ensure that the banks maintained adequate liquidity to meet the demands of its customers – both depositors and borrowers, RBI prescribes the following framework:

1. Cash Reserve Ratio
2. Statutory Liquidity Ratio

Cash Reserve Ratio

Every Scheduled Commercial Bank is required to hold a specified minimum fraction of its total deposits as Reserve in cash or as deposits with the Reserve Bank of India. It is so maintained in accordance with provisions of Section 42 of Reserve Bank of India Act, 1934 as amended from time to time.

Section 42 of RBI Act

Every Bank included in second schedule of Reserve Bank of India Act shall maintain with RBI an average daily balance the amount of which shall not be less than such percent of the total of Demand and Time Liabilities in India of the said bank as shown in the return submitted by the bank to RBI under Section 42 (2). RBI may from time to time, having regard to the needs of securing monetary stability in the country, notify such percentage of amount to be maintained in Cash Reserve Ratio.

It is thus clear that Cash Reserve Ratio (CRR) is required to be maintained as a specified percentage of Demand and Time Liabilities of the bank. It is important to understand the concept of average daily balance which would mean the average of balances held at the close of business of each day of a fortnight. The fortnight shall mean the period from Saturday to the second following Friday – both days inclusive. The Demand and Time Liabilities shall not include the paid up capital of the bank or its reserves or any credit balance in the Profit and Loss Account of the bank. The amount of refinance / borrowings by the bank from RBI, EXIM Bank, Reconstruction Bank, National Housing Bank, Small Industries Development Bank of India etc., shall also not be included in the Demand and Time Liabilities. In case of State Cooperative Banks, amount of loan taken by the bank from a State Government, National Cooperative Development Corporation etc and any such deposits of money representing the Reserve Funds or any part thereof maintained with the bank by any cooperative society within its area of operation shall also not be treated as part of Demand and Time Liabilities. Similarly in case of Regional Rural Banks, any loan taken from the Sponsor Bank, State Bank of India, any subsidiary of State Bank of India, any other Financial Institutions, notified by the Central Government in this behalf shall be reduced by the aggregate of these liabilities of all such banks and institutions to the scheduled bank.

Section 42 of RBI Act also provides that notwithstanding anything contained in Sub- section 1 of Section 42, RBI may, by notification in Gazette of India, direct that every Scheduled Bank with effect from such date as may be specified in the notification, maintain with RBI in addition to the balance prescribed by or under Sub- Section 1 of Section 42, an additional average daily balance, the amount of which shall not be less than the rate specified in the notification, such additional balance being calculated with reference to the excess of total of Demand and Time Liabilities of the bank as shown in the fortnightly Return in accordance with the Provisions of Sub Section 2 of Section 42, over and above the total of its Demand and Time Liabilities at the close of business on the date specified in the notification. However, such additional balance shall in no case be more than such excess of Demand and Time Liabilities. It is also provided that RBI made a separate notification specifying different dates in respect of a bank which is subsequently included in the second schedule of RBI Act, 1934. CRR is computed as a percentage at the specified rate from time to time. However, in case of doubt about any transaction, class of transactions, type of deposits for the purpose of treating the same as Demand and Time Liabilities, the decision of RBI shall be final. Broadly the Demand and Time Liabilities shall be computed on the basis of the following:

- Demand Liabilities shall include Current Deposits, Savings Bank Deposits, Margin on Letters of Credit / Letters of Guarantee, Overdue Fixed Deposits, Cash Certificates, Cumulative and Recurring Deposits, Outstanding Telegraphic and Mail Transfer, Demand Drafts Payable, Unclaimed Deposits, Credit Balance in Cash Credit Account, Money at Call and Short Notice from outside the banking system, deposits held as security for advances and Short Term Bullion Deposits under Gold Monetisation Scheme.

- Time Liabilities are those liabilities which are payable otherwise than on demand.

- Other Demand and Time Liabilities shall include Interest Accrued on Deposits, Bills Payable, Unpaid Dividends, Balance in Sundry Creditors, Net Credit Balance in Inter-Branch Reconciliation Account, Bills Received for Collection where the amount received is payable to other banks and interest dues payable.

Incremental Cash Reserve Ratio

Section 42 (1A) of RBI Act, 1934 provides for levying incremental CRR in addition to CRR prescribed under Section 42 (1). The amount of incremental CRR shall not be less than their rates prescribed by RBI in the notification published in the Gazette. The amount of incremental CRR shall not in any case exceed the increase in Demand and Time Liabilities during the specified period.

Penalty for Default in Maintaining CRR

CRR is required to be maintained on daily basis with the flexibility to the bank in choosing an optimum strategy of holding balances under CRR depending on their intra-fortnight cash flows. The banks are required to maintain a minimum of 70% of CRR of the average daily requirements on all the days of fortnight with effect from the fortnight beginning 28th December 2002. However, the shortfall to the extent of remaining 30% can be made good on other days of the fortnight. Any default in so maintaining CRR, entails payment of penal interest. Section 42 (3) provides for payment of penal interest for default in maintaining CRR at the specified rate including maintenance of minimum 70% as average daily balance of CRR requirement. RBI may impose the penal interest @ of 3% above Bank Rate for the day of default. However, if default persists beyond that day, the penal interest payable by the Scheduled Bank shall be @ 5% above Bank Rate for the succeeding day and so on. In the event of persisting and willful default, RBI may also impose an additional penalty on the concerned officials, which may extend to Rs.500/- for each fortnight in default. It is also provided that if the default continues, RBI may prohibit the Scheduled Bank from receiving fresh deposits after the said fortnight. In the event of default in compliance with the order of prohibition, the Director and the Officer who knowingly and willfully becomes a party to such default, or by negligence or otherwise, contribute to such defaults shall in respect of each such default be punishable with a fine of Rs.500/- for each day, the deposits accepted in prohibition are retained by the bank.

It is strange that RBI levies penal interest on the amount in default as stated above but does not pay any interest to the Scheduled Banks on the amount of CRR balances maintained by them. Section 42 (1B) of RBI Act, 1934 which provided for payment of interest on eligible cash balances held by the Scheduled Banks with the RBI has been deleted with effect from 31.03.2007 and hence the banks do not earn any interest on the amount maintained in the form of CRR. This seems to be an arbitrary arm-twisting of the banks by RBI and it has very serious implication for the profitability of the banks. As the banks are required to pay interest on its Demand and Time Liabilities except on the amount held in current accounts, compliance with this regulatory provision entails huge cost to the banks while the amount of funds held with RBI in CRR becomes an undue source of income for RBI. The liquidity of the banking system is therefore a costly proposition specially when it comes to prescribing an incremental CRR @ 100% of increase in Demand and Time Liabilities.

The scheduled banks in India are required to maintain a CRR @ 4% of their Demand and Time Liabilities on a fortnightly basis with effect from the fortnight beginning 9.2.2013. The rate of CRR is increased by RBI to tackle the surge in banking system's liquidity and the rate is reduced, if in the assessment of RBI, there is tight liquidity position in the banking system.

Statutory Liquidity Ratio

In addition to maintaining average daily balance with RBI in the form of Cash Reserve Ratio, every Scheduled Bank is required to maintain assets in the form of Cash, Gold, Government Securities, Treasury Bills etc. which can be easily converted into cash. Section 24 of Banking Regulation Act, 1949 provides that a Scheduled Bank, in addition to the average daily balance which it is, or may be, required to maintain under Section 42 of Reserve Bank of India Act, 1934 assets, the value of which shall not be less than such percentage as specified by RBI from time to time but not exceeding 40% of the total of its Demand and Time Liabilities as on last Friday of the second preceding fortnight. The assets so maintained shall be in such form and manner as may be specified in a notification by Reserve Bank of India. The current rate of Statutory Liquidity Ratio prescribed by RBI with effect from 4.10.2016 is 20.75% of Demand and Time Liabilities of the Scheduled Bank.

RBI is empowered to vary the percentage of SLR to be maintained depending on the liquidity condition in the banking system and the need to regulate the same so as to ensure the stability and also to provide adequate flow of credit to the trade and industry. Most of the securities and investments made by the Banks to maintain SLR are tradable in the market. RBI also provides window to the Scheduled Banks to borrow under Liquidity Adjustment Facility(LAF) and also under Marginal Standing Facility(MSF). These facilities are used by the Scheduled Banks to improve their liquidity position depending on the demand for credit by their borrowers. Apart from prescribing the specified percentage of SLR to be maintained by the Scheduled Banks, RBI may also come out with Market Stabilisation Scheme by selling Short Term Securities and Treasury Bills to the Scheduled Banks to help them temporarily offload the excess liquidity and also help banks earn yield on the amount so invested. Management of Liquidity in the banking system is thus an important function of RBI and helps maintain stability in the market.

Before analyzing the measures on the part of RBI to optimize the liquidity in the banking system in the wake of Demonetization – 2016, it would be appropriate to understand the meaning and context of demonetization.

Demonetization

Demonetization is reverse of monetization. Monetisation is generally defined as establishing something as a legal tender of a country. For the sake of better understanding it is clarified that legal tender is considered a medium of payment, recognised by a legal system to be valid for meeting a financial obligation. In most of the countries, currency notes of paper and coins of metal are common forms of a legal tender. In India Section 26 (1) of Reserve Bank of India Act, 1934 defines character of a bank note as subject to the provisions of sub section (2) of Section 26 of RBI Act, every bank note shall be legal tender at any place in India, in payment or on account, for the amount expressed therein and shall be guaranteed by the Central Government. In this perspective, 'Demonetization' is broadly described as divesting a monetary standard – currency note or coin of its value or withdrawing money from circulation as currency of the country or stopping its use as a monetary standard. It effectively means that a currency is rendered as no longer a legal tender of a country. Section 26 (2) of Reserve Bank of India Act, 1934 provides that on recommendation of Central Board (of RBI) the Central Government may, by notification in the gazette, of India, declare that with effect from such date as may be specified in the notification, any series of bank notes of any denomination shall cease to be a legal tender save at such offices or agencies of the Bank and such extent as may be specified in the notification.

Demonetization-2016

It was on 8th November 2016 that the Prime Minister of India addressed the Nation on television at 8 PM detailing a roadmap to demonetize the bank notes of Rs.500 and Rs.1000 denomination. He also spelt out the action plan to complete the exercise in 50 days by 30th December 2016. The objectives of demonetization 2016 were to curb the black money, check corruption, expand the tax base and eliminate the fake currency and funding of terrorist activities. The objectives do sound very noble, but the outcome of the exercise is being seen with skepticism by many. There are some similarities in the scheme of demonetization-2016 with that of earlier demonetization of 1946 & 1978 like attempt to curb black money and check illegal transactions. But dissimilarities include the amount of stock of high denomination notes being about 86% of total stock currently as against a nominal amount of about 1.8% of total currency in the earlier demonetization. The perception of Reserve Bank of India which did not favour earlier demonetization, is also different as the present demonetization is welcomed by Reserve Bank of India. The demonetization of 1946/1978 was declared by promulgating an Ordinance whereas in the present case, the Ordinance route was dispensed with and Prime Minister made an announcement while addressing the Nation. The methodology of announcing the scheme of Demonetization-2016 without promulgating an ordinance has been challenged by many public interest groups in Supreme Court of India.

The experience of two earlier exercises on demonetization in our country, reveals that it was unlikely to curb black money in circulation as it is difficult to have a fair assessment about the quantum of black money in circulation. It is further difficult to reasonably define the black money in all its shades. However, it is reasonably believed that black money is mostly held in the form of gold, bullion, jewellery and other precious metals apart from investments in real estate and several other *benami* financial transactions.

The demonetization-2016 is about a month old and is still in the process of implementation. It is therefore difficult to have a precise assessment of its efficacy and ability to achieve its stated objectives. However, the media reports suggest overwhelming support of the people for the exercise of demonetization-2016, which is underway. It is prima facie on account of the stated objectives of curbing rampant corruption prevailing in the country and the personal credibility of the Prime Minister. The economic gains and losses of the exercise and its magnitude will form the basis of several case studies and research in the times to come.

Magnitude of Demonetization 2016

As stated earlier, the currency notes in the denomination of Rs.500 & Rs.1000 constitute about 86% of the total currency which is in sharp contrast to high denomination notes constituting about 1.8% in earlier instances of demonetization. It speaks volumes about the size and magnitude of the exercise of demonetization-2016. It is reported that more than Rs.12.50 lakh crores has already been deposited in the bank accounts upto 9th December 2016. It therefore leaves about Rs.2.55 lakh crores which is yet to be surrendered to the banking system. Since the permitted time for surrendering the invalidated currency is upto 31st December 2016, it is expected that about 95% of demonetized notes will come into the banking system in a legitimate manner, leaving nearly Rs.0.77 lakh crores (5%). If that happens, it will prove the estimates of Finance Minister at Rs.3 lakh crores getting demonetized wrong. In as much as more than 50% of the bank notes sought to be demonetized were being used by Farmers, Labourers, Workers, Wage Earners, Small Traders and Small and Marginal Enterprises (SME) for their business transactions, which are largely in cash, it was not difficult for them to push the currency back into the banking system. Reserve Bank of India may also get disappointed with such an outcome, as it will not be able to have desired increase of Rs.3 lakh crores in its reserves. The economists in the country have already started talking that entire stock of Rs.500 and Rs.1000 denomination notes may come back into the banking channel. If that happens the claim of the Government to utilise the demonetized amount for benefitting the poor will turn out to be hollow. In this background, the objective of extinguishing black money by introducing demonetization, may remain a distant dream. It will also be a demonstration of the money laundering skills and abilities of the Indian people.

Remonetization

Remonetisation is described as an act or process of restoring the use of currency to its former position as a legal tender. The Government of India by deciding to introduce a new note in the denomination of Rs.500 has resorted to simultaneous remonetisation of the currency to that extent, apart from introducing new note of Rs.2000 by demonetizing the note of Rs.1000. The objectives of any demonetization exercise include curbing the hoarding of black money which is facilitated by the bank notes of higher denomination. In the given context, introduction of new bank notes of Rs.500 and Rs.2000 denomination defies logic and monetary sense. Even on this count, the objective of curbing the hoarding of black money, shall not be achieved. It would rather facilitate larger amounts of hoardings in fewer bank notes. The law enforcement agencies have already started conducting search on the suspected hoarders of black money and have recently discovered huge amounts largely in the denomination of Rs.2000 new notes. Rationed withdrawal and exchange of new bank notes does not seems to have any deterrent effect on black money hoarders. It vindicates the contention that with the introduction of bank note of Rs.2000 denomination, the black money storage would become easier.

Cost of Demonetization/Remonetization

The cost of printing new currency is estimated to be more than Rs.20000 crores. Reserve Bank of India and other banks involved in the Management of demonetization scheme, have to incur further cost on transportation to move the currency from printing presses to the dispensing units throughout the country. It would entail not only huge transportation cost but would also involve the cost of manpower deployment. The salary bill for the manpower deployment to deal with the implementation of demonetization scheme alone is likely to be about Rs.4700 crores. This coupled with the other establishment cost and overheads is a huge cost to the bleeding banks, carrying the burden of burgeoning NPAs. These are only direct cost and this exercise would further result in loss of opportunities in terms of decline in the demand for several goods and services leading to productivity loss.

Implementation Woes

Apart from the use of Rs.2000 denomination bank notes for the purpose of hoarding black money, there would be other serious implications of this scheme. A careful study of the scheme would lead to a meaningful conclusion that demonetization is not a fool-proof check on future corruption. It would be more appropriate to say that it is not at all a check on future corruption. Recent arrest of some bank officials for the irregularities and corrupt practices, is only exposing the fault lines in the implementation of an exercise which is aimed at curbing corruption. It is a sad commentary and should act as an eye opener to the Government and RBI. What the country needs to do, to curb corruption is, to bring about a drastic change in the education system, which should be a long term plan but the beginning needs to be made somewhere and sooner the better. The value-based education, right from the primary stage, shall go a long way in improving the levels of honesty in the country. A robust judicial system to decide cases of corruption honestly and expeditiously with a provision of deterrent penalty, are among other suggestions to curb corruption in the country.

Prime Minister's Jan Dhan Yojana (PMJDY) was claimed as a grand success, as it helped the banking system mobilise more than 25 crores accounts. I had then in an article published in a journal with international circulation written that several PMJDY accounts have been sold through the system of account holder giving mandate to the buyer for operating the account. The people with black money have found such of those accounts a convenient channel to push their money into the banking system. It is reported that about Rs.33000 Crores have already been deposited in PMJDY accounts. It is ironical that a pet project of Prime Minister, which was lauded as an unprecedented success and also found a place in Guinness Book of World Records, has been used as a convenient and robust platform for laundering of money to escape from the tax net by the hoarders of black money.

The hardship being undergone by the common man standing in the Q in front of every bank is immeasurable. The loss of human lives touching about 100 has also become a serious question of debate in parliament.

Another implication of demonetization was virtual absence of money in the hands of people. It was largely responsible for cut in the spending by such people, thereby adversely impacting demand for goods and services. A slump in demand was also responsible for decline in factory production. It is bound to have a dent on GDP numbers for the current quarter/year. The experience of implementing the demonetization, is well summarized, in the words of former Prime Minister Shri. Manmohan Singh, as **'monumental management disaster**.

Introduction of New Tax Scheme

The Finance Minister introduced Income Tax (amendment) Bill in Lok Sabha providing for higher rates of income tax on new disclosure of income by the tax evaders. The ultimate rate of tax including the penalty and cess worked out to 77.25% which could even move to 83.50% depending on the interpretation by the Assessing Officer. It was nothing but re-launch of Income Declaration Scheme (IDS) which had already closed on 30th September 2016 in the form of new *avatar*. The higher rate of tax is the only differentiating feature between the two schemes. After mopping up about Rs.30000 crores in the form of tax and bringing Rs.67000 crores of black money into the banking system, it is nobody guess as to how much money will flow into the system and exchequer under the new scheme.

The Government has introduced another scheme for declaring the undisclosed income held in the form of cash by the people. Under the scheme, an income tax at the rate of 50% shall be levied, 25% of the declared amount will be mandatorily parked in interest free deposit with a lock in period of 4 years for the purpose of benefitting the poor under Prime Minister's GAREEB KALYAN YOJANA. The persons disclosing the amount under this scheme, shall be allowed the balance amount of 25% in their hands to be spent according to their wish. The government doesn't seem to have any estimate of revenue to be collected under the scheme. The complexities of demonetization seem to be clearly beyond the grasp of officialdom.

Liquidity Optimisation

In the present context, the Liquidity in the banking system has become a paradox. While banks are flushed with demonetized currency notes which are no longer a legal tender at market place, it has not adequately enhanced the quantum of liquid cash to be dispensed with to its customers. In spite of having huge cash, the banks do not have dispensable cash on account of paradoxical liquidity crunch. Sluggish remonetisation has been the main factor for liquidity crunch and bringing disrepute to the banking system. The Government and RBI are struggling to address the issue of liquidity crunch by printing more new currency in their Printing Presses at Nashik, Devas, Mysuru and Salboni while also simultaneously trying to persuade the people to shift to electronic and digital modes of settling the payment for their transactions.

The Government has incentivized many of such transactions to make the shift to digitization more attractive. The idea is to reduce the dependence on cash for payment settlement. It is a fact that large segments of our trade and economy mainly in the small and marginal sector are predominantly dependant on cash transactions and that keeps the wheels of the economy moving. In this perspective, the shortage of cash in the system, has caused a sharp decline in the productivity of these enterprises, rendering many people jobless. It may not be realistic to expect a cashless banking system but we can hope to have a less cash banking system in short term.

The amount deposited in Savings and Current Accounts in a Bank Branch, is in normal course, freely convertible into cash. But demonetization has put restrictions on its convertibility from 9.11.2016. Although the demonetization was considered a disruptive measure to curb black money, fake currency, terrorists funding, corruption and widening of tax net, its side effects have been greatly felt as it has disrupted the economic activity of the country instead. Its macro-economic impact could be quite severe during next few quarters.

The Reserve Bank of India used Cash Reserve Ratio (CRR) to suck the excess liquidity from the banking system as a sequel to introduction of demonetisation scheme by stipulating CRR @ 100% on incremental deposits of the bank from the fortnight beginning 16.9.2016. It is important to note that RBI does not pay any interest on the cash balances maintained by the banks with RBI as a part of Cash Reserve Ratio requirement. As the banks are required to pay 4% interest on Savings Bank Deposits and an average of about 7% on their term deposits to the customers, introduction of CRR @ 100% on incremental deposits retrospectively from the fortnight beginning 16th September 2016 will result in huge loss to the banks. This move on the part of RBI was therefore unwise especially when the banks have come forward to implement the scheme whole heartedly even at the cost of loss of their productivity on account of loss of their other normal banking transactions. It took RBI little time to realise the implication of sucking the liquidity through this route, especially when CRR balances do not yield an income to the banks which are already bleeding with weight of burgeoning NPAs. RBI has therefore withdrawn the incremental CRR with effect from 10.12.2016 and has introduced Market Stabilization Scheme (MSS) wherein it will issue securities to the extent of Rs.6 lakh crore to the banks and such securities will carry a coupon rate to help banks earn on their investments. In view of the large flow of demonetized currency into the banking system, issue of securities upto Rs 6 lakh crores appears to be partial redressal of the larger malaise.

This measure will help the banks to get these securities reckoned for the purpose of Statutory Liquidity Ratio (SLR), which the banks are required to maintain @ 20.75% of their Net Demand and Time Liabilities (NDTL). Such measures to squeeze the liquidity from banking system sprout from the presumption that there is no demand for credit from the trade and economy. Further, the slow down caused by implementation of demonetization scheme, has also resulted in suppression of market sentiments thereby adversely affecting the demand for goods and services and eventually for bank credit. A rough estimate of the impact of demonetization on India's GDP is upto 2 percentage points. Though it is premature to undertake cost benefit analysis of the demonetization scheme, it will in short term have negative impact where costs will outweigh gains.

The Way Forward

The objectives of the demonetization scheme-2016 are laudable while there are debatable issues on the methodology of its implementation. The Government would do well by using the positive aspects of the scheme and widening its tax net depending on the inputs gathered from the banking system. The idea of expanding the scope of digital banking will help the government make the economy less dependent on cash transactions. The example of Dhasai Village in Thane District of Maharashtra being the first village in the country, to have launched a plastic money campaign aiming at making daily transactions cash free is worth emulating. It is a small initiative to make this village with a population of 10000 people and 150 traders cashless. All the traders have PoS machines and almost all households have debit cards, thanks to the launch of PMJDY scheme in the year 2015. A village in Delhi has also followed suit. There is an urgent need for this to become infectious. It is a challenging task but a beginning in this direction will commence the journey to take us to the desired destination. Demonetisation experiment will also have substantial bearing on the political fortunes of Bhartiya Janata Party more particularly the Prime Minister Narendra Modi. Hence the stakes for BJP will be high in the forthcoming Assembly Elections in 5 States. The huge cost involved in implementation of Demonetization Scheme–2016, need to be perceived as medium to long term investment, the fruits of which will be reaped in the years to come. To sum up it is a bold gamble by the Prime Minister, that enjoys overwhelming public support as of today. In view of the uncertain market conditions which are further escalated by Demonetization – 2016, it is difficult to arrive at an optimum size of liquidity for the system as of now. MA

sharmajaideo56@gmail.com

'EPC' project for Power Plants in India

Procedure, Accounting and Taxation Aspects

CMA Subhasish Paul
Senior Manager (A & F)
Reliance Infrastructure Limited.
Mumbai

A . Foreign Service: Procedure, Accounting Entries and Taxation

Sometimes we need to take Foreign Service for erection testing and commissioning of equipments at Site. In our Case, we need to take the foreign services from SEC for erection of BTG materials imported from China. Two separate contacts are made with SEC : one is for Supply of BTG equipments and other is for providing necessary expertise for erection and commissioning of such equipments. Normally, SEC deputes their manpower (both Engineers and other technicians) at respective sites. Initially a certain portion (say 10%) is paid to them as mobilization advances. They raises a periodical bills on completion of that periods. Advance is adjusted and retention (say 10%) as per the agreement is kept on this bills and remaining amount (80%) is paid to them as per the payment schedule.

Payment of Advance (10%) : Accounting And taxation (please refer Part 1 for value)

1. Payment of Advance (10%) ($ 0.3149 @ 63.5)
Sec A/C ....DR ($ 0.3149 crs x 63.5) 20,00,00,000
(10% advance given on signing the contract)
To Bank A/C ($ 0.3149 crs x 63.5) 20,00,00,000

With Holding Tax: As per Income Tax TDS provisions, for any amount paid, TDS should be deducted and deposited with the Government. In case of foreignPayment, there can be two situations regarding Withholding Tax depending upon the terms of the agreement.

Situation One: TDS is deducted from Contract price and net amount is paid after deducting TDS. Say TDS rate is 10%. Then, The Journal Entry should be

1. For payment of Advance

SEC A/C........................Dr Rs 20,00,00,000
To With Holding Tax A/C Rs 2,00,00,000
To Bank A/C Rs 18,00,00,000

2. For Depositing TDS

With Holding Tax A/C........Dr Rs 2,00,00,000
To Bank A/C Rs 2,00,00,000

Situation Two : With Holding Tax Amount will be paid extra and will have to borne by R Infrastructure. The Journal Entry will be like this

1. For making Payment to SEC

Sec A/C............................Dr Rs 20,00,00,000
To Bank A/C Rs 20,00,00,000

2. Creation of Withholding Tax Liability

Project Expenses A/C...............Dr Rs 2,00,00,000
(Additional Cost to R Infrastructure)
To Withholding Tax A/C Rs 2,00,00,000

3. For Depositing TDS

With Holding Tax A/C........Dr Rs 2,00,00,000

To Bank A/C Rs 2,00,00,000

In this case, total cost to the company is Rs 22, 00, 00,000.

Service Tax under reverse Charge:

For any foreign payment made for availing Foreign Service, we need to discharge service tax under 'Reverse Charge'. This amount to be paid in 'Cash' onaly and cannot be adjusted against CENVAT. Service Tax needs to be calculated @ rate specified on the value of service. Now what will be considered as value of service in the above example; Rs 20 crores or 22 crores? As per Section 67 of Finance Act,1994, valuation of taxable service for charging the service tax , in a case where provisions of service is for a consideration in money, be the gross amount charged by the service provided for such service provided or to be provided by him. So in both the cases, amount charged by SEC will be Rs 20 Crores and amount of service tax (@ 14%) will be 2,80,00,000. The journal entry for creation of service tax liability and subsequent payment will be as follows

1. Creation of Service Tax Liability

Service Tax A/C.....................Dr Rs 2,80,00,000
To Service Tax Payable under reverse Charge Rs 2,80,00,000

2. Discharging of ST Liability

Service Tax payable under Reverse Charge A/C.....Dr

Rs 2,80,00,000
To Bank Rs 2,80,00,000

CENVAT can be availed on the basis of Challan after making the payment of ST under Reverse Charge

Raising of Periodical Bill : Accounting and Taxation

Suppose as per the terms of contract, SEC will raise quarterly bill for Rs 20,00,00,000 ($ 0.3149 Crs) in subsequent 10 Quarter. After the first Quarter, 1st bill is raised for $0.3149 is raised. On this date, the Rate of exchange rate is $1 = Rs 63.9. The Accounting entries will be as follows.

1. Booking of expenses

Expenses A/C……………….DR ($31 49 000 x Rs 63.9) Rs 20,12,21,100
To SEC A/C ($31 49 000 x Rs 63.9 x10%) Rs 2,01,22,110 (10% Advance Adjustment)
To SEC A/C ($31 49 000 x Rs 63.9 x80%) Rs 16, 09,76,880 (80% now payable as per terms)
To SEC A/C ($31 49 000 x Rs 63.9 x10%) Rs 2,01,22,110 (10% Retention deduction)

2. For making of Payment (say rate of exchange on the date of payment is $ 1 = Rs 64)

SEC A/C…………………………Dr Rs 16,09,76,880 (80% liability created in above Journal entry)
To Bank A/C ($31 49 000 x Rs 64 x80%) Rs 16,12,28,800 (actual amount to be paid)
To Exchange Gain A/C Rs 2,51,920

Creation of Service Tax Liability : Service tax Liability to be created and paid within 3 months from the date of Invoices as per Rule 7 of Point of taxation Rule,2011 even if the payment to the vendor is made or not. Now we need to consider at what exchange rate, the Service tax Liability is to be booked and Paid ? From 01.10.2014, the determination of rate of exchange will be as follows

***Determination of rate of exchange** – The **rate of exchange** for determination of value of taxable service shall be the **applicable rate of exchange as per the generally accepted accounting principles on the date when point of taxation arises** in terms of the Point of Taxation Rules, 2011."*

Point of Taxation: In respect of the 'Import of services', service tax is liable to be paid under reverse charge and the point of taxation is governed under Rule 7 of the Point of Taxation Rules, 2011. The below table summarizes the statutory provision:

Scenario	Point of Taxation	Rate of exchange applicable on
If the payment is made within 3 months from the date of Vendor's Invoice	Date of payment	Date of Payment
If the payment is made after 3 months from the date of Vendor's Invoice	Date of Invoice	Date of Invoice

Suppose, the Service Liability is created and paid within 3 months and then exchange rate will Rs 64 per 1$. The next question is that on what value now Liability will be created. 10% advance have already been paid and liability has been discharged. 80% will be paid now and 10% will be paid on future date. Normally this 10 % is paid beyond 3 months. So it is advisable that Service tax liability will be paid on 90% value now and nothing to be paid when 10% retention will be release on future date. The Journal entry for Liability creation will be

Service Tax A/C…… Dr ($31 49 000 x Rs 64 x90%) x14% Rs 2,53,93,536
To Service Tax payable under Reverse Charge Rs 2,53,93,536

Payment of Service Tax Liability :
Service Tax Liability under Reverse Charge A/C……………… Dr Rs 2, 53,93,536
To Bank Rs 2, 53,93,536

B. On Shore Service: Procedure. Accounting Entries and Taxation

As discussed in earlier paragraph, the entire service contracts have been given to Utility Engineers LTD , an independent company within the group. They will subcontract all the works to hundreds of subcontractor. D Corporation will issue all the materials to R Infrastructure who in turn will issue to the respective subcontractors for installation. Billing structure will be like this

Subcontractor to Utility Engineers Ltd

Utility Engineers Ltd to R Infrastructure

R Infrastructure to D Corporations

Now we shall discuss the Accounting procedure and Taxation in the books of both Utility Engineers Ltd and R Infrastructure. We shall discuss in the following three heads

1. **Civil Construction Work**: Where subcontractor put their own materials along with Free issue of materials and deploy engineers and labors for construction of Civil structures

2. **Pure Erection work**: Subcontractors deploy only service engineers and labors to erect the materials issued free.

3. **Other Services:** Where No materials involves and only pure services are involved. i.e consulting Engineering, Manpower, Business support Etc.

Civil Construction Work

Construction is the process of preparing for and forming various buildings and other civil structure. It is really complex activities consists of Planning, designing, financing and actual execution of works till completions. In our case, Planning and designing is done by R Infrastructure in line with the specifications provided by D Corporations and Handed over to Utility Engineers LTD. Actual executions will be done by the Contractors appointed by Utility Engineers Ltd. R Infrastructure will supervised all the construction activities and certify the activities done by various subcontractors for their billing.

Utility Engineers Ltd will issue orders to various subcontractors for Civil Works. Say, JMC is one of such contractor to whom Order for General Civil works for INR 100 Crores is given in 5 different Work Order. Civil Construction works consists of the following activities and procedures

1. JMC will deploy their own engineers and Labors at site for construction work (service portion)

2. R Infrastructure will issue Required Materials (Cement, TMT Bar, Ready Mix Concrete, etc) to JMC as FIM (FIM)

3. JMC will purchase and use their own materials which are not supplied free but required for Construction work (Own Materials)

Any Work Order will be broken down to various line Items (Activities) depending upon the various works involves in that Work Order. Specified Quantities for each activity is being assigned along with Rate per Unit. In other words, if all quantities for all activities are multiplied with the unit rate, we will get the total Work Order value.

JMC will work with close coordination with R Infrastructure Engineers and will work as per the specification. Engineers from Utility Engineers will certify their daily work and Measurement sheet is updated on daily basis for the activities done in each line item. Both JMC and Utility Engineers will certify this measurement sheet. This will form basis for raising invoices on the basis of work done and certified. At the end of the month, on the basis of certified measurement sheet, JMC will raise invoices by multiplying the rate as per Work Order for respective line items with the certified work done in each line items. Normally One Running Account (RA) bill is raised at the end of each month. Now questions arises how 'Service Tax' will be charged in the Invoices and what will be 'value of services' for such. It will depend upon the choice of the Contractors. There are two options available to them. The can opt any one of them. The two options and there implications in service tax are explanted below.

Rule 2(A) of **Service Tax (Determination of Value) Rules, 2006** [as amended w.e.f. 01-07-2012] makes provisions for valuation of 'Work Contract'. Broadly, two options are available to service provider.

Option 1: Rule 2A(i) : Value of service portion in execution of a work contract shall be equivalent to the gross amount charged for the work contract less.

value of property in goods transferred in the execution of the said works contract

Explanations: It means value of service for the purpose of charging service tax will be only the service portion of the total work. Value of materials supplied by the Contractors or FIM will not form part of this value. VAT or sales tax will also not be a part of such valuation.

Example : Suppose, JMC execute an Civil work for which value of services rendered by them is Rs 5,00,000.Material Value supplied by them is Rs 2,00,000 and VAT paid by them on these materials are Rs 25,000. Free Issue of Materials by the customer is Rs 6,00,000.

Value of service as per Rule 2A(i) is Rs 5,00,000 only. Service Tax @ 14% will be Rs 70,000 only.

Option 2: Rule 2A(ii): Where the value has not been determined under clause (i) above, then the value of service will be determined in the following manner

A. In case of work contracts entered into for execution of 'Original Works' service tax will be payable on 40% of the 'total amount charged' for the works contracts

B. In case of work contracts not covered in (A) above (not original work) including work contract entered into for

i) Maintenance ,repairs or reconditioning or restoration or servicing of any goods or
ii) Maintenance or repairs or completion and finishing services such as glazing or plastering or floor and wall tailing or installation of electrical fittings of immovable properly,

Service tax shall be payable at 70% on the 'total amount charged' for the works contracts.

'Total amount' means sum total of the gross amount charged for the work contracts and the fair value of all the goods or services supplied in or in relation to the execution of works contracts, whether or not supplied under the same contract or any other contract (FIM). VAT or sale taxes should be deducted from the value of materials.

Considering the above example, Value of service for service tax purpose will be Rs (5,00,000+2,00,000+6,00,000) x 40% = 5,20,000. Service Tax will 14% on 5,20,000 = Rs 72,800.

Note: It has been clarified that the provider of taxable service shall not take CENVAT credit of duties or cess paid on any 'inputs' used in relation to said work contract. It means in both the cases, CENVAT credit of duties or cess paid on 'Input services' and 'Capital goods' will be available

We have used the term 'Work Contract' several times above. For the purpose of service tax, Work Contract has been defined U/S 65B (54) as follows

'Works contract means a contract wherein transfer of property in goods involved in the execution of such contract is leviable to tax as sale of goods and such contract is for the purpose of carrying out construction, erection, commissioning, installation, completion, fitting out, repair, maintenance, renovation, alteration of any movable or immovable property or for carrying out any other similar activity or a part thereof in relation to such property'

Thus the following will get covered in 'Work Contract'

A. Erection, commissioning, or installation of plant, machinery, equipment or structures
B. Construction of building and civil structure
C. Turnkey projects
D. Maintenance service relating to goods where goods and service both are involved as composite contracts (Annual maintenance Contract)
E. Job work (which does not amount to manufacture) where job workers uses some of this own materials.

Option 1: Full Service Tax on Service Portion: Accounting Entries and Taxation

Books of Utility Engineers Ltd: We will proceeds with the example set above for ongoing entries and taxation. Invoice raised by JMC will be like this (to be raised as per Rule 4A of Service Tax Rule)

Tax Invoice

Basic Service		Rs	5,00,000
Basic Materials	Rs 2,00,000		
Vat On Materials	Rs 25,000		
	....		
		Rs	2,25,000
			....
Total Basic value for invoices		Rs	7,25,000
Service Tax @ 14% on Rs [5,00,000]		Rs	70,000
			....
Total Invoice Value		Rs	7,95,000
			....
Less: 10% advance adjustment (10% on basic value + 14% ST on 10% of basic Value paid earlier)		Rs	82 650
Less: 10% Retention (10% on basic value + 10% on service tax)		Rs	79,500
			....
Amount payable now (subject to TDS)			6,32,850

** 10% advance was given earlier. At time of giving advance service tax was given on 10% on order value without considering the material component. So 10% on gross bill value will be deducted from service portion for computing the service to be charged on this Bill. It means 14% on Rs 725,000 will be recovered from the service tax paid at the time of giving advance to vendor. It has been shown as deduction as Advance adjustments.

On booking of expenses

Expenses A/C............Dr Rs 7,25,000 (Total amount of basic value charge by the contractor)
Service Tax A/C.........Dr Rs 70,000 (Gross amount of Service Tax on service value i.e. 14% on 5,00,000)
To Service tax A/C Rs 10,150
(Service tax recovered on advance given i.e .14% on (10% of 7,25,000)
To JMC A/C Rs 72 500
[(10% of 7,25,000 as advance)
To JMC A/C Rs 79,500
[(10% on 7,25,000) + 10% on 70,000 as Retention as per terms)]
To JMC A/C Rs 6,32,850
(80% payable now) [(80% on 725000) + ST(70000 -10150 – 7000)]

On making Payment to JMC

JMC A/C.......................Dr Rs 6,32,850
To TDS Rs 13,050 [2% on (7,25,000 – 10% on 7,25,000)]
To Bank Rs 6,19,800
(balancing amount)

Work Contract tax : Work Contract Tax (WCT) is a tax imposed for contracts for work such as building, assembling, construction, fabrications etc of any movable or immovable property. WCT is based on the contracts for labor, work, or service, and not for the sale of goods; although goods are used to fulfill the contract. Rate of tax vary from 2% to 5% in various states. WCT is deducted from Contractors bill and deposited with sale tax departments on monthly basis. WCT certificates are given to the contractors from whom the WCT TDS is deducted from their invoices.

Sales by Utility Engineers to D Corporation: Sale bill will be raised by Utility Engineers on D Corporation. There will be an agreement between D Corporation and Utility Engineers for this purpose. Normally a certain % is added to the costs as margin and bill is raised on D Corporation. Generally, materials from subcontractors are transferred as it is at the costs it has received (no margin added) and the margins is reflected in service portion. Let the Margin be 10%. Principal has been explained below.

Total Cost to Utility Engineers is Rs 7,95,000. By adding 10% margin, Gross Bill value will be 7,95,000 + 10% on 795,000 = Rs 8,74,500. As explained above, there will be no margin in Material Value, Value of Material transfer will be Rs 2,25,000. And service value will be Rs (8,74,500 – 2,25,000) = Rs 6,49,500.Service Tax will be charged on this Value. The invoice value format will be like this

Tax Invoices

Value of Material transferred		Rs 2,25,000
Value of Service	Rs 6,49,500	
Add: Service tax @ 14%	Rs 90,930	Rs 7,40,430
		....
Gross Bill Value		Rs 9,65,430
Less: Advance Adjustment 10%		Rs 96,543
Less: Retention 10%		Rs 96,543
		....
Net payable amount (subject to TDS)		Rs 7,72,344
		....

Journal Entries for sales Recognition

D Corporation A/C.......Dr Rs 7,72,344
(amount payable now)
D Corporation A/C......Dr Rs 87,450
(10% advance Adjustment less ST on advance given)
D Corporation A/C......Dr Rs 96 543
(10% Retention amount as per term)
Service tax payable A/C...Dr Rs 9,093
(Service Tax on advance adjusted now)
To Sales A/C Rs 8,74,500
(Total Income Recognized)
To Service tax payable A/C Rs 90,930
(Service tax Liability booked)

Discharge of Service Tax Liability :

Every month end Utility Engineers Limited to needs to discharge its net Service tax Liability either through Cash or through available CENVAT. Generally a separate account (Say Service Tax Adjustment A/C) opened and all input credit and output Liabilities accounted for during the month are transferred in that account. Payment made in cash is also posted in that account. The should not be any 'credit balance' in that account. If it is so, it indicates that there are undercharged liability which may attract interest and penalty in future. In the above sets of entries for purchase and sale, Output liability booked is Rs 90,930 and Input credit basic is 70,000. Let say, 40,000 is paid in cash to discharge liability. The 'Service Tax Adjustment A/C will be like this

Dr **Service Tax Adjustment A/C** **CR**

To , Service tax A/C (ST booked on purchased CENVAT)	70,000	By, Service Tax A/C (ST on advance given to vendor adjusted now)	10,150
To Service tax payable A/C (ST on advance received adjusted no)	9,093	By, Service Tax payable A/C (Liability booked in sales entry)	90 930
To Bank A/C (Partly liability discharged through Cash)	40,000	By Balance C/D	18,013
	1,19,093		1,19,093

Important points to be remembered

1. Closing balance of this account should be matched with the CENVAT Closing Balance as per Service Tax Return.
2. This account should not have 'Credit Balance'. Then immediately pay the liability with the interest as applicable
3. Any amount of Service Tax (CENVAT) which does not have any nexus with output Liability or which are specifically excluded for availing CENVAT should be transferred to Profit and Loss Statement.
4. It will depend upon the organization how CENVAT credit will be availed. It means where Rule 6(2) or Rule 6(3) of CENVAT Credit Rule will be adopted by the company. It is separate subject matter and will not be discussed in this topic.

Books of R Infrastructure

Sale by Utility Engineers will be cost to R Infrastructure and will be booked as Cost by passing the following entries.

Expenses A/C......................Dr	Rs 9,65,430		
Service Tax A/C...................Dr	Rs 90 930		
To Utility Engineers A/C (Now Payable)		Rs	7,72,344
To Utility Engineer A/C (10% of the basic value adjusted)		Rs	87,450
To Utility Engineers A/C (10% Retention)		Rs	96,543
To Service Tax A/C (Service tax on advance paid)		Rs	9,093

Sale Bill by R Infrastructure

As Utility Engineers have raised bill upon R Infrastructure based upon the subcontractors (JMC) bills, generally, such <u>One : One</u> matching is not possible for R Infrastructure to raise bills on D Corporation, It means, Based upon one bill from Utility Engineers Limited, corresponding sales bill could not be raised upon D Corporation. Bills upon D Corporation is based upon the BBU between R Infrastructure and D Corporation and normally it is based upon some milestone achieved.

It may so happen that three/four invoices form Utility Energy LTD will achieve the mile stone and allow R Infrastructure to raise a invoice. But for the sake of simplicity let us consider that based up on the above bill from Utility Engineers, R Infrastructure will raise a bill on D Corporation, BBU rate value for the same is Rs 14,00,000 inclusive of Tax. Now based upon the payment terms and tax clause, the invoice structure will be like this

Tax Invoice

Value of Material Transferred		Rs 2,25,000
Value of service [(14,00,000 – 2,25,000) / 112.36 * 100] (Note 1)	Rs 10,45,746	
Add; Service Tax @ 14% (Note 2)	Rs 1,46,404	Rs 11,92,150
Gross Bill Value		Rs 14,17,150
Less: Advance Adjustment 10%		Rs 1,41,715
Less: Retention 5% for PTO		Rs 70,857
Less: Retention 5% for FTO		Rs 70,858
Net payable		Rs 11,33,720

<u>Note 1</u>: At the time of agreement, the ST rate as 12.36%. So the service portion (after deducting material value from BBU value) is inclusive of ST @ 12.36%.

So by back calculating with ST rate 12.36% inclusive ,we have obtained the basic value for service . It is Rs 10,45,746

<u>Note 2:</u> Now at the time of billing St rate is 14%. So total St amount has been calculated @ 14% on basic. Gross Bill value is Rs 14,17,150 is higher by Rs17,150 than the BBU value. This is due to tax variation clause.

Journal entries and Taxation will be same as already been

discussed in the books of Utility Engineers Ltd. Only Customer name will be different. Not discussing again here

FIM and Material Reconciliation: As discussed earlier, materials are issued free by D Corporation to R Infrastructure which in turns issue them to various subcontractors appointed by Utility Engineers LTD to be installed or erected in the project. Subcontractors places material requisition slip duly approved by the R Infrastructure Engineers to Store departments. Store Department will issue the requisites materials to respective subcontractors as per requisitions. Every subcontractor shall attach a **'Material Reconciliation Statement'** along with the Running Account Bills. R Infrastructure engineers will certify the usage of the Materials which should be in conformity with the drawings for the work done till that RA bills. This Reconciliation Statement is prepared on cumulative basis showing opening balance, receipts during the month, used for construction/ erection and the closing balance. Generally 1% to 3% wastage allowance is provided for Steel, Cement or RMC. Any amount of excess wastage will be recovered from subcontractor's bills. Basis of valuation is the cost of purchase plus 15% to 20% of casts as overhead.

Option 2: Forty % on Total Bill Value : Accounting Entries and Taxation

Books of Utility Engineers Ltd : We will proceeds with the example set above for ongoing entries and taxation. Invoice raised by JMC will be like this (to be raised as per Rule 4A of Service Tax Rule)

Tax Invoice

Basic Service		5,00,000
Basic Materials	2,00,000	
Vat On Materials	25,000	
	....	
		2,25,000
		....
Total Basic value for invoices		7,25,000
Service Tax @ 14% on 40% on [7,25,000 – 25,000+6,00,000(FIM)]		72,800
		....
Total Invoice Value		7,97,800
		....
Less: 10% advance adjustment (10% on basic value + 10% of Service Tax paid earlier **)		79,780
Less: 10% Retention (10% on basic value + 10% on service tax)		79,780
Amount payable now (subject to TDS)		6,38,240

** In this method where ST is charged on 40% on total value, it is not practically possible to ascertain the value of FIM while advance was given. Normally 10% advance is given on the Work order value without considering the FIM. At the time of recovery, it is advisable to recover 10% of ST amount charged in the Invoices. It may so happen that the recovery of Service Tax will be higher than actual mount given. But there will be no issue in totality. We have to keep control bill wise so that the total ST recovered does not exceed the amount of Service Tax paid on advance. ST on advance will be received early.

Journal entries and Taxation will be same as already been discussed in the books of Utility Engineers Ltd under option 1 above. Only amount will be different. Not discussing again here.

Sales bills by Utility Engineers Limited remains same as they will follow the same principal (option 1 only). Even they opt for option 2, only computation will be a bit different to calculate service tax on 40% on the gross value Less Vat. Rest parts or computation along with the Journal entries and Service Tax adjustments will be same. Not discussing now.

Purchase by R Infrastructure will depend upon how Utility engineers Limited raises invoices on R Infrastructure. Journal entries and Taxation aspects will remain same. Sales billing by R Infrastructure on D Corporation will remains at same principal (Option 1) .So computation, Journal entries and taxation aspects will remain same as discussed early.

Service Tax under Reverse Charge

Service Tax under Reverse Charge means that the service tax, either fully or partly, may have to deposit by the recipient of service. From 01.07.2012, Department has specified certain services for which ST to be deposited under Reverse Charge where the provider of service is non corporate entity. Some of the category of service are, man power service, Rent a Cab, Legal Service, Work Contract service, GTA services etc. In case of Work Contract services service tax amount to be borne at 50:50 by the provider of services and recipient of services. In all other cases, 100% ST to be deposited by the recipient of the service. In case of GTA 70% abetment is there and ST amount to be calculated on 30% value and to be deposited by the recipient of services. In case of Rent a Cab, option has been give to charge service tax on 40% value on fulfillment of certain conditions. The recipient of service must deposit service tax on payment to vendor or on completion of 90 days from the date of invoices which is earlier.

In our case, some of the contractor of Utility Engineers Limited may be non corporate entity and providing any one of the above service. Let's take up a example to elaborate the system. Mr. X an individual providing Work Contract service. The Bill component is as follows. Material Supplied Rs 1,00,000. VAT Rs 4000. Service Component Rs 3,00,000. He opt for full tax (option 1). The Invoices will as follows.

Tax Invoices

Value of services	Rs	3,00,000
Value of materials including Vat	Rs	1,04,000
		....
Basic Value of Invoices	Rs	4,04,000
Add: service Tax 50% on (14% x 3,00,000)	Rs	21,000
		....
	Rs	4,25,000
		....

Declaration: 50% of Service tax i.e. Rs 21,000 will have to be borne by receiver of service.

The Journal entry in the books of Utility Engineers Limited will be as follows

Expenses A/C..............DR Rs 4,04,000
Service Tax A/C...........DR Rs 42,000 (both the share of provider and receiver of service
To Service Tax under RC Rs 21,000
To Mr X Rs 4,25,000

On discharge of liability: To be discharged in cash only. Within the time limit as explained early

Service tax under RC A/C.........Dr Rs 21,000
To Bank A/C Rs 21,000

In case of Manpower supply, 100% liability would have been ours and subcontractors would not have charged any amount of service tax in his bill. Gross bill submitted by him would have been only the basic value of service rendered by him. Then service tax amount and the Service tax under RC in the above journal would have been same.

Availment of CENVAT: CENVAT can be availed on making the payment to vendor and paying the RC liability in cash. Even if the payment to vendor is not made but RC liability is discharged, CENVAT can be availed on the basis of 'Challan' (as per Rule 9 of CENVAT Credit Rule) . If CENVAT under RC is not eligible for CENVAT (e.g. Rent a cab, Man power etc) then service tax amount to the charge to P&L account at the end of every month altogether. Eligible CENVAT to the transferred to Service Tax Adjustment account as discussed earlier.

2 & 3 : Pure Erection Works and Other Services (where materials are not involved in Billing)

In this case, there will be no materials to be considered for billing purpose. It involves purely erection or consultation works. Only service portions with full service tax will be billed. So billing structure will be much simpler in the books of all companies.

Let us consider an example, Powermech Company has executed some erection work valuing Rs 50,00,000.
The Bill raised by them on Utility Engineers Limited will be as follows

Basic Service	Rs	50,00,000
Add: service tax @ 14%	Rs	7,00,000
		....
	Rs	57,00,000
Less: 10% advance adjustments	Rs	5,70,000 (10% on Basic service + 10% on service tax discharged early)
Less: 10%retention	Rs	5,70,000
		....
Net amount payable	Rs	45,60,000 (subject to TDS)

Billing Structure, Journal Entries and Taxation aspects will be same as discussed earlier in the books of Utility Engineers and R Infrastructure. Same has already been discussed above and not discussing again now.

Service Entries: As GRN is prepared for Materials, for service also expenses are not directly booked. In any system driven organization, a 'service entry' is prepared to book the expenses and general Liability. Then firm Liability is created in the name of Vendor by passing another entry. Following two entries are prepared

For Expenses:
Expenses A/C.....................Dr
To Provisional Liability for services
For creation of liabilities
Provisional Liability A/C.............Dr
To subcontractor A/C

Revenue Recognition: (Accounting Standard 7 : Construction Contracts)

The primary objective of any business is to earn profit. Profit means excess of income over expenditure. In a long term project where duration to complete is around 4 to 5 years, question arises how the profits or loss should be determined. There may be two options available

a) As a whole after the completion of the contract or b) on year to year basis following a suitable method.

After the amendment of AS 7, method 'a' has been eliminated. Now only method 'b' can be applied i.e. revenue should be recognized on 'percentage completion method' only. It also with the conformity with 'accrual concept' as per Accounting Standard 1. Please note this accounting standard is applicable for construction contract in 'Contractors' financial statement.

Recognition of Contract revenue and Expenses: When the outcomes of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract should be recognized as revenue and expenses respectively by reference to the 'stage of completion' (% completion method) of the contract activity at the reporting date (Par 31 As 7). In a fixed prices contract, the outcome of a construction contract can be estimated reliably when all the following conditions are satisfied

a. Total contract revenue could be measured reliably.
b. It is probable that the economic benefits associated with the contract will flow to the enterprises/contractor.
c. Total Contract Cost and cost up to the stage of completion is measured reliably and
d. Contract costs attributable to the contract can be clearly identifiable

Among three methods suggested, generally 'cost to cost' method is used to ascertain the % completion and stages of completion is determined by applying the following formula

% of completion = Cost to the date / (Cost to date + estimated further costs to complete the project) x 100

Example: Contract Price (fixed) – 1000 Work done and certified – 500. Work done but not yet certified – 100.

Estimated further cost to complete the project – 450. Progress payment receipts – 400. Billed but not yet received – 160

% of Completion = (500 + 100) / (500+100+450) * 100 = 57.14%

So contract revenue should be recognized as 57.14% of 1000 = 571.4

Other Important Points:

When an uncertainty arises about the collectability of an amount already recognized as revenue and included in Profit and Loss Statement, ten shuch amount should be charged to profit and loss statement immediately

An expected loss on the construction contract should be recognized as an expenses immediately. In the above example expected loss is 1000 (500+100+450 = 50. It should be charged to Profit and Loss statement immediately (Para 35 As 7)

An enterprises should disclose i) Gross amount due to customer as Asset and ii) Gross amount due to Customer for contract work as 'Liability. In the above example, Gross amount due to Customer is 160 will be shown as Asset. Gross amount due to customer will be calculated by the following formula

Gross Amount due to Customer = (Cost of work Done – Loss) – (payment received + bill not yet received)
= (500+100-50) – (400 + 160)
= 10

This 10 will be shown as Liability.

Conclusion

Every project is unique and has its own limitations and advantages for completion. In the above discussion I have tried to put some light on the general procedure normally applied in any EPC project. Issues like Entry Tax, Octroi, Labor cess has not been considered in this discussion but has financial and procedural impact on the project. It is to be kept in mind that, in practice things will not be so methodical and simple. All the system discussed above may not be accepted by the Sale Tax or Service Tax departments. Virtually there are so many litigations with regards to the principals and opinions on various aspects of the projects. Whether we can break a Single Turnkey Project contract into three different contracts? Whether the benefit of Section 6(2) CST Act can be availed? What will be the treatment of LD levied by the customer with regard to Service Tax and Sale tax? How the sale bills raised on customer and subsequently denied will be treated in books of accounts? How the Tax variations will be treated in Books of Accounts? These are the relevant issues along with the legal aspects required to be looked upon. MA

subhasish.n.paul@relianceada.com

The Compliance Conundrum

CMA Sanjoy Banerjee
Regional Director
Risk & Business Assurance, APAC
Jones Lang LaSale (JLL)
Singapore

The importance of compliance is acknowledged but complexity is not often appreciated

Whenever a discussion on 'compliance' is initiated, most participants think about and speak ofregulatory compliance alone. The importance of a well-oiled compliance function isvaluedby the C-Suite but they are yet to fully appreciate the breadth and depth of its coverage as well as the complexities of compliance associated with operating in multiple jurisdictions. While the more regulated industries such as Financial Services and Healthcare may have had a head start in this regard, there is no denying that most of the other industries are learning about the intricacies of compliance the hard way, by facing the consequences of non-compliance!

The compliance universe is as complex as it is diverse

It is natural and perhaps even fair to start talking about regulatory compliance while engaging in any discussion on compliance but it is imperative to ensure that the exchange extends beyond. Logically a compliance universe consists of the following elements:

- Regulations and Statutes
- Contractual commitments (Customer & Vendor contracts)
- Policies and procedures (Operational, Financial)
- Voluntary/ Mandatory standards and acknowledged best practices and
- Ethical codes.

(Please refer to diagram 1 below for the Compliance Universe)

Adapted from JLL Compliance Universe

Regulatory and statutory complianceinvolves laws, regulations, and statutes that govern an organization's activities at international, national, regional and local levels. The ever increasing complexity of the regulatory environment, especially across jurisdictions and geographies, continuously challenge the compliance requirements in this dimension.

Contractual commitmentsadopt many distinct forms, whether master service agreements (MSAs), union labor contracts, pricing agreements these documents are often lengthy and written in complex 'legal' language. To achieve compliance in this area, it is critical to have an accurate understanding of the contractrequirements, and communicate effectively with customers, employees and third-party contractors to ensure that these terms and conditions are understood by all involved in the sense intended and are delivered accordingly.

Policies and procedures (operational and financial)are designed to minimize and mitigate operational risks through the use of well-designed internal processes, across diverse disciplines including procurement, vendor management, financial reporting and accounting, information security, data governance, health and safety, human resources, and others.

The scope covered by standards is rather wide and diverse ranging from mandatory to recommended best practices. Mandatory standards are generally developed by regulatory bodies to enforce provisions of legislation such as to protect worker and employee safety, health and well-being (e.g., OSHA), to avoid discrimination based on accessibility (e.g., ADA, ABA and DDA), and to reduce energy consumption or enhance sustainability (e.g., the U.S. Energy Independence and Security Act 'EISA' and Executive Orders 13423, 13514, and 13693 related to sustainability.

Voluntary consensus standardsarestrongly recommended and typically established by industry-level bodies, but compliance to which is mandated by law. Technical standards and management systems standards developed by standards development organizations (SDOs) such as the International Organizations for Standardization (ISO), national standards bodies or mirror committees. Voluntary consensus standards are developed at national (e.g., U.S./ANSI and U.K./BSI), regional (e.g., EU/ CEN), and international (e.g., ISO) levels.Guidance standardsare designed to 'guide' professional behavior and support ethical behavior. Guidance standards generally provide a framework or best practices to ensure the quality of services or products.

Management system standards, or requirements standards, describe a set of procedures anorganization needs to follow in order to meet its objectives. These standards can be applied to any organization, large or small, whatever the product or service and regardless of the sector of activity. Examples of management system standards, developed include asset management (ISO 55001), business continuity (ISO 22301), energy management (ISO 50001), environmental systems (ISO 14001), and risk management (ISO 31000). Even compliance management is guided by a global management system standard (ISO 19600) and a regional one (AS3806).

Ethical compliance sits at the core of any compliance framework and includes responsibilities towards an organization's employees, customers, shareholders, stakeholders, communities, and the marketplace. There aresignificant challenges in this dimension since ethical expectations and practices may be different across geographies and cultures across the globe.

Persistent non-complianceis witnessed across industries and locations

A closer look at the compliance efforts and resource allocationreveal a visible gap between the former and the latter. The reason for this gap goes way beyond management's reluctance to invest in this space. Some of the reasons for the current situation which are set out in the paragraphs that follow:

The threat of noncompliance is not appreciated enough by the C-suite

In a recent global survey by PwC four in five CEOs highlighted 'hyper-regulation' as the biggest threat to business growth. This signifies that there is an appreciation that compliance efforts need to play a pivotal role in the future success of any global organization but when the above statistic is read in conjunction with the fact that only 35% of the Chief Compliance Officers (CCOs) participate in the strategic planning one is left wondering why? Whencompliance risk is accepted as 'real' shouldn't the probable impact of such risk be considered and deliberated while setting future corporate strategies? Even in the C-Suites perhaps there is alack of understanding on the criticality of compliance and the adverse impact it can have if not assessed properly while making future business decisions.

The what, how and who of compliance arevery often not well articulated

It is surprising but true that three very basic requirements around compliance are often not addressed adequately by most corporate entities. A significant number of organizations are not aware of their compliance universe (what?), consequently these organizationsare not aware of the roles and responsibilities of the key members of the management team in respect of compliance (who?) and logically then such organizations often struggle to define their response plans in respect of their compliance needs.

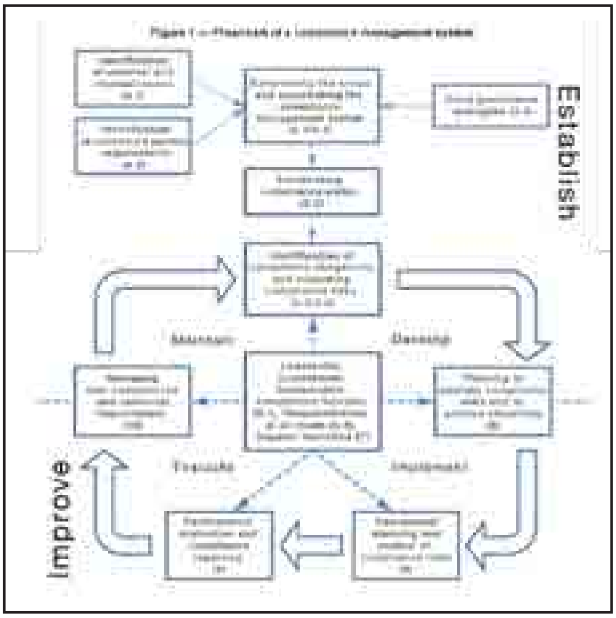
Image of a compliance function is unable to attract the right talent

To ensure that the compliance function is dynamic and vibrant and attracts top talent–the CCOsneed to provide attractive career opportunities for the staff members manning the department, which most CCOs agree is a rather challenging task. In general periodic rotation to the Compliancefunction is not considered an attractive career advancement option by most employees. Toattract and retainthe right talent for the compliance jobs it is imperative todemonstrate that people who join the functionare able toadvance their careers within or outside the function. However, an alternate school of thought that is gaining momentum off late recommends mandatory rotation for management team members across the organizationinto the compliance functions prior to taking up senior management roles so that the strategic value of compliance is understood and appreciated at the 'right' levels of the organization.

Gold standards in Compliance – Global and regional

Organizations are mostly reactive to their compliance needs, until the notice or warning is received it is assumed that things are working as intended. However operating across the globe in multiple jurisdictions with varied level or maturity and complexity, the need is being felt for developing a framework that allows a logical approach to compliance needs. The global and/or regional management standards on compliance are capable of providing guidance for a sustainable effort.

The global standard for compliance is ISO 19600 Compliance Management Systems. Issued in 2014, this 'guidance' standard provides direction for establishing, developing, implementing, evaluating, maintaining and improving an effective and responsive compliance management system within an organization. It covers areas such as understanding the compliance needs, obtaining leadership commitment, developing structures to ensure compliance (P&Ps that include what, when, how and by whom), training, consistent application, monitoring performance and continuous improvement.This is a relatively new standard but provides principles that can be adopted and adapted based the needs of an organization.



Courtesy: ISO 19600 of 201

The Australian standard on compliance, AS 3806 titled"Compliance Programs" issued in March 2009 also provides guidance on compliance matters. Again principle-based in construction, the standard highlights the key requirements of a successful and sustainable compliance program. Divided into four different sections the standard highlights key principles in respect of Commitment, Implementation, Monitoring and Measuring and Continuous Improvement.

The section on Commitment sets down the imperatives that Compliance requires support and mandate from the Board and Senior Management. There is emphasis on alignment of the program with the organization's strategy and endorsement of the same by the Board, the need for appropriate resource allocation, defining of the objectives of the program with appropriate endorsement and requirement of identification and assessment of the compliance needs.

Implementation outlines the requirement for articulating and assigning responsibilities, identification and execution of training to ensure readiness, promoting the 'compliance' culture and setting of mechanisms to ensure consistency in ensuring compliance.

The section on Monitoring and Measuring mainly deals with the need to monitor, measure and report the performance of the compliance program and maintenance of proper documentation to support the same.

The last section, Continual Improvement, aims to remind that no program can continue to work forever without the necessary tweak to address the changes in the internal and external environment, so periodic reviews for relevance is unavoidable.

The principles for both standards are logical, with proper intent and commitment implementable. Since the standards are principle based, they are scalable and applicable to all industries irrespective of their structure and location.

The future - shall we continue to learn the hard way?

Today we are connected globally, the world is extremelymore complex than it was even a decade and a half ago, the economic powers have shifted, laws and regulations, governance standards and practices, contractual relations have become far more complicated due to higher expectations from stakeholders – the requirement for a robust compliance program is here to stay and likely to grow. Organizations, irrespective of their industry, location and profile must start to think about compliance differently, accept its importance, allocate appropriate resources and implement strong monitoring systems. Even a decade ago such expectations were best practices but now these are necessities. Some of the headlines in the recent years will further elaborate why we must all accept that compliance has come to stay! Some of the most well-known companies in the world have burnt their fingers by partaking non-compliant activities as a means of furthering business interests. In the following paragraphs a random selection ofrecent occurrences is highlighted:

- ***Alstom to pay record $772 million to settle bribery charges*** – The French firm Alstom SA has pleaded guilty and will pay $772 million in criminal penalties to settle charges with the U.S. Justice Department alleging the company bribed government officials to win business around the world. (Non-compliance with FCPA, Code of Conduct) – 22 December 2014.

- ***Canberra based construction company fined $1.1 million over death of truck driver*** – A Canberra construction company has been fined $1.1 million over the death of a truck driver in 2012 under new national work safety laws. Thecompany was found guilty of safety breaches that led to the driver's death, including having posted no signs warning of the power lines or attached flags to the lines themselves.(Non-compliance with OHS laws) 19 August 2015.

- ***BP faces Mexican class action lawsuit over Deepwater Horizon oil spill*** – BP recently agreed a final settlement of $20.8bn with US authorities over the damage caused by the 2010 oil spill in the Gulf of Mexico. The settlement – the biggest pollution penalty in US history – was reached after a federal court found the company guilty of gross negligence. (Non-compliance with environmental laws and regulations) 11 December 2015

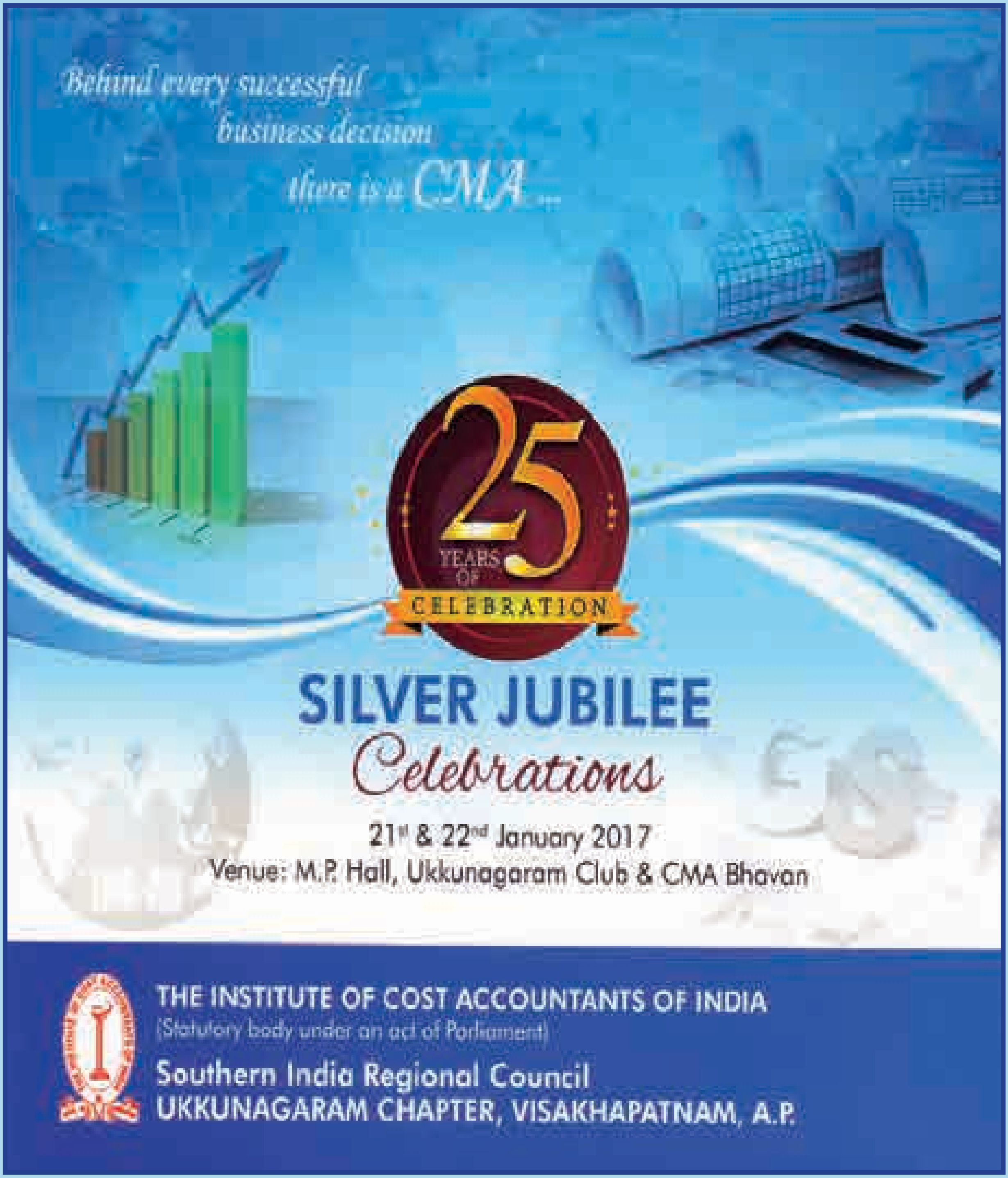
- ***Toshiba Shares Plunge as U.S. Unit Faces Accounting Probe*** - Toshiba Corp. is under investigation by the U.S. over allegations that it hid $1.3 billion in losses at its nuclear power operations, according to two people familiar with the matter. Shares plunged in Tokyo, (Non-compliance with Sarbanes Oxley Act) – 17 March 2016

- ***US finds evidence Volkswagen acted criminally in emissions scandal***–The US justice department is reported to have found evidence of Volkswagen acting criminally in connection with the emissions cheating scandal that plunged the German company into crisis. VW has admitted to deliberately cheating on US diesel emissions tests for several years and this summer agreed to pay $15.3bn (11.8£bn) to its customers and regulators. (Knowingly violating US pollution laws) 16 August 2016.

In conclusion, the compliance needs are manifold, involves active participation by management team members across various functions. While most small and medium sized organizations may not even be fully aware of their compliance universe, even the largest of companies operating across the globe struggle to consistently manage their compliance prerequisites proactively. Currently the situation may be far from ideal but awareness is growing, companies irrespective of their geographical presence are realizing the consequence of 'ignorance' or trying 'no one is looking' practices in the compliance space. Companies are aiming to build expertise, investing in training programs, introducing awareness campaigns – overall moving in the right direction.

Only time can tell whether the efforts are keeping pace with the changing complexitiesin the global compliance landscape, daily experiences and frequency of published news articles on the subject seems to suggest that the corporate world is perhaps behind the curve, desperately trying to catch up! MA

sanjoy.banerjee@ap.jll.com


Behind every successful
business decision
there is a CMA ...
25
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Celebrations
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Venue: M.P. Hall, Ukkunagaram Club & CMA Bhavan
THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory body under an act of Parliament)
Southern India Regional Council
UKKUNAGARAM CHAPTER, VISAKHAPATNAM, A.P.

REVISED DRAFT GST LAW & IMPACT THEREOF

CMA A. B. Nawal
Chairman
Taxation Committee
Institute of Cost Accountants of India

Revised draft GST Law was put on the public domain on 25th November 2016 and thereafter, whatever suggestions have been received by GST Council were reviewed during GST Council Meetings held during the month December 2016 and finally all the sections of CGST Law & SGST Law have been approved. Similarly, all provisions of IGST Law except for dual control has been approved by GST Council. However, issue of control on the Assessment Adjudications & Audits of the Dealers having turnover less than Rs. 1.5 Cr. has not been finalized since Law Ministry have opined differently than that of demands of State Govt. Perhaps, this issue will be settled in the month January 2017 but winter session of the Parliament has been washed out because political differences on demonetisation and therefore CGST Law & IGST Law could not be tabled in the parliament. Now, it may be tabled in the month of Feb 2017 i.e. Budget Session, but prior to February 2017, issues need to be resolved and therefore meeting the deadlines of Rollout of GST from 1st April 2017 seems to ambitious and difficult.

When GST will be Effective From?

As stated above, it seems to be difficult to implement GST w.e.f. 1st April 2017, since Draft Law could not be converted into the Law and thereafter Industry needs min 2-3 months for studying the provisions and implementing the same. However, in accordance with Constitution 101st Amendment Act, 2016, GST will have to be implemented prior to 16th September 2017 and therefore GST will be implemented not later by 1st Sept 2017, but it will create more hardships to trade and industries to start mind-way and face the issues arising from transitional provisions and also prepare the two sets of accounts prior to 1st Sept 2017 and thereafter. It will be better for industry, if GST is implemented from the start of second quarter i.e. 1st July 2017, so that quarterly accounts are prepared by most of the industries and there will be less hurdles, if it is implemented w.e.f. 1st July 2017 rather than 1st Sept 2017.

What are the changes in the Revised Draft GST Law?

There are major changes in important provisions of the Model GST Law, which has been incorporated in revised Draft GST Law. Fortunately, most of them are positive changes. Those changes are highlighted in the subsequent paras below. However, important change is the new provision which has been inserted in CGST Law.

- **Threshold Limit:** Due to change in definition of aggregate turnover, turnover of non-taxable goods will not be considered for calculating the threshold limit and therefore, threshold limit of Rs. 20 lacs will consist of turnover of taxable goods and exempted goods (it is Rs. 10 lacs for

North State), but will not include non-taxable goods.

- **Interest :** Interest also will not be liable for GST, since, account has been defined in IGST law as an account bearing interest to the depositor, and includes a non-resident external account and a non-resident ordinary account

  Similarly, NBFC has been also defined and interest is the consideration, which is also received in money and money is excluded from the scope of supply of goods & services and hence interest will not be charged.

  New definition of 'Account' has been inserted which refers to bank account. It seems that "interest" may be exempted from payment of GST.

- **Securities Not Liable to GST :** With no specific exclusion to **"Securities"** in the earlier version, there was a general apprehension that securities will be liable to GST. Now, goods has been defined as under :

  "Goods" means every kind of movable property other than money and securities but includes actionable claim, growing crops, grass and things attached to or forming part of the land which are agreed to be severed before supply or under a contract of supply.

- **Actionable Claim & Intangible Property will be considered as goods and not as service:**

  "Actionable claim" shall have the meaning assigned to it in section 3 of the Transfer of Property Act, 1882.

  "actionable claim" means a claim to any debt, other than a debt secured by mortgage of immovable property or by hypothecation or pledge of movable property, or to any beneficial interest in movable property not in the possession, either actual or constructive, of the claimant, which the civil courts recognize as affording grounds for relief, whether such debt or beneficial interest be existent, accruing, conditional or contingent;

  Intangible property has been included in Goods since it has been specifically excluded from services.

  Earlier, in Model GST Law, it was included in the definition of service and now it has been included in the definition of goods but there is no HSN Code available for actionable claim & intangible property and therefore it will be interesting to see that, what HSN code will be used for the same.

- **Registration:** Each taxable person, who is required to take the registration and crossed the threshold limit can apply for the registration. Separate registration has to be taken for each state from where supplies are effected. However, it is the option of the person to opt for separate registration, when the person in engaged in supplies of different goods and services which includes:

  a) the nature of the products or services;
  b) the nature of the production processes;
  c) the type or class of customers for the products or services;
  d) the methods used to distribute the products or provide the services; and
  e) if applicable, the nature of the regulatory environment, for example, banking, insurance, or public utilities.

Wording relating to AS-17 of earlier Draft Model GST law is replaced with actual conditions as mentioned above.

- **Rates of GST :**

  Though rates of the GST are never the part of provision of the act but as promised in the Rajya Sabha by Hon. Finance Minister Shri Arun Jaitely that upper limit of the tax will be part of the law and therefore upper limit of the tax rate of 14% has been provided in Section 8(1) of CGST /SGST Law) and & 28 % on IGST (Section 5(1) of IGST Law) and therefore, now there will be following categories of the tax rates.

Rate of Tax	Expected bifurcation	Remark
Nil (Exempted Supply)	(0% of CGST & 0% of SGST)	Necessity items may be exempted, which are presently exempted in all the states for VAT. Generally, these will be in the range of 80 to 99 items.

Rate of Tax	Expected bifurcation	Remark
5%	(2.5% of CGST & 2.5% of SGST)	Items which are exempted under excise and VAT rate is in the range of 4% to 6% may be covered under this category.
12%	(6% of CGST & 6% of SGST)	Items on which excise duty is 6% and VAT rate are in the range of 4% - 6% may be covered under this category.
18%	(9% of CGST & 9% of SGST)	Majority of the Items, which are not directly needed to the consumer and not covered above will cover in this category.
28%	(14% of CGST & 14% of SGST)	All other items which are directly reaching to the consumer including luxury goods, i.e. white goods and beverages

It is expected Clean Cess and Swachha Bharat Cess will also be additionally imposed on the luxury goods and beverages. Needless to say, no ITC credit will be available on such cess.

- **Change in Definition of "Capital Goods"**

  Definition of capital goods is given below:

  "capital goods" means goods, the value of which is capitalized in the books of accounts of the person claiming the credit and which are used or intended to be used in the course or furtherance of business;

  Earlier definition which was brought from existing cenvat credit rules 2004 has been dispensed with. This will reduce substantial litigations and instant ITC credit will be available on capital goods except for pipelines and telecommunication tower fixed to earth by foundation or structural support including foundation and structural support.

- **Zero rated supply:**

  "zero rated supply" means any of the following taxable supply of goods and/or services, namely

  (a) export of goods and/or services; or
  (b) supply of goods and/or services to a SEZ developer or an SEZ unit.

  Even if, supplies for which GST rate is Nil, ITC credit of inputs will be available.

  Refund of Input Tax Credit will be available if supplies are exported under bond or refund of output tax paid on supplies of goods & services, which are exported will be also available, but similar provision is not applicable for supplies to SEZ Developer and SEZ Unit.

  However, when supplies are made to SEZ Developer or SEZ Unit, it seems that it will not be zero, since in accordance with Sec(17(4) of IGST Law , SEZ Developer or SEZ Unit receiving the supplies will be eligible to claim refund on IGST paid by registered taxable person on such supplies.

- **Meaning & Scope of Supply:**

  Section 3 has been totally revised and restructured, now there are 5 schedules included in the meaning & Scope of Supply.

Schedule	Particular	Remark
Schedule I	Matters to be treated as supply even if made without Consideration	1. Earlier, there was the only wording "Permanent transfer/disposal of business assets" will be considered as supplies even though without consideration but now it has been changed to "Permanent transfer/ disposal of business assets where input tax credit has been availed on such assets". It means there will be no GST applicable when there will be free supplies provided, no ITC credit has been availed. However, when free supplies are made to the related person or distinct person then, GST will be applicable on such supplies. 2. "Temporary application of business assets to a private or non-business use" and "Services put to a private or non-business use" has been removed from this schedule, but considered the same for restriction of ITC credit. 3. Importation of services by a taxable person from a related person or from any of his other establishments outside India, in the course or furtherance of business. Importation of services for personal use has been excluded from the chargeability.
Schedule II	Matters to be treated as supply of goods or Services	No Substantial change.
Schedule III	Activities or transactions which shall be treated neither as a Supply of goods nor a supply of services	This has been aligned with existing provisions of service tax and modification has been made accordingly.
Schedule IV	Activities or transactions undertaken by the central government, A state government or any local authority which shall be treated Neither as a supply of goods nor a supply of services	This has been aligned with existing provisions of service tax and modification has been made accordingly.

Importation of services, for a consideration whether or not in the course or furtherance of business will be chargeable to GST. Earlier even importation of services without consideration was also included and now deleted.

✤ **Composite Supply, Mixed Supply and Principal Supply:**

✔ **"Composite Supply"** means a supply made by a taxable person to a recipient comprising two or more supplies of goods or services, or any combination thereof, which are naturally bundled and supplied in conjunction with each other in the ordinary course of business, one of which is a principal supply;

✔ **"Mixed Supply"** means two or more individual supplies of goods or services, or any combination thereof, made in conjunction with each other by a taxable person for a single price where such supply does not constitute a composite supply;

✔ **"Principal Supply"** means the supply of goods or services which constitutes the predominant element of a composite supply and to which any other supply forming part of that composite supply is ancillary and does not constitute, for the recipient an aim in itself, but a means for better enjoyment of the principal supply;

When there is a Composite Supply, rates will be applicable to supplies which is considered as principal supplies, whereas when there is a mixed supplies, rates will be applicable to the supplies which attract higher rate of tax.

- **Time of Supply on Goods:**

  The deletion of clause "Time of supply shall be the date on which recipient shows receipt of supply in their books" is a very welcome change as it was impossible to adhere to the said condition. Now, when invoice is received or invoice is required to be receive or payment received, whichever is earlier, will be treated as time of supply of goods.

- **Time of Supply on Services:**

  The deletion of clause "Time of supply shall be the date on which recipient shows receipt of supply in their books" is a very welcome change as it was impossible to adhere to the said condition. Now, when invoice is received or invoice is required to be receive or payment received, whichever is earlier, will be treated as time of supply of goods except for supplies from associated enterprises. In that case, existing provision will apply.

- **Allowability of Input Tax Credit (Section 16):**

  "Input & input services" definition has been amended and therefore input used or intended to be used in the course or furtherance of business will be eligible for credit even if not used for outward supply. This will avoid litigation.

  Input service used or intended to be used in the course or furtherance of business will be eligible for credit even if not used for outward supply. This will avoid litigation.

Allowability of following input tax credit in the Revised GST Law:

✓ Pipelines and telecommunication tower fixed to earth by foundation or structural support

✓ Works contract services input credit if it is an input service for further supply of Works contract service

✓ Food and Beverages, Outdoor Catering, beauty treatment, health services, cosmetic and plastic surgery for making an outward supply of same category of goods and services

✓ Rent-a-cab, life insurance, health insurance where the same is notified by Government to be obligatory under any law for the employer

Further, Plant & machinery has been defined in the explanation as under :

> **'Plant and Machinery'** means apparatus, equipment, machinery, pipelines, telecommunication tower fixed to earth by foundation or structural support that are used for making outward supply and includes such foundation and structural supports but excludes land, building or any other civil structures.

Therefore, Input credit also will be allowed on foundation and structural support.

- **Job Work:**

  Now no permission will be required to be taken for sending goods to job worker. Only intimation will be required.

  Times limit for bringing goods back is 1 year for inputs and 3 years for capital goods other than moulds, dies , jigs and tools.

- **No interest on Wrong Payment of Tax (CGST & SGST as against IGST and vice-a-versa:**

  Section 19 of IGST Act clarifies that in case of wrong payment of tax under CGST / SGST instead of IGST and vice- versa, no interest will be payable for delay on payment on correct tax.

- **Refund:**

  Refund will be granted immediately, when application is made with all required documents to the extent of 90% as against 80% and balance 10% will be given within 60 days as against 90 days.

  Even the recipient or any person who has borne the incidence of tax can apply for the refund with 6 months from the issue of order

- **Transitional Provision:**

  Provisions relating to Transitions has been amended so as to avoid double taxation on the stocks lying with registered dealers (1st Stage Dealer, 2nd Stage Dealers, Import Dealers). Further, ITC credit will be allowed on the followings:

- ✓ Credit of Eligible duties and taxes in respect of input and input services during transit
- ✓ Refund claims filed after the appointed day for goods cleared or services provided before the appointed day & exported before or after the appointed to be disposed of under earlier law
- ✓ Transfer of unutilsed cenvat credit by taxable person having centralised registration under earlier law
- ✓ Cenvat credit reversed under earlier law due to non-payment of consideration within a period of three months, can be reclaimed if payment is made within three months from the introduction of GST

Anti-Profiteering Measure:

Section 163 of CGST Law provides that:

Quote

The Central Government may by law constitute an Authority, or entrust an existing Authority constituted under any law, to examine whether input tax credits availed by any registered taxable person or the reduction in the price on account of any reduction in the tax rate have actually resulted in a commensurate reduction in the price of the said goods and/or services supplied by him.

The Authority referred to in sub-section (1) shall exercise such functions and have such powers, including those for imposition of penalty, as may be prescribed in cases where it finds that the price being charged has not been reduced as aforesaid.

Un-Quote

In other words, each taxable person under GST Law will have to do the "IMPACT ANALYSIS" on his business to find out due to changes in existing tax regime, what are the additional benefits he will be able to get by way of ITC Credit, no retention and different taxes for which no set off was allowed. Similarly, what will be the savings on account of input tax and output tax? Savings will have to be worked out considering that there will be no cascading effect on account of followings:

- ✤ Tax on Tax
- ✤ SAD to Service Provider
- ✤ VAT Credit to Service Provider
- ✤ VAT Retention for Stock Transfer and less credit for capital goods
- ✤ Cenvat Credit on Input Services to Trader
- ✤ Central Sales Tax
- ✤ Entry Tax
- ✤ Purchase Tax

Similarly, additional tax burden, if any also will have to be worked out considering new provisions of Model GST Law. If there is a savings then such savings will have to be passed on to the customer and that will be the legal requirement to demonstrate that savings have been passed on to the customers otherwise penal provisions will attract.

In view of the above, each taxable person will have to do impact analysis and keep the same as part of books of account and use the same towards the compliances u/s 163 of CGST Law. Same provisions have been made applicable to SGST Law and IGST Law.

Even though, there is uncertainty whether GST will be made effective from 1st April 2017, there is a need to start the GST implementation work immediately and do the changes in the Business Strategies and Business Systems including Supply Chain, Accounting & IT System. Cost Accountants can play vital role in providing their services to trade and industries. MA

nawal@bizsolindia.com

FINANCIAL ACCOUNTING PRACTICES IN MSMEs

Prof. Nikhil Bhusan Dey
Professor of Emirates
Assam University, Silchar

Dr. Brajesh Kumar
Assistant Professor
Assam University, Silchar

Md. Safiqul Hassan
Assistant Professor
Ananda Chandra College of Commerce
Jalpaiguri

In India role of micro, small and medium enterprises (MSMEs) in the economic and social development of the country is well recognised. MSME sector is a nursery of entrepreneurship, often driven by individual creativity and innovation. This sector contributes 37.54 per cent of the country's GDP, 37.33 per cent of the manufactured output and 40 per cent of total exports. The MSME sector provide employment to about 117 million persons through 51 million enterprises. The labour to capital ratio in MSMEs and the overall growth in the MSME sector is much higher than in the large industries. MSMEs are more evenly distributed in different geographic parts of the nation. Thus, MSMEs are important for the national objectives of growth with equity and inclusion. (Annual Report 2015-16, Ministry of Micro Small and Medium Enterprises, Government of India.)

Considering the importance of MSMEs for the socio-economic development in India and for any other states, a study was conducted in Tripura (small state in the north-eastern part of India) to know the status of financial accounting practices by the owner/manager of MSMEs.Several previous studies of different countries proved that systematic accounting practices helps to manage and run the small business in right directions and no such studies of this kind had been done in Tripura. Purpose of this study were to judge the perceived awareness level and the current uses of financial accounting tools by the owners/managers of MSMEs in Tripura.

Review of Literature

Several studies have been conducted in developed countries like USA, Australia and many European countries to examine the use of accounting information by small entrepreneurs (for example, Black, 1950; Barrow, 1988; Harmon, 1979; Rausch,1982; McMahon, 1986; Meredith, 1986; Walker & Petty, 1986; Mirza, 1983; Williams, 1986; Holms, 1986;Ratnatunga et al. 1993). In journals of small business, many articles strongly advocated the use of financial analysis for small business units (Mayo &Rosenbloom, 1975; Konstans& Martin, 1982; McMahon & Davies, 1994).

Study on small business at West Midland, UK (Nayek& Greenfield, 1994) shows that firms which do not do well, is not because of lack of business records and lack of awareness of key business factors, but due to the lack of adequate accounting knowledge and proper financial records. Comprehensive financial reporting and analysis should generally lead to improved financial control and that this is itself could significantly increase the chances of a small enterprise (business) prospering through growth (McMahon & Davies, 1994).

Study conducted in PNG, shows that there is a big gap between the owners/managers awareness and the use of financial management controls/techniques. It seems SME owners/managers are venturing into business without proper financial "know-how". Even owners/managers who are aware of financialmanagement controls/techniques are somehow restricted from using them to effectively manage their enterprises (Siop& Ahmed, 2000).

Large number of small and tiny business units do not maintain even proper books of accounts, which are necessary for proper control of the business. Past experience and intuition plays important role in financial decision making. Among the other factors, the non-use of financial tools and techniques for financial decision making has resulted in a variety of financial problems, which the small unit faces (Vinayak, 1987).

Das & Dey (2010) conducted study about the uses of financial accounting tools techniques among the small business owner/ managers of North-Eastern region of India. They discovered that only 12 out of 27 financial & management accounting tools and techniques were known to owner/ managers. Out of these 12 known instruments excepting cash book, creditors book and debtors book (100% aware), the awareness level on other techniques were very low.

Objectives of the Study

Major Objectives of the present study are as follows:

To assess the level of perceived awareness of the owner-manager of MSMEs about the tools and techniques of accounting system.

To examine the pattern of managerial use of the accounting tools and techniques by the micro, small and medium enterprises.

Research Methodology

A schedulesurvey was made to collect empirical datafor this research. The questionnaire based on previous studies, though some extensions and modification were made to make it appropriate for Tripura MSMEs. The main focus of the survey instrument is on the owners/managers awareness and the use of financial control and techniques. Respondents were asked to indicate frequency of use of 20 financial accounting tools using five point Likert- type scale (1 indicating never and 5 indicating very often). They were also asked to rate the importance of each technique/practice using either 'not important', 'moderately important', or 'important'.These twenty questions were then categorised under two broad subtitles, namely (1) Financial accounting practices (13 questions)and (2) Accounting tools used to monitor/track financial performance and profitability (7 questions).

There are 2289 MSMEs (Source: DIC- West Tripura, North Tripura, South Tripura &Dhalai) in Tripura as per the definition of MSME Act 2006. Out of these total population 330 sample MSMEs has been surveyed to collect the empirical data.

Summary of statistics for financial accounting practices are presented in a tabular form (Table-1&3) by percentage of respondents of surveyed MSMEs of Tripura. Descriptive results for the uses and importance of tools & techniques of financial accounting system are also presented in tabular form (table-2 & 4), the ranking of techniques for the usage is based on mean value, which shows the average score of each individual technique based on five-point Likert scale (S1 to S5). Ranking of importance for the same accounting tools & techniques has been done in a same manner as usage but by using three point scale (NI: not important=1, MI: moderately important =2, I: important=3). The standard deviations are also provided for each cases to show the extent of diversity of responses.

Survey Findings

This section will investigate in details use of tools & techniques of financial accounting practices and also judge the degree of importance of each tools & techniques among the responding firms. Table-1 and 2 shows percentage of responses and summery of statistics for financial accounting tools & techniques in details.

Table: 1Financial accounting practices: summary of statistics shown by percentage of respondents

How Important?				Financial Accounting Practices	How often used?					
n	NI	MI	I		n	S1	S2	S3	S4	S5
330	19.09	4.24	76.67	Cash book	330	26.06	14.85	45.15	13.03	0.91
330	35.15	3.03	61.82	Sales books	330	45.76	17.58	23.94	12.12	0.61
330	50.00	5.76	44.24	Purchase books	330	61.52	12.73	15.45	9.70	0.61
330	51.21	6.36	42.42	Expenses books	330	61.82	12.42	16.36	8.79	0.61
330	71.21	6.67	22.12	Provision for depreciation	330	79.39	6.06	8.18	6.06	0.30
330	70.30	5.76	23.94	Fixed asset register	330	77.58	5.45	9.39	6.97	0.61
330	60.30	3.33	36.36	Stock book for materials	330	67.88	7.27	13.33	10.61	0.91
330	15.45	1.52	83.03	Debtors book	330	17.88	0.91	31.21	47.88	2.12
330	16.97	1.52	81.52	Creditors book	330	19.39	1.21	31.21	46.36	1.82
330	12.42	1.82	85.76	Profit & Loss Account	330	13.33	2.42	61.21	22.42	0.61
330	27.58	2.73	69.70	Balance sheet	330	31.21	7.27	41.82	19.09	0.61
330	90.00	3.64	6.36	Cash flow analysis	330	93.33	1.52	2.73	2.42	0.00
330	82.12	3.03	14.85	Computer for recording business transaction	330	86.97	1.52	5.76	5.45	0.30

Source: Primary data collected by researcher using schedules

n:number of respondents(330), NI: not important=1, MI: moderately important =2, I:important=3, S1:never, S2: rarely, S3: sometimes, S4: often and S5: very often

Table: 2 Descriptive statistics for financial accounting practices

Financial Accounting Practices	n	Importance [a]			Usage [b]		
		Mean	Std. Dev	Rank	Mean	Std. Dev	Rank
Debtors book	330	2.68	0.73	2	3.15	1.12	1
Creditors book	330	2.65	0.75	3	3.10	1.15	2
Profit & Loss Account	330	2.73	0.67	1	2.95	0.90	3
Balance sheet	330	2.42	0.89	5	2.51	1.14	4
Cash book	330	2.58	0.79	4	2.48	1.04	5
Sales books	330	2.27	0.95	6	2.04	1.11	6
Purchase books	330	1.94	0.97	7	1.75	1.07	7
Expenses books	330	1.91	0.96	8	1.74	1.06	8
Stock book for materials	330	1.76	0.95	9	1.69	1.11	9
Fixed asset register	330	1.54	0.85	10	1.48	0.96	10
Provision for depreciation	330	1.51	0.83	11	1.42	0.90	11
Computer for recording business transaction	330	1.33	0.72	12	1.31	0.83	12
Cash flow analysis	330	1.16	0.51	13	1.14	0.57	13

From the survey result it is observed that 50% of MSMEs owner/manager maintains debtors book to keep credit sales information (considering responsepercentage of options often and very often). This result is followed by creditors book with 48.18%, profit & loss account with 23.03%, balance sheet with 19.70%and cash book with 13.94% response rate.Though sales book, stock books for materials, purchase book, expenses book, fixed asset register, provision for depreciation, computer for recording business transaction and cash flow analysis are among the important tools of accounts but their usage rate are very less among the responding MSMEs of Tripura.

From importance aspect profit & loss accounting got the 1st rank with 87.58% response rate, this result followed by debtors book, creditors book, cash book and balance sheet with 2nd rank (84.58%), 3rd rank (83.08%), 4th rank (80.91%) and 5th rank (72.42%) respectively. Importance of the remaining accounting tools and techniques are in similar line with the usage rate of these techniques.

The use of accounting tools to monitor financial performance and profitability was investigated using following seven tools of accounting. Table-3 and 4 shows percentage of responses and summery of statistics for accounting tools used to monitor financial performance and profitability in details.

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a Based on 3- point scale (NI: not important=1, MI: moderately important =2, I:important=3)

b Based on 5-point scale (S1:never=1, S2: rarely=2, S3: sometimes=3, S4: often=4 and S5: very often=5)

Table: 3 Accounting tools used to monitor financial performance: summary of statistics shown by percentage of respondents

How Important?				Accounting tools used to monitor financial performance	How often used?					
n	NI	MI	I		n	S1	S2	S3	S4	S5
330	26.36	8.18	65.45	Cash &bank balance	330	30.91	33.33	30.61	4.55	0.61
330	30.00	6.67	63.33	Profit & Loss account	330	36.06	34.55	24.55	4.24	0.61
330	61.21	5.15	33.64	Balance sheet	330	67.88	11.21	16.36	3.94	0.61
330	93.94	2.12	3.94	Cash flow analysis	330	95.45	1.21	2.12	1.21	0.00
330	98.48	0.91	0.61	Fund flow analysis	330	99.39	0.30	0.30	0.00	0.00
330	98.18	1.21	0.61	Comparative financial statement analysis	330	98.48	0.30	0.91	0.30	0.00
330	97.58	1.21	1.21	Trend analysis	330	97.58	0.00	1.82	0.61	0.00

Source: Primary data collected by researcher using schedules

Table: 4 Descriptive statistics for accounting tools used to monitor financial performance

Accounting tools used to monitor/track financial performance and profitability	n	Importance [a]			Usage [b]		
		Mean	Std. Dev	Rank	Mean	Std. Dev	Rank
Cash &bank balance	330	2.39	0.87	1	2.11	0.90	1
Profit & Loss account	330	2.33	0.91	2	1.99	0.92	2
Balance sheet	330	1.72	0.93	3	1.58	0.96	3
Cash flow analysis	330	1.10	0.41	4	1.09	0.44	4
Trend analysis	330	1.04	0.24	5	1.05	0.35	5
Comparative financial statement analysis	330	1.02	0.19	7	1.03	0.26	6
Fund flow analysis	330	1.02	0.18	6	1.01	0.12	7

n:number of respondents(330), NI: not important=1, MI: moderately important =2, I:important=3, S1:never, S2: rarely, S3: sometimes, S4: often and S5: very often

a Based on 3- point scale (NI: not important=1, MI: moderately important =2, I:important=3)

b Based on 5-point scale (S1:never=1, S2: rarely=2, S3: sometimes=3, S4: often=4 and S5: very often=5)

It can be seen (table-4) that 5.16% of the responding firms either often or very often uses cash & bank balance to monitor financial performance of MSMEs. The importance of this tool was acknowledged by 73.64% of respondents rating it as either moderately important or important. By contrast only a small number indicated the usage of the two techniques (profit & loss account 4.85% and balance sheet 4.55%) for monitoring financial performance, however it seems to have considerable perceived importance; 70% and 38.79% of respondents rated the two forms either moderately important or important.

Comparison of results with those of previous studies

Result of the present study are very much in line with the previous studies, large number of small and tiny business units do not maintain even proper books of accounts, which are necessary for proper control of the business. Past experience and intuition plays important role in financial decision making (Vinayak, 1987).

Study result of Das, A. K. (2006) shows that awareness level for accounting tools & techniques among the small business owner/managers of north-eastern region of India is very low. Except cash book, debtors book and creditors book (where awareness level is 100%) the awareness level for other techniques were very low.

Das & Dey (2010) similar study was conducted again in the same region to judge any development in the use of accounting tools by the small business owners/managers. Outcome of the study was very much similar to the previous study conducted in 2006.

Conclusions

The implication from this study is that there is a gap between the theory of accounting and actual use of accounting tools for managing small business by the owners/managers of MSMEs in Tripura. Most of the respondents in this present study, making less use of financial accounting tools and techniques for systematic record keeping or any kind of financial business decision making. Debtors book is the most used books of accounts, followed by creditors book, profit & loss account, and balance sheet by the owner/manager of the responding MSMEs of Tripura. Cash and bank balance is the most used tools for controlling purpose followed by profit & loss account and balance sheet. Though the users for these accounting tools and techniques are significantly less, perceived to be important for these financial accounting tools and techniques are satisfactory as good number of respondents consider these tools and techniques as either moderately important or important. MA

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Nikhil.b.dey@gmail.com
bpjc08@gmail.com
safiqulhassan@gmail.com

INSTITUTE NEWS

Eastern India Regional Council

The Institute of Cost Accountants of India -Rajpur Chapter

On November 19, 2016 the Chapter organized a whole day seminar at Jamuna Banquet Hall, Kolkata on the theme 'GST - A Good Sovereign Tax - Why & How' and Shri Alok

Samantrai, Regional Director (ER), Registrar of Companies, Ministry of Corporate Affairs, GOI, was the chief guest and Swami Kritathnandaji Maharaj of Ramkrishna Mission, Belur Math was the special guest in the programme. CMA Manas

Kr. Thakur, President and CMA B. Mukhopadhyay, Chairman, EIRC of the Institute were present in the inauguration session. CMA Pulok Saha, Partner (Taxation & Regulatory Affairs), PwC, India, CA Abhisek Tibrewal and CMA Chiranjib Das delivered

in the first technical session of the seminar highlighting the loopholes in the existing indirect tax regime of India. In the second technical session of the seminar, it was explained about the importance of GST throughout India and expert on indirect taxation CMA T.B. Chatterjee, MD & Company Secretary of DIC India Ltd., as well as consultant and author highlighted how industry was facing problem under multi taxation of indirect tax which GST might assist. CA Vivek Jalan clarified on the Input Tax Credit system of GST which is a very crucial and relevant concept.

The Institute of Cost Accountants of India -Asansol Chapter

On December 4, 2016 the Chapter organized its Annual Seminar-2016 on the theme 'Economic Reforms Through GST' inaugurated by CMA Manas Kumar Thakur, President of the Institute, Shri A.M. Marathe, Director (Finance), ECL, Shri K.S. Patro, Director (Personnel), ECL, CMA Bibekananda

Mukhopadhyay, Chairman, EIRC and CMA Rambabu Pathak, chairman of the chapter. The speakers for the technical session were CMA Shailendra Saxena, Management Consultant and

CMA BB Chakrabarti, Ex-Professor of Finance, IIM Calcutta and they focused on how GST will bring about Economic Reforms in India. Delegates from ECL, BCCL, ISP-SAIL, BSCL, DPL, Dhanbad Chapter, Durgapur Chapter, Ranchi Chapter etc participated in the seminar.

Northern India Regional Council

The Institute of Cost Accountants of India -Jaipur Chapter

On November 26, 2016 the Chapter organised a Seminar on 'Demonetisation and its Impact'. Leading Chartered

Accountant, Shri Sudhir Bhansali, the key speaker of the seminar explained in detail various aspects of Demonetisation and its impact on public, business and economy of the country. He advised the professionals to give proper guidance to their

clients keeping in mind the national interest so that it may not be misused. Career Awareness and counselling programmes had been conducted by the chapter at various schools and colleges during the month of November 2016.

The Institute of Cost Accountants of India -Faridabad Chapter

The Chapter organized a seminar on 'GST-Overview and System Integration for CMA profession in the light of Company's Act 2013' on September 18, 2016. CMA M.R. Handa, ex-chairman of the chapter briefed about the history and concept behind establishment of the Institute since its initiation. He delivered a motivational lecture to all the young members for their personal and professional development. First technical session was on GST-Overview, conducted by CMA Sachin Kathuria, who deliberated extensively on silent features of GST & benefits of proposed tax to assessee and Govt, subsuming of existing taxes in it, registration criteria, and valuation of taxable supply, types, frequency & steps of return filing, role of dealers & Govt., impact on business area and role of professionals. Second session was on integration with system or tools of reporting conducted by CMA Jaya Agarwal who dwelled on fundamentals of ERP, how it works, before & after ERP, benefits and risk of implementation, challenges and best practices of ERP.

Southern India Regional Council

The Institute of Cost Accountants of India-Hyderabad Chapter

On November 11, 2016 a programme on 'Forensic Audit – Digital Evidence' had been conducted by

the chapter where CA Kranthi Kumar, Practising Chartered Accountant was the speaker. The program aimed at educating the members about the implications of forensic audit. The speaker detailed about how frauds go on in a computer based environment and the various ways and tools used for

detecting them. On November 25, 2016 a panel discussion on 'Impact of Demonetization' was held at CMA Bhawan and CMA Manjula Kannan, Consultant, Vantage Management Consulting highlighted how the general public was impacted with regard to interest rates, inflation, purchase of goods, agriculture and farmers etc. CMA N Gopalakrishnan, C/o Zen Insurance Brokers Pvt Ltd. talked about how the stock markets were affected and how demonetization led to changes in business models. Sri A.L. Nageshwar Rao, Banking Expert talked about structural reforms needed in banking, challenges faced by the banking sector and how being citizens, there prevails a social responsibility in development of the nation. Several career awareness programmes were conducted on various dates of November 2016. The Chapter conducted 'Cost Consciousness Week' by organizing programmes at three colleges situated at Hyderabad on 02nd, 06th & 07th December, 2016. CMA D. Surya Prakasam, chairman of the chapter, CMA K.V.N. Lavanya, vice chairperson, CMA Dr. R. Chandra Sekhar, secretary and CMA D. Zitendra Rao, member, SIRC addressed the gathered students and explained how to face the challenges and balance in cost competitive world. The programme had been observed to bring awareness amongst the cross-sectional people of the society.

The Institute of Cost Accountants of India-Bangalore Chapter

On November 11, 2016 a Professional Development Meet had been organized by the Chapter on The Real Estate Regulation and Development Act-2016 and Shri S. Suresh Hari,

Secretary (CREDAI) and Mr. A V Manjunath, Chairman IOV were the speakers of the Meet. On November 18 and 19, 2016 a two days workshop on 'Goods and Service Tax' was held at the chapter premises and Mr. Basavaraju, Mr. Sriram, Mr. Prakash.,

Mr. Kodandaram, CMA Girish, Mr. Vikram Huilgol were among the members who conducted the workshop. On November 26, 2016 another Professional Development Meet held on Income Computation and Disclosure Standards (ICDS) and CA N Nityananda, CA K Gururaj Acharya., CA Manohar Gupta., CMA N Ramaskanda were the speakers of the Meet. On December

1, 2016 another more Meet held on Indian Economy and GST and CMA Sanjay Kumar Singh, Chairman, Ranchi Chapter were the speakers of the Meet. On October 27, 2016 a Practitioners' Forum Meet held on 'Valuation of Current Assets-Bank Debts & Stock Verification for Banks' at the chapter premises conducted by CMA Prasanna Kumar, Practicing Cost Accountant. Another

Practitioners' Forum Meet held on November 4, 2016 on 'Service

Sector-Challenges in Cost Audit & Practical Issues' during conduct of Cost Audit 2015-16 at its premises and CMA Murali Krishna K R, and CMA B S Manjula, Practicing Cost Accountant were the speakers of the Meet. On December 12, 2016 one more Practitioners' Forum Meet on 'Discussion of Model GST Law (Revised)' was held at its premises. CMA Ashok B Nawal, Council Member and CMA Vishwanth Bhat Past Chairman of the chapter were the speakers of the Meet. On November 27, 2016 Maiden Golden Jubilee Commemorative Lecture on 'Make in India-CMA's Perspective in ISRO' held at Le-meridian Hotel, Bangalore and Shri A.S. Kiran Kumar, Chairman, ISRO was the speaker of the programme. From November 7, 2016 till November 9, 2016 DPE Training Programme on 'Understanding of Financial Statements and Annual Report' held by the chapter and inaugurated by CMA Girish k, chairman of the chapter and training sessions handled by CMA P. Ravi, CMA.T.A Shivakumar and CMA Satish R. From November 21, 2016 till November 25, 2016, DPE HRD Training Programme for Executives of state PSUs at Belur organized by the chapter attended by CMA Satish R, CMA N R Kaushik, secretary of the chapter, CMA Girish K, chairman of the chapter, CMA P. Ravi, DGM (Finance), CMA T.A. Shivakumar. Career counselling programmes were held at different colleges of Bangalore on different dates of December 2016.

The Institute of Cost Accountants of India-Visakhapatnam Chapter

On December 7, 2016 the Chapter organized Cost Consciousness Week - Professional Development

Program on 'Demonetisation of Currency – A Threadbare Analysis' at its premises. CMA K.N. Hari Hara Prasad, Dy Director (COST) in Central Excise and Customs was the speaker for the session. The speaker explained about Demonetisation effect initiated by the government and CMA S. Ramprasad, CMA V.J Gupta , CMA U. Lakshmana Rao, CMA D.V.V Gopi Krishna and other members participated in the program.

The Institute of Cost Accountants of India –Mysore Chapter

To commemorate the Golden Jubilee year of the Chapter, a seminar was organized on the theme 'Make in India –

Relevance of Cost Management' and 'Current Development in GST' on November 12, 2016. CMA P. Thiruvengadam, a retired Senior Director, Management consultancy services, Deloitte Touche Tohamatsu India Pvt. Ltd, was the resource person of the

first Technical session. He provided a vivid description on 'Make in India – Relevance of Cost Management'. Mr G. Shivadass, a

Principal Partner of Firm Lakshmi Kumaran & Sridharan, Bangalore was the resource person of second technical session on the theme of 'Current Development in GST'. He emphasized the necessity for GST which has the potential for improving GDP and to provide better business atmosphere as well as reduction of MRP of the product to the ultimate customers.

The Institute of Cost Accountants of India – Trivandrum Chapter

On November 6, 2016, the Chapter organized a Professional Development Programme on the theme 'Enterprise Risk Management – Banking Industry' and the guest

speaker was Sri Dinesh Kadakal, MBA, Former Deputy General Manager, Union Bank of India. The speaker elaborated about various risks faced by organisations, particularly by the banking industry. He also emphasized the role of CMAs in identifying probable risks and suggested actions for reducing them.

The Institute of Cost Accountants of India-Cochin Chapter

On October 1, 2016 the Chapter conducted an evening programme on 'Funding Options From Banks - Opportunities and Challenges'. CMA Jiz P Kottukappally, a senior banker led the seminar. The Chapter conducted a full day programme on 'GST Implementation – Let Us Be Ready For The

Roll Out' on November 8, 2016 at Center for Excellence – Cochin. CMA Manas Kumar Thakur, President of the Institute presided over the programme and inaugurated by Sri Pullela Nageswara Rao, Chief Commissioner, CBEC. CMA H Padmanabhan, Council Member felicitated on the occasion and CMA Pushpy Muricken, secretary of the chapter expressed vote of thanks.

The valedictory function was inaugurated by Shri Sivan Kutty, DC, Intelligence, Commercial Tax Dept. CMA Ashok Nawal, Council Member and Chairman, Taxation Committee and CMA (Dr) Anil Anikhindi, Practicing Cost Accountant were the eminent

speakers of the programme. The Managing Committee has decided to conduct weekly study circle meeting at the chapter for effective sharing of knowledge on GST among the members. The first study circle meeting was held on November 16, 2016.

CMA Padmakumar V K, MC member was the moderator of the programme. Second study circle meeting was held on 25th

November 2016 on the topic 'Incidence of Tax in GST'. Third meeting was held on December 2, 2016. CMA Sankar P Panicker, Member SIRC was the moderator and discussed on 'Definition and Place of Supply of Goods'. As per the direction, the Chapter took part in the celebration of the Swachh Bharat Mission - Baal Sahbagita on November 14, 2016.

The Institute of Cost Accountants of India-Coimbatore Chapter

On November 19, 2016 the Chapter conducted a PDP meeting on the theme 'ISO 9001 : 2015 QMS – Transition Benefits' and CMA S. Thangavelu, ISO Lead Auditor, Consultant & Certified Sustainability Assurance Practitioner was the speaker of the programme. 83rd session of oral coaching

commenced with inaugural function on November 3, 2016. The Chapter celebrated Swachhta Diwas – 'Baal Sahbagita' on November 14, 2016 at Ramnagar Sub-urban Matriculation School, Coimbatore. During November 2016, various career counselling programs were conducted by Chairperson CMA Meena Ramji at various schools in Coimbatore.

Western India Regional Council

The Institute of Cost Accountants of India-Navi Mumbai Chapter

On November 20, 2016 the Chapter conducted a CEP on 'Impact of Demonetization'. CMA Abhishek Kumar Singh from India Government Mint, Mumbai spoke on the said topic and he detailed about monetisation, demonetisation, re-monetisation and withdrawal.

The Institute of Cost Accountants of India-Surat South Gujarat Chapter

On November 19, 2016 the Chapter organized a Press Meet, as per guidelines by President of the Institute, CMA Manas Kumar Thakur with local media at Chapter's

Conference Hall. CMA Manubhai Desai, chairman of the Chapter and CMA Amish Parmar, treasurer of the chapter

represented from the Chapter's side and gave message of the institute on Demonetization and assured on behalf of all CMAs to walk shoulder to shoulder with government of India and extend the professional expertise for reshaping the economy. On November 27, 2016 the Chapter organized a CEP on 'Is it Demonetization?-Impact & Issues' at its office. CMA Abhishek Kumar Singh, India Government Mint, Mumbai, the Faculty for the CEP dealt in details about the theme and discussed in details the impact and issues on the economy of common mass at large and impact on taxation and capital market.

The Institute of Cost Accountants of India-Ahmedabad Chapter

The Chapter on November 15, 2016 organized CEP Programme on 'Impact on Indian Economy due to demonetization High denomination currency'. Senior Prof. Shri Hasmukh Shah explained effect on Indian Economy in coming

year and CMA Pradip Tulsian explained about various income tax section, where it will effect. There is also interaction with the members for clubbing of Income. On November 17, 2016 the Chapter started help desk to facilitate common people for filling form for exchange of currency note and cash deposition at UCO Bank, Ellisbridge, Ahmedabad branch.

The Institute of Cost Accountants of India-Pimpri-Chinchwad-Akurdi Chapter

The Chapter conducted series of CEPs on GST – Implementation from November 12, 2016 till November 26, 2016 at CMA Bhawan, Pune. On November 12, 2016, CMA L D Pawar, RCM and Secretary, WIRC and CMA Pradeep Deshpande were the speakers of the session and CMA L D Pawar explained how to do provisional registration under GST and what requisite steps to be followed both at MVAT and GST site. On November 19, 2016 CMA L D Pawar, RCM and Secretary, WIRC, CMA Pradeep Deshpande and CMA Mahindra Bhombe were the faculties for this session. CMA L D Pawar focused on understanding the basic concepts of GST and also explained the documents required at the time of registration under GST. On November 26, 2016 CMA Pradeep Deshpande explained about changes in revised model GST law published by government. The Chapter opened help desk center for demonetization at bank premises to help the common man

who is standing in long queues at banks to deposit, exchange or withdraw his hard earned money by showing good gesture of filling in the cash withdrawal / exchange form, educate them about the new currency regime. CMA Kaushik Banerjee, Secretary of the Institute declared November-2016 as CMA Career Counseling Month which is an opportunity for Regions, Chapters and CMASC to educate and aware the students in particular and society at large about CMA Profession and in view of this, the chapter conducted a career counselling programme on November 28, 2016.

The Institute of Cost Accountants of India-Aurangabad Chapter

On November 25, 2016 the Chapter conducted a seminar on 'Recent Trends in Cyber Laws & Security' and Adv. Shrinivas Kulkarni, High Court, Aurangabad was the speaker of the seminar. Adv. Kulkarni explained about the various increasing trends in cyber crimes due to digitalization along with the provisions of laws. The program was attended by various industrialists, senior corporate managers, CMA members of the chapter, professors from Aurangabad Colleges like S.B , Deogiri and Vivekanand College and from JES College of Jalna, Moreshwar College of Bhokardan, M.S.S College of Ambad along with other respected dignitaries. On November 26, 2016 the chapter discussed the issue of demonetization and

its impact on Indian Economy at CMA Bhawan. CMA Suresh Pimple, CMA R.D. Khandalkar, AGM IDBI Bank and CMA Rajendra Zanvar were the panel experts. CMA M.R. Pandit initiated the discussion describing the back ground and raised the matter that how black money is created in economy and how the life of citizens is affected by the menace of it. The panel discussed the short term and long term impact of the decision on Indian economy. However, in long run the economy will prosper, since cheap capital will be available to businesses

from bank and also from market. This will increase demand and employment. Black money even if not fully curtailed but will be reduced as black money is not fully in cash but in other assets also. However, the Government taking other slews of measures like Real Estate Regulatory Authority bill, Benami Property bill etc. which will further reduce the black money. Chairman of the chapter, CMA Bisheshwar Sen concluded the discussion and secretary of the chapter, CMA Girija Sankar Swaro expressed the vote of thanks.

NON - RECEIPT OF THE MANAGEMENT ACCOUNTANT JOURNAL

Members who fail to receive The Management Accountant Journal due to incomplete/incorrect addresses are requested to inform us at ***journal@icmai.in*** immediately. Such addresses of the members whose journals have been returned undelivered are regularly hosted on the website of the Institute (www.icmai.in) under the 'journal' section.

Please inform the membership department immediately any address update to ensure regular and timely delivery of journals to you. Members can also update their addresses online in the 'members' section. The new address gets automatically updated in the centralized data base of the Institute, from where the journal mailing list is prepared.

DISCUSSION MEET
on
'EFFECT OF DEMONETIZATION ON COST OF DOING BUSINESS'

A discussion meet was held on December 21, 2016 at J N Bose Auditorium, Headquarters, Kolkata jointly organized by the Institute and Financial Express on the topic 'Discussion on Effect of Demonetization on cost of doing business'. Shri KB Vijay Srinivas, General Manager, National Insurance Co. Ltd, CMA Amit Anand Apte, Chairman, Professional Development, Banking & Insurance Committee, CMA Manas Kumar Thakur, President of the Institute, Shri Indronil Roychowdhury, The Financial Express, CMA Biswarup Basu, Council Member of the Institute were among the eminent speakers in the inaugural session of the meet. Chief Guest Shri KB Vijay Srinivas spoke on the concerned theme and said that this demonetization could be a move to digitalization. Demonetization will likely result in people adopting virtual wallets such as Paytm, Ola Money etc. This behavioural change could be a game changer for India. He also added that this gradual transition towards digitization and a cashless economy will definitely help curb corruption in the long run. The increased transparency and record of transactions will make it considerably difficult to hold black money and carry out under-the-table deals.

CMA Manas Kumar Thakur in his keynote address shared his views and said that demonetization is a part of many steps in fighting corruption, black marketing, and financing insurgency. Shri Indronil Roychowdhury narrated that this move has both beneficial and cascading effect on Indian Economy. Small retailers are facing a halt in their businesses and certain hurdles are being faced by all sections of people. This is a new era and result is yet unknown, but the people of India, do welcome such moves that would definitely help in the development of the economy in the long run. CMA Kaushik Banerjee, Secretary of the Institute delivered his vote of thanks in the concerned session. In the panel discussion, Professor Dilip Shah, Dean, Bhawanipur Education Society was the moderator of the session. Shri KB Vijay Srinivas, Shri Dhiraj Chakraborty, DGM, Calcutta Stock Exchange, Shri Tridibesh Bandopadhyay, Founder Director & CEO, InQube Innoventures were the speakers of the Panel Session. In the programme lot of valuable discussions had emerged that were well taken by the audience.

CUSTOMS

Notifications:

Tariff:

- Seeks to further amend notification No.12/2012-Customs dated the 17th March, 2012, so as to reduce import duty on wheat from 10% to Nil without an end date

[Notification No. 60/2016-Cus,dt. 08-12-2016]

- Seeks to further amend notification No. 12/2012-Customs dated 17th March, 2012, so as to withdraw CVD exemption on gold coins having gold content not below 99.5%, and gold findings.

[Notification No. 59/2016-Cus,dt. 01-12-2016]

Non-Tariff:

- Tariff Notification in respect of Fixation of Tariff Value of Edible Oils, Brass Scrap, Poppy Seeds, Areca Nut, Gold and Sliver

[Notification No. 148/2016-Cus (NT), dt. 15-12-2016]

- Rate of exchange of conversion of the foreign currency with effect from 16th December, 2016

[Notification No. 147/2016-Cus (NT), dt. 15-12-2016]

- Appointment of Common Adjudicating Authority by DGRI

[Notification No. 6/2016-Cus (N.T./CAA/DRI), dt. 01-12-2016]

- Notification of Raiganj Railway Station in the district of Uttar Dinajpur, West Bengal as a Land Customs Station.

[Notification No. 146/2016-Cus (NT), dt. 14-12-2016]

- Rate of exchange of conversion of the foreign currency with effect from 2nd December, 2016

[Notification No. 145/2016-Cus (NT), dt. 01-12-2016]

- Tariff Notification in respect of Fixation of Tariff Value of Edible Oils, Brass Scrap, Poppy Seeds, Areca Nut, Gold and Sliver

[Notification No. 144/2016-Cus (NT), dt. 30-11-2016]

- Rate of exchange of conversion of the foreign currency with effect from 30th November, 2016

[Notification No. 143/2016-Cus (NT), dt. 29-11-2016]

- Courier Imports and Exports (Clearance) Amendment Regulations, 2016

[Notification No. 142/2016-Cus (NT), dt. 29-11-2016]

- Regarding appointment of Common Adjudicating Authority

[Notification No. 141/2016-Cus (NT), dt. 29-11-2016]

- Rescinds Publication of Daily List of Imports & Exports Rules, 2004- Notification No. 128/2004- Cus (N.T.) dated 19th November, 2004

[Notification No. 140/2016-Cus (NT), dt. 25-11-2016]

- Amendment to Notification no. 12/97-Customs dated 2nd April 1997

[Notification No. 139/2016-Cus (NT), dt. 25-11-2016]

Anti Dumping Duty:

- Seeks to rescind notification No.08/2013-Customs (ADD) dated 18.04.2013. This notification has been issued since the time limit of three months for issuing the notification is ending shortly. However, the operation of the said rescinding notification shall remain in abeyance, till the final decision of the Honorable High Court of Gujarat in Special Civil Applications 16427 and 16429 of 2016. Therefore, in effect, anti-dumping duty under notification No.08/2013-Customs (ADD) dated 18.04.2013 [imposing anti-dumping duty on the imports of Soda Ash, originating in or exported from Russia and Turkey] will continue to be levied till the final decision of the Honorable High Court of Gujarat in the matter.

[Notification No. 56/2016-Cus (ADD), dt. 21-12-2016]

- Seeks to rescind notification No.34/2012-Customs (ADD) dated 03.07.2012. This notification has been issued since the time limit of three months for issuing the notification is ending shortly. However, the operation of the said rescinding notification shall remain in abeyance, till the final decision of the Honorable High Court of Gujarat in Special Civil Applications 16426 and 16428 of 2016. Therefore, in effect, anti-dumping duty under notification No.34/2012-Customs (ADD) dated 03.07.2012 [imposing anti-dumping duty on the imports of Soda Ash, originating in or exported from

China PR, EU, Kenya, Pakistan, Iran, Ukraine and USA] will continue to be levied till the final decision of the Honorable High Court of Gujarat in the matter.
[Notification No. 55/2016-Cus (ADD), dt. 21-12-2016]

- Seeks to levy definitive anti-dumping duty on Axle for Trailers originating in, or exported from Peoples Republic of China
[Notification No. 54/2016-Cus (ADD), dt. 29-11-2016]

- Seeks to levy anti-dumping duty on the imports of Low Ash Metallurgical Coke originating in or exported from Australia and Peoples Republic of China for a period of five years
[Notification No. 53/2016-Cus (ADD), dt. 25-11-2016]

CENTRAL EXCISE

Notifications:

Tariff:

- Seeks to further amend notification No. 12/2012-Central Excise dated 17th March, 2012, in respect to the excise duty exemption on branded gold coins of purity 99.5% and above.
[Notification No. 36/2016-CE, dt. 01-12-2016]

- Seeks to exempt Point of Sale (POS) devices and goods required for its manufacture from central excise duty till 31st March, 2017
[Notification No. 35/2016-CE, dt. 28-11-2016]

SERVICE TAX

Notifications:

- Seeks to amend Service Tax Rules, 1994 so as to allow a person located in non taxable territory providing online information and database access or retrieval services to a non-assessee online recipient to issue online invoices not authenticated by means of a digital signature for a period up to 31st January, 2017.
[Notification No. 53/2016-Service Tax dt. 19-12-2016]

- Seeks to amend exemption notification No. 25/2012-ST dated 20.06.2012 so as to exempt services by an acquiring bank, to any person in relation to settlement of an amount upto two thousand rupees in a single transaction transacted through credit card, debit card, charge card or other payment card service
[Notification No. 52/2016-Service Tax dt. 08-12-2016]

- Seeks to amend Place of Provision of Services Rules, 2012 so as to exclude 'online information and database access or retrieval services' from the definition of 'telecommunication services'.
[Notification No. 51/2016-Service Tax dt. 30-11-2016]

INCOME TAX

Notification:

- In pursuance of sub-clause (ii) of clause (a) of sub-section (1) of Section 138 of the Income-tax Act, 1961, the Central Government hereby specifies Joint Secretary (Marketing), Ministry of Petroleum and Natural Gas, Government of India, for the purposes of the said clause.
[Notification No. 118/2016, (F.No. 225/305/2016-ITA.II)

- In exercise of the powers conferred by section 199G of the Finance Act, 2016 (28 of 2016), the Central Government hereby–

(1) notifies the Principal Commissioner or the Commissioner, as the case may be, who exercises the jurisdiction under section 120 of the Income-tax Act, 1961 (43 of 1961), as the Principal Commissioner or the Commissioner for the purposes of declaration filed manually or electronically under electronic verification code under sub-section (1) of section 199C of the Finance Act, 2016 (28 of 2016); and
(2) notifies the Principal Commissioner or the Commissioner, as the case may be, who exercises the jurisdiction under section 120 of the Income-tax Act, 1961(43 of 1961) or the Commissioner of Income-tax, Centralised Processing Centre, Bengaluru, as the Principal Commissioner or Commissioner, for the purposes of declaration filed electronically with digital signature under sub-section (1) of section 199C of the Finance Act, 2016 (28 of 2016).
[Notification No. 117/2016, F.No.142/33/2016-TPL]

- In exercise of the powers conferred by sub-section (1) and sub-section (2) of section 199R of the Finance Act, 2016 (28 of 2016), the Central Board of Direct Taxes, subject to the control of the Central Government hereby makes the following rules, namely :–

(1) Short title and commencement.–
(1) These rules may be called the Taxation and Investment

Regime for Pradhan Mantri Garib Kalyan Yojana Rules, 2016.

(2) They shall come into force on the date of their publication in the Official Gazette.

(2) Definitions.–

(1) In these rules, unless the context otherwise requires,–

(a) "Act" means the Finance Act, 2016 (28 of 2016);
(b) "Form" means a form appended to these rules;

(2) The words and expressions used and not defined in these rules but defined in the Act, or the Income-tax Act, 1961 (43 of 1961) or the rules made there under, shall have the meanings respectively assigned to them in those Acts and rules.

[Notification No. 116/2016, F.No.142/33/2016-TPL]

✤ In exercise of the powers conferred by sub-section (2) of section 199A and sub-section (1) of section 199C of the Finance Act, 2016 (28 of 2016), the Central Government hereby appoints,– the 17th day December, 2016, as the date on which the Taxation and Investment Regime for Pradhan Mantri Garib Kalyan Yojana, 2016 comes into force; and the 31st day of March, 2017 as the date on or before which a person may make a declaration under sub-section (1) of the said section 199C.

[Notification No. 115/2016, F.No.142/33/2016-TPL]

✤ In exercise of the powers conferred by sub section (1) of section 94A of the Income-tax Act, 1961 (43 of 1961), the Central Government hereby rescinds the notification of the Government of India in the Ministry of Finance, Department of Revenue, Central Board of Direct Taxes, number 86 of 2013 published in the Gazette of India, Part II, section 3, sub-section (ii) vide S.O. 3307(E) dated 1st November 2013, except as respects things done or omitted to be done before such rescission, with effect from the date of publication of this notification in the Official Gazette.

[Notification No. 114/2016, F.No. 500/02/2015-FT&TR-III]

✤ In the notification of the Government of India, Ministry of Finance, Department of Revenue (Central Board of Direct Taxes), number 97/2016, published vide number S.O. 3288(E) dated the 25th October, 2016, in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (ii), at page 2, in the line 9, for "established under" read "referred to in".

[Notification No.113/2016/F. No. 149/144/2015 –TPL (Part-II)]

✤ In exercise of the powers conferred by clause (46) of section 10 of the Income-tax Act, 1961 (43 of 1961), the Central Government hereby notifies for the purpose of the said clause, "Petroleum and Natural Gas Regulatory Board", a Board constituted by the Government of India, in respect of the following specified income arising to that Board, namely :–

(1) Grant received from Central Government
(2) All other grants, fees, penalty charges received
(3) All sums received from such other sources as may be approved by the Central Government as per section 38 and 39 of the Petroleum and Natural Gas Regulatory Board Act. 2006 and
(4) Interest earned on deposits

2. This notification shall be applicable for the assessment year 2014-15, 2015-16, 2016-17, 2017-18 and 2018-19.

3. The notification shall be subject to the conditions that Petroleum and Natural Gas Regulatory Board:-

(a) Shall not engage in any commercial activity;
(b) its activities and the nature of the specified income remain unchanged throughout the financial year; and
(c) it files return of income in accordance with the provision of clause (g) of sub-section (4C) of Section 139 of the said Act.

[Notification No. 112 /2016/F. No.196/19/2013-ITA-I)]

✤ In exercise of the powers conferred by clause (46) of section 10 of the Income-tax Act, 1961 (43 of 1961) the Central Government hereby notifies for the purposes of the said clause, the Bureau of Indian Standards (BIS), set up by the Bureau of Indian Standards Act, 1986 (63 of 1986) in respect of the following specified income arising to that Bureau, namely:-

(i) Certification fee;

(ii) Sale of standards, provided there is no profit involved; and
(iii) Income from interest.

2. This notification shall be applicable for the Assessment years 2017-18, 2018-19, 2019-20, 2020-21 and 2021-22.

3. The notification shall be effective subject to the following conditions, namely:-

(a) the Bureau of Indian Standards (BIS) does not engage in any commercial activity;
(b) the activities and the nature of the specified income of the Bureau of Indian Standards (BIS) remain unchanged throughout the financial year'; and
(c) the Bureau of Indian Standards (BIS) files return of income in accordance with the provision of clause (g) of sub-section (4C) section 139 of the Income-tax Act, 1961.

[Notification No. 111/2016/F. No.196/23/2015-ITA-I]

✤ In exercise of the powers conferred by clause (46) of section 10 of the Income-tax Act, 1961 (43 of 1961), the Central Government hereby notifies for the purposes of the said clause, the 'Maharashtra Electricity Regulatory Commission', a Commission constituted by the State Government of Maharashtra, in respect of the following specified income arising to that Commission, namely:-

1. Fees for Annual License;
2. Interest on Fixed Deposit and Savings Account;
3. Fees for Application / Petition filed;
4. Grants from Government of Maharashtra;
5. Fees for Documents;
6. Penalty for delayed payment of Annual License Fees;
7. Fees for RTI;
8. Sale of scrap.

2. This notification shall be applicable for the above specified income of the Maharashtra Electricity Regulatory Commission for the financial years 2015-16 to 2019-20.

3. This Notification shall be effective subject to the following conditions, namely:-

(a) the 'Maharashtra Electricity Regulatory Commission' does not engage in any commercial activity;
(b) the activities and the nature of the specified income of 'Maharashtra Electricity Regulatory Commission' remain unchanged throughout the financial years; and
(c) the 'Maharashtra Electricity Regulatory Commission' files returns of income in accordance with the provision of clause (g) of sub-section (4C) of section 139 of the Act, Income-tax Act, 1961.

[Notification No. 110/2016/F. No.196/38/2015-ITA-I]

✤ In exercise of the powers conferred by clause (46) of section 10 of the Income-tax Act, 1961 (43 of 1961) the Central Government hereby notifies for the purposes of the said clause, the 'Chandigarh Building and Other Construction Workers Welfare Board', a board constituted by the Administrator, Union Territory, Chandigarh in respect of the following specified income arising to the said board, as follows :-

(i) Proceeds of the Cess collected under the Building & Other Construction Workers Welfare Cess Act, 1996 (28 of 1996) and rules there under.

(ii) Interest income received from investment.

2. This notification shall be applicable for the above specified income of the Chandigarh Building and Other Construction Workers Welfare Board for the financial year 2015-16 to 2019-20.

3. The Notification shall be effective subject to the following conditions, namely:-

(a) the 'Chandigarh Building and Other Construction Workers Welfare Board' does not engage in any commercial activity;
(b) the activities and the nature of the specified income of 'Chandigarh Building and Other Construction Workers Welfare Board' remain unchanged throughout the financial year ; and
(c) the 'Chandigarh Building and Other Construction Workers Welfare Board' files return of income in accordance with the provision of clause (g) of sub section (4C) of section 139 of the said Act.

[Notification No. 109/2016/F. No.196/17/2015-ITA.I]

✤ In exercise of the powers conferred by clause (ii) of Explanation 1 to clause (42A) of section 2, read with section 295 of the Income-tax Act, 1961 (43 of 1961), the Central Board of Direct Taxes hereby makes the following rules further to amend the Income-tax Rules, 1962, namely:-

1. (1) These rules may be called the Income-tax (34th Amendment) Rules, 2016.

(2) They shall come into force from the 1st day of June, 2016.

2. In the Income-tax Rules, 1962, in rule 8AA, after sub-rule (2), the following sub-rule shall be inserted, namely:-

"(3) In the case of a capital asset, declared under the Income Declaration Scheme, 2016,-

(I) being an immovable property, the period for which such property is held shall be reckoned from the date on which such property is acquired if the date of acquisition is evidenced by a deed registered with any authority of a State Government; and
(II) in any other case, the period for which such asset is held shall be reckoned from the 1st day of June, 2016.".
[Notification No. 108 /2016/F. No.142/01/2016-TPL]

–In exercise of the powers conferred by section 295 read with sub-section (4) of section 115TCA of the Income-tax Act, 1961 (43 of 1961), the Central Board of Direct Taxes hereby makes the following rules further to amend the Income-tax Rules, 1962, namely:-

1. (1) These rules may be called the Income-tax (33rd Amendment) Rules, 2016.
(2) It shall be deemed to have come into force from the 1st day of June, 2016.

2. In the Income-tax Rules, 1962, (hereinafter the said rules), after rules12CB, the following rule shall be substituted, namely:-

12CC. Statement under sub-section (4) of section 115TCA. (1) The statement of income distributed by a securitisation trust to its investor shall be furnished to the Principal Commissioner or the Commissioner of Income-tax within whose jurisdiction the principal office of the securitisation trust is situated, by 30th day of November of the financial year following the previous year during which such income is distributed.

Provided that the statement of income distributed shall also be furnished to the investor by 30th day of June of the financial year following the previous year during which the income is distributed.

(2) The statement of income distributed shall be furnished under sub-section (4) of section 115TCA by the securitisation trust to-

(i) the Principal Commissioner or the Commissioner of Income-tax referred to in sub-rule (1), in Form No. 64E, duly verified by an accountant in the manner indicated therein and shall be furnished electronically under digital signature;
(i) the investor in Form No. 64F, duly verified by the person distributing the income on behalf of the securitisation trust in the manner indicated therein.

(3) The Principal Director General of Income-tax (Systems) or Director General of Income-tax (Systems), as the case may be, shall specify the procedure for filing of Form No. 64E and shall also be responsible for evolving and implementing appropriate security, archival and retrieval policies in relation to the statements so furnished."

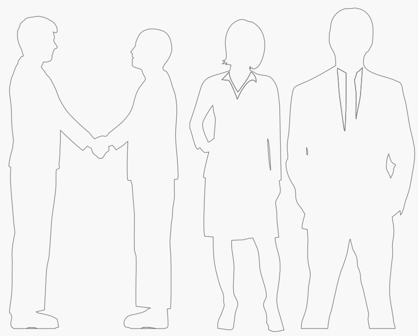
3. In the said rules, in Appendix-II, after the Form No. 64D, the following Forms shall be inserted, namely:-- "FORM NO. 64E"

Note: Statement of income paid or credited by a securitisation trust to be furnished under section 115TCA of the Income Tax Act, 1961 –

http://www.incometaxindia.gov.in/communications/notification/notification1072016.pdf
[Notification No. 107/2016/ F.No. 370142/28/2016-TPL]

Contributed by
Taxation Committee
Institute of Cost Accountants of India

CMA 2016-17 CAREER AWARENESS PROGRAMME



CAREER AWARENESS PROGRAMMES HELD DURING DECEMBER 2016 *

Date	HQ/Region/Chapter/CMASC	Venue
2/12/2016	Hyderabad	MVSR Engineering College, Nadergul, Hyderabad
3/12/2016	Hyderabad	Sarojini Naidu Vanita Maha Vidyalaya, Exhibition Grounds, Hyderabad
5/12/2016	Islamiah College	Government Higher Secondary School
5/12/2016	Islamiah College	Concordia Higher Secondary School
5/12/2016	HQ and Serampore	Hiralal Pal College
5/12/2016	Jaipur	Kendriya Vidyalaya No. 6, Pratap Nagar, Jaipur
5/12/2016	Nellore	Zilla Parishad High School (ZPHS), Kotha Koduru, Nellore (DT), (AP)
6/12/2016	HQ & Rajpur	Dhrubachand Haldar College, Dakshin Barasat, 24 PGNS (S)
6/12/2016	Hyderabad	Bharat PG College for Women, Kachiguda, Hyderabad
6/12/2016	Jaipur	S.V. Public School, Adarsh Nagar, Jaipur
7/12/2016	Jaipur	Kendriya Vidyalaya No. 2, Jhotwara, Jaipur
7/12/2016	Hyderabad	Aurora PG College, Moosarambagh, Hyderabad
7/12/2016	Nellore	Govt. Junior College
7/12/2016	Nellore	Zilla Parishad High School (ZPHS), Thotapalli Gudur, Nellore (DT), (AP)
7/12/2016	Bilaspur	Sarawati H.S School, Korba
7/12/2016	Bilaspur	Shri Agrasen Girls Degree College, Korba
7/12/2016	Bilaspur	CSEB H.S School, Korba
7/12/2016	Bilaspur	Govt. Girls H.S School, Korba
7/12/2016	Pimpri-Chinchwad-Akurdi	Maghanlal Udharam College of Commerce (MUCC), Pimpri
9/12/2016	Nellore	E.S.R.M. Corp High School, Mulapeta, Nellore (DT), (AP)
9/12/2016	Nellore	Govt High School, Venkateswara Puram, Nellore (DT), (AP)
13/12/2016	HQ	Mitra Institution, Kolkata
13/12/2016	WIRC	JVM Mehta College Airoli Thane
13/12/2016	Hyderabad	Avinash College of Commerce
14/12/2016	HQ	Mitra Institution, Kolkata
14/12/2016	Nellore	Sri Kasturi Devi Girls High School
15/12/2016	WIRC	K B College of Arts and Commerce for Girls

Date	HQ/Region/Chapter/CMASC	Venue
15/12/2016	Hyderabad	CMS Commerce Junior College
15/12/2016	Hyderabad	CMS Commerce Junior College
15/12/2016	Nellore	Zilla Parishad High School (ZPHS), Kodavalur, Nellore (DT), (AP)
15/12/2016	Kharagpur & EIRC	Atulmoni Polytechnic High School
16/12/2016	Nellore	Govt. High School, Santhapet, Nellore (DT), (AP)
16/12/2016	Nellore	Govt. Junior College, Vidavalur, Nellore (DT), (AP)
16/12/2016	Nellore	Zilla Parishad High School (ZPHS), Vidavalur, Nellore (DT), (AP)
16/12/2016	Pimpri-Chinchwad-Akurdi	Tikaram Jagannath College of Commerce, Khadki
18/12/2016	Hyderabad	Career Counselling Education Fair Conducted by Kab Consultants at Institute of Engineers, Khairtabad, Hyderabad
19/12/2016	EIRC	Khanna High School for Girls
20/12/2016	Hyderabad	CMS Commerce Junior College, Kukatpally, Hyderabad
20/12/2016	Tiruchirapalli	Bishop Heber College (B.Com, Eve - 3rd Year)
21/12/2016	Tiruchirapalli	Bishop Heber College (B.Com, Eve - 1st Year)
21/12/2016	Pune	HV Desai College
22/12/2016	Tiruchirapalli	St. Joseph College
22/12/2016	Surat South Gujarat	VD Desai Vadiwala High School
22/12/2016	Aurangabad	MSS College of Arts & Commerce, Ambad
23/12/2016	Tiruchirapalli	Seethalakshmi Ramasamy College
27/12/2016	Surat South Gujarat	SASCMA College of Commerce
27/12/2016	Jaipur	Gandhi Bal Niketan Sr. Sec. School, Sikar Road, Jaipur
30/12/2016	Nellore	Zilla Parishad High School (ZPHS), Veguru, Nellore (DT), (AP)
30/12/2016	Nellore	Zilla Parishad High School (ZPHS), Utukuru, Nellore (DT), (AP)
30/12/2016	Nellore	Zilla Parishad High School (ZPHS), Rama Theertham, Nellore (DT), (AP)
31/12/2016	Pune	Sadhana Vidyalaya Junior College

PROGRAMMES HELD IN NOVEMBER 2016 BUT REPORTED IN DECEMBER 2016 *

Date	HQ/Region/Chapter/CMASC	Venue
1/11/2016	Islamiah College	Government Higher Secondary School
2/11/2016	Islamiah College	Government Higher Secondary School
3/11/2016	Lucknow	JNDC Degree College
3/11/2016	VapiDaman Silvasa	Government Commerce College, Bordi (Tal.Dahanu)
3/11/2016	Udaipur	St. Paul Sr. Secondary school Bhupalpura, Udaipur
5/11/2016	Udaipur	Delhi Public Convent Sr. Secondary School Bhuwana Udaipur
5/11/2016	Vijayawada	CCK Junior College - CEC 2nd Year & Inter Vocational
5/11/2016	Vijayawada	St. Peters Junior College - CEC-1st Year
7/11/2016	Lucknow	St. John Bosco College
7/11/2016	Vijayawada	St. Peters Junior College - CEC-1st Year
7/11/2016	Vijayawada	LVR Viswa Junior College - MEC & CEC
7/11/2016	Vijayawada	Taluk Junior College - MEC & CEC - 1st & 2nd Year
7/11/2016	Vijayawada	VSR & NVR College - CEC - 1st & 2nd Year
8/11/2016	Vijayawada	KSK Junior College For Girls - MEC & CEC-1st & 2nd Year
8/11/2016	Vijayawada	Vyshnavi Junior College - CEC - 1st & 2nd Year
8/11/2016	Vijayawada	Gretnaltes - CEC 2nd Year
8/11/2016	Udaipur	Central Academy Sr. Secondary School, Sardarpura, Udaipur
8/11/2016	Rourkela	Rourkela College, Rorkela - 769 002
8/11/2016	Kottayam	ST. Georges Higher Secondary School, Vazhathope North, Idukki
9/11/2016	Kottayam	Govt. Higher Secondary School, Pathinaramkandam, Idukki
9/11/2016	Kottayam	Marian College Kuttikkanam, Idukki
9/11/2016	ICMS	PSMO College - Tirurangadi
9/11/2016	ICMS	GHSS Tirurangadi
9/11/2016	ICMS	Navamukundha HSS - Thirunavaya
9/11/2016	ICMS	GHSS Puthuparamba
10/11/2016	ICMS	KMHSS Alathiyur
10/11/2016	ICMS	MVHSS Ariyallur
10/11/2016	ICMS	IKTMHSS Cherukulamba
10/11/2016	Kottayam	ST. Thomas Higher Secondary School, Erattayar, Idukki
10/11/2016	VapiDaman Silvasa	N J College of Commerce, Valsad and BBA college, Valsad
10/11/2016	VapiDaman Silvasa	Sheth S J Higher Secondary school, Valsad
10/11/2016	Cochin	St. Francis HSS, Aluva
11/11/2016	ICMS	PMSHSS Chemmankdav
11/11/2016	ICMS	MES HSS Valanchery
11/11/2016	ICMS	GHSS Ezhur

Date	HQ/Region/Chapter/CMASC	Venue
11/11/2016	ICMS	GHSS Kattilangadi
14/11/2016	ICMS	GHSS Valleney
14/11/2016	Cochin	GHSS, Koothattukulam
14/11/2016	Islamiah College	Government Higher Secondary School
15/11/2016	Islamiah College	Government Higher Secondary School
15/11/2016	Islamiah College	Mukkulathore Higher Secondary School
15/11/2016	Islamiah College	Boiler Plant Girls Higher Secondary School
15/11/2016	Islamiah College	Boiler Plant Higher Secondary School
15/11/2016	Kottayam	Govt. Model Higher Secondary School, Palakuzha, Ernakulam
15/11/2016	Kottayam	ST. Marys Higher Secondary School, Muvattupuzha, Ernakulam
16/11/2016	Islamiah College	Kalaimagal Matric Higher Secondary School
17/11/2016	VapiDaman Silvasa	Achhariwala Govt. Commerce College, Namdha, Vapi
17/11/2016	Udaipur	Kendriya Vidyalaya No - 2 Ekling Garh, Udaipur
18/11/2016	Cochin	St. Peter's HSS, Kolenchery
18/11/2016	Vijayawada	Chaitanya College - CEC 1st & 2nd year
18/11/2016	Vijayawada	Srinivasa Junior College - CEC 1st & 2nd Year
18/11/2016	Coimbatore	PSG Sarvajana School, Coimbatore
18/11/2016	Vijayawada	Goodrun Junior College - Intermediate 1st & 2nd Year - All Groups
18/11/2016	Islamiah College	Government Higher Secondary School
19/11/2016	Udaipur	Rajasthan Mahila Vidyalaya, Udaipur
19/11/2016	Bilaspur	DAV School, Bilaspur
19/11/2016	Thrissur	GMBHSS, Kodakara
20/11/2016	Thrissur	GHSS, Wadakanchery
22/11/2016	Lucknow	Modern Girls' Degree College
22/11/2016	Rourkela	ISPAT College, Rourkela
22/11/2016	Udaipur	Aryam Academy, Hiran Magri Sector - 4 Udaipur
22/11/2016	Kottayam	Govt. Higher Secondary School, Panickankudy, Idukki
24/11/2016	Islamiah College	Government Higher Secondary School
24/11/2016	Islamiah College	Islamiah Boys Higher Secondary School
24/11/2016	Bhubaneswar	Utkal University
24/11/2016	Kottayam	Govt. Tribal Higher Secondary School, Kattappana, Idukki
24/11/2016	Ahmedabad	Saurashtra Patel Samaj Boys Hostel - Gulbai Tekara Navrangpura
24/11/2016	Kottayam	Auxilium Higher Secondary School, Kattappana, Idukki
25/11/2016	Kottayam	BVM, Holy Cross College, Cherpunkal, Palai, Kottayam
25/11/2016	Kottayam	ST. Antonys College, Peruvanthanam, Idukki
25/11/2016	Rourkela	ISPAT Vidya Mandir, Sec -19, Rourkela - 769005
25/11/2016	Lucknow	Kali Charan Degree College
25/11/2016	Islamiah College	ST. Paul Matric Higher Secondary School
25/11/2016	Cochin	GHSS, Pezhakkappilly
26/11/2016	Islamiah College	Vani Metric Higher Secondary School
26/11/2016	VapiDaman Silvasa	MBA College
26/11/2016	Nasik - Ojhar	Ashoka Education Foundation, Nasik
26/11/2016	Udaipur	Rayon International Public School Sector - 14 Udaipur
26/11/2016	Navi Mumbai	Barns College of Arts, Science & Commerce
27/11/2016	Rourkela	ISPAT College, Rourkela
28/11/2016	Lucknow	Ramadheen Degree College
28/11/2016	Pimpri	Kendriya Vidyalaya, Fugewadi, Dapodi, Pune
29/11/2016	Lucknow	Lucknow University
29/11/2016	Udaipur	St. Mary's Convent Sr. Sec. School, Fatehpura, Udaipur
29/11/2016	Hyderabad	Keyes Junior College for Girls, Secunderabad
29/11/2016	Coimbatore	Sub-urabn Higher Secondary School, Coimbatore
30/11/2016	Bhubaneswar	Saraswati Shishu Vidya Mandir +2 Commerce
30/11/2016	Lucknow	I.T Degree College
30/11/2016	Lucknow	Vidyant Degree College
30/11/2016	Visakhapatnam	Presidency Degree College
30/11/2016	Visakhapatnam	S. E. Railway Junior College
30/11/2016	South Orissa	Ramnarayan Junior College, Dura, Ganjam
30/11/2016	Tiruchirapally	National Hr. Sec. School (+2)
30/11/2016	Coimbatore	Yuvabharathi Public School, Coimbatore
30/11/2016	Kottayam	ST. Sebastians Higher Secondary School, Purapuzha, Thodupuzha, Idukki
30/11/2016	Kottayam	NSS Higher Secondary School, Manakkad, Thodupuzha, Idukki

** As reported till 02-01-2017*
 # The list may not be exhaustive

Indian Banking Sector in Transition

✤ *Non Performing Assets (NPA) Management:*

NPA problem is one of the most severe issues plaguing the Indian Banking sector posing questions over the stability of Indian Banking System. 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. Through continuous monitoring of borrowers account, they can provide relevant data for appraisal to prevent NPAs. Further can do Credit Audit, Stock Audit and Concurrent Audit to facilitate banks in identifying potential Non Performing Assets (NPA).

✤ *Forensic Audit:*

The professionals like CMAs can play a big role in resolving the issues like Black Money and Undisclosed Income. They are competent enough to perform Forensic Audit to investigate fraudulent activities, uncover money laundering, undisclosed income 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.

✤ *Impact of Demonetization on socio-economic strata of the nation:*

In recent times, Hon'ble Prime Minister of India, Shri Narendra Modi took a bold step of demonetizing Rs 1,000 and Rs 500 currency notes to restrain the black money menace in order to protect the socio-economic sustainability of our Nation. The Institute feels the unseen impact of the government's decision to wipe out 86 percent of the total value of currency in circulation to fight corruption and counterfeiting goes deeper and could see short-term pain for India's economic trajectory but eventual long-term gains. The Institute intends to carry out gap analysis between total value the banks gained and the loss figure to prepare the report regarding time span actually required for the economy to cover-up the situation. In this regard, the Institute can assist the government to frame suitable strategies to smoothen the effect of demonetization.

✤ ***MSME Financing:***

MSMEs are, collectively, the largest employers in many developing countries, yet their viability can be threatened by a lack of access to such risk-management tools as savings, insurance and credit. Their growth is often subdued by restricted access to credit, equity and payments services. The CMAs in this regard, can act as an intermediary by carrying out Credit ratings for MSME to establish their credibility and access for adequate and timely financing at affordable rate. A credit rating not only determines whether or not a borrower will be approved for a loan, but also the interest rate at which the loan will need to be repaid.

✤ ***Insolvency Professionals:***

The Insolvency and Bankruptcy Code (IBC), 2016 passed by the Parliament is a welcome approach towards improvising the existing framework dealing with insolvency of corporate, individuals, partnerships and other entities. The Code creates a new institutional framework, consisting of a regulator, insolvency professionals, information utilities and adjudicatory mechanisms, that will facilitate a formal and time bound insolvency resolution process and liquidation. The advent of IBC, 2016 widened the scope for professionals like CMAs. They are proficient enough to be appointed as Insolvency Professionals, to deal with matters of insolvency, liquidation and bankruptcy and assist to reduce sufferings of banks overburdened by Non Performing Assets (NPA).

✤ ***Human Resource Management:***

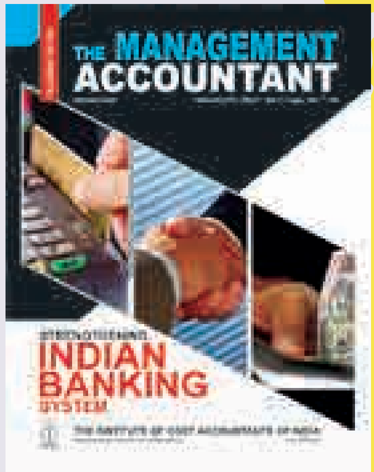
Bridging resource gaps and managing employee turnover are major challenges that banks need to be prepared to address. The banks need to continuously enhance the skill levels of their employees so as to remain viable and competitive to acquire advantage from new opportunities. The CMAs are competent enough to carry out Human Resource Accounting to quantify the cost invested for employees towards their recruitment, training, payment of salaries & other benefits paid and in return knowing their contribution to organization towards its sustainability and profitability. In this regard, CMAs can assist the management in taking decisions related to efficient and effective utilization of workforce for highest return on investment and incorporate suitable strategies and techniques.

✤ ***Risk Management:***

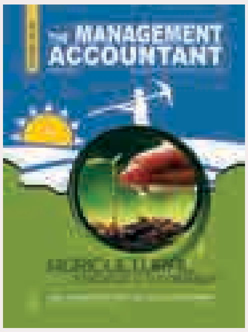
Risk is inevitable in the banking business and hence, a sound risk management framework is the key yardstick of an efficient bank. The risk management effectively aims at balancing the Risk-Return Trade-off. The professionals like CMAs should facilitate the management in risk mapping and risk reporting keeping in view the changing market dynamics and the regulatory framework. The information derived from cost records and cost audit reports maintained under existing statutes facilitates Bankers, Financial Institutions, etc. in deciding matters related to risk assessment and efficient risk management as the parameters prescribed extensively cover relevant information for managerial decision-making to ensure performance and governance.

FLASHBACK 2016

January - Strengthening Indian Banking System

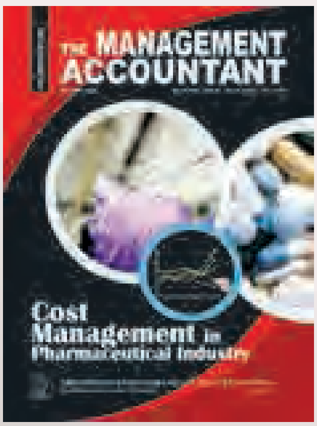


This is the era of liberalization and globalization and each and every sector of the economy needs to conscious regarding their threats and risks. Banks are also exposed to cut-throat competition and have to face various types of financial and non-financial risks. Today banking industry is operating in an environment which is highly competitive due to integration of global markets. 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. The introduction of 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.



February - Agricultural Innovation & Sustainability

Sustainable agriculture means opening the door to innovation which can assist to make the farming cleaner, less exposed to volatility in the prices of inputs and more resistant to disasters. Sustainable agricultural practices help farmers to acclimatize changes and reduce greenhouse gas emissions. Demand for agriculture is rising rapidly with increase in population and per capita income and growing demand from industry sector. There is thus an urgent need to identify severity of problem confronting agricultural sector to restore its vitality and put it back on higher growth trajectory. To triumph over the problems, innovation and intensification of sustainability, factors in agriculture is the need of the hour.

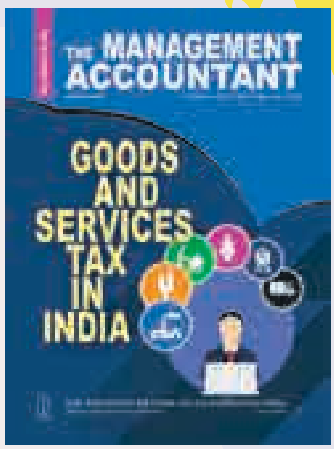


March - Cost Management in Pharmaceutical Industry

The Indian pharmaceutical market size is expected to grow to US$ 100 billion by 2025, driven by increasing consumer spending, rapid urbanization and raising healthcare insurance among others. Going forward, better growth in domestic sales would also depend on the ability of companies to align their product portfolio towards persistent remedies for diseases viz. cardiovascular, anti diabetes, anti depressants, anti-cancers etc. Indian Government has taken many steps to reduce costs and bring down healthcare expenses. Speedy introduction of generic drugs into the market has remained in focus and is expected to benefit the Indian pharmaceutical companies.

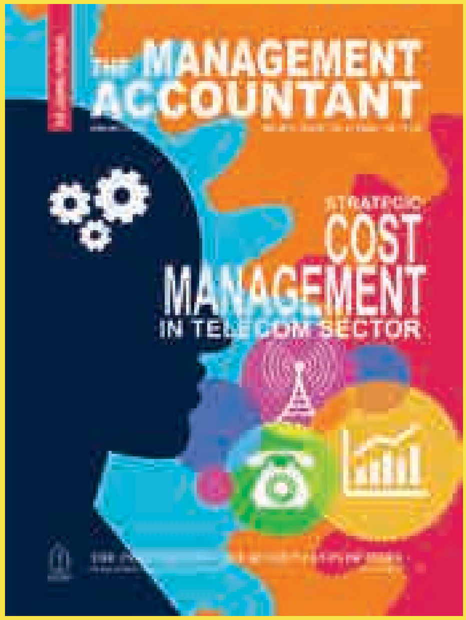
April - Goods and Services Tax in India

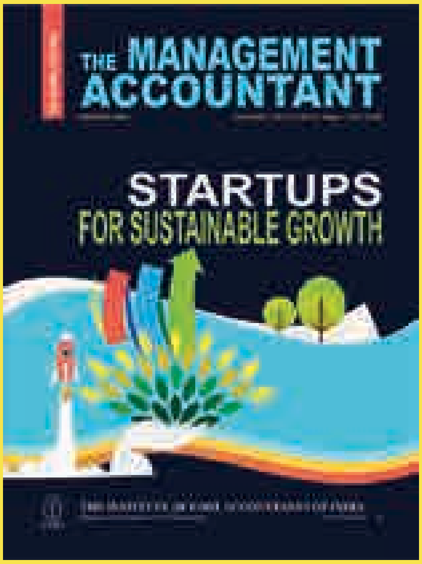
Goods and Services Tax (GST) is an important, strategic and most practical step in the rationalization of Indian Tax structure. GST has far reaching consequences, implication and effects especially on the attainment of cost effectiveness. It will replace the multiplicity of indirect taxes prevailing in India and aims to bring 'harmonized system of taxation' in the country whereby uniformity in terms of procedure and rate of tax imposed both on goods and services sold within the country can be ensured. The introduction of GST will be crucial for Indian economy in the long run and would also make Indian products competitive in the domestic and international markets. The expectation of GST is high not only within the country but also in neighbouring countries and in developed economies of the world.



***May* - Strategic Cost Management in Telecom Sector**

Telecommunication services are globally recognized as one of the driving forces for overall economic development of a nation. Indian telecommunication sector has come out as one of the key factors which have put the economy on a revival path. This has undergone a major process of transformation through significant policy reforms, and has defined certain important objectives, including availability of telephone on demand, provision of world class services at reasonable prices, improving India's competitiveness in global market and promoting exports, attractive FDI and stimulating domestic investment. This ensures India's emergence as major manufacturing and export base of telecom equipment and universal applicability of basic telecom services to all villages.





***June* - Startups for Sustainable Growth**

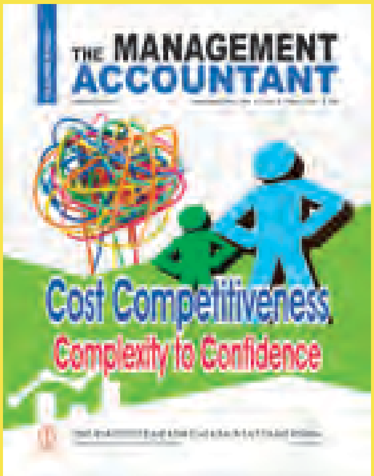
A startup may be defined as a young, dynamic company built on technology and innovation wherein the founders attempt to capitalize on developing a product or service for which they believe there is a demand. Startup India Scheme is a good initiative taken by the government towards fulfilling job creation and eliminating unemployment, thus reducing poverty and increase the standard of living. SEBI announced a new set of listing norms for startups, including e-commerce ventures, planning to raise funding from listing on stock exchanges. These new norms will provide relaxations in disclosure related requirements, takeover and Alternative Investment Fund regulations for IT, data analytics, intellectual property, bio-technology or nano technology companies.

***July* - Achieving Business Excellence**

'Business Excellence' is a broad term used to describe various business models supporting the goal of increasing the level and consistency of performance in the operation of a company. The basic idea is to develop quality management principles increasing the overall efficiency of operation, minimizing waste in the production of goods and services, and also help to increase employee loyalty as a means for maintaining high standards throughout the business. Business Excellence principles emerged as a result of advancement of quality drive into traditional business management and takes into account various management thoughts as core concepts and structures quality management in a manner adapted by any enterprise.

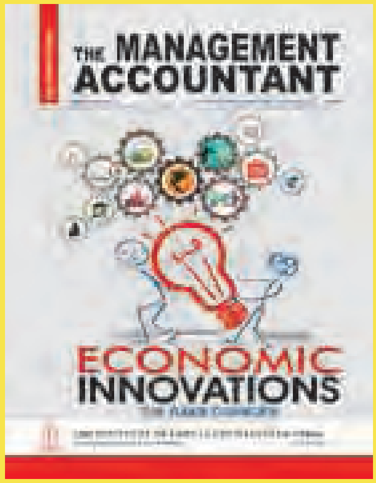
***August* - Capacity Building for Sustainability**

Capacity Building refers to premeditated, synchronized and mission-driven efforts aimed at strengthening the management and governance of nonprofit organizations to improve their performance and impact. The ultimate goal of capacity building is to sustain a process of individual and organizational change and to enable organizations, groups and individuals to achieve their development objectives. Any capacity building activity needs to be carefully designed so that it contributes to this goal. In this process, it is essential that the needs of the beneficiaries as well as already existing capacities in a country are carefully assessed and that the specific capacity building objectives are clarified.



September - Cost Competitiveness
Complexity to Confidence

Cost Competitiveness leads to upgradation of productivity of all the resources, resulting in optimal utilization of resources and minimization of wastages. Cost Competitiveness is required for strategic planning and decision making for sustained growth. It is a systematic method to control the excess costs incurred resulting in cost advantage. The consideration of cost competitiveness starts in the market with pricing. A competitive advantage allows a company to produce or sell goods more effectively than other organizations. Several types of strategies are available in the business environment. Flexibility is an important feature of competitive business strategies and business owners are flexible enough to use standard strategies or develop their own strategy.

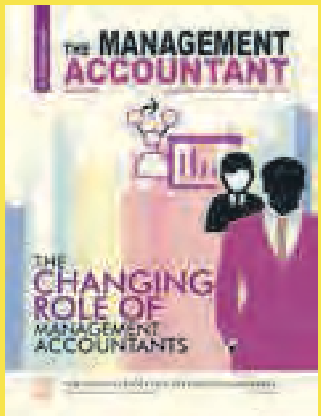


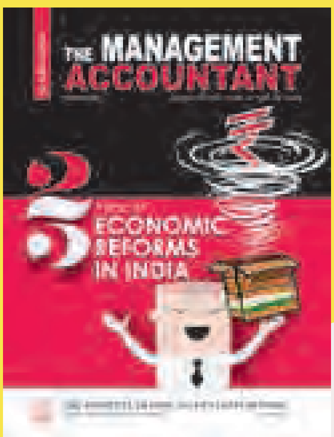
October - Economic Innovations
The Game Changer

Innovation is a backbone for any industry and keeps the industry vibrant. Innovations make the industry more cost competitive and with the help of efficient innovations, Indian manufacturing sector will make significant footprints in the global arena. If financial innovation improves the efficiency of the financial system, then it should also have a considerable effect on the functioning of the economy in general. The development of innovative means of payments in banking sector reduces transaction costs, thereby facilitating trading and the exchange of goods and services, which in turn should lead to a better allocation of resources. In the long term, this should be favourable for economic growth. The experience of all globally successful companies underscores the fact that success depends on consistent innovation, so as to stay ahead of competition.

November - The Changing Role of Management Accountants

Changing business practices and array of emerging technologies have transformed the role of Management Accountants. They are increasingly taking hands-on approach in guiding company operations and formulating business strategies. With the advent of new accounting systems, corporate restructurings, changes in regulation and legislation, a strengthening competitive market and advancements in information technology systems, the role of the Management Accountants has changed widely and they also play a major role on the social perspective where they assist in ensuring that the intended benefits of the social schemes launched by the government are actually percolating down to the grassroot level.





December - 25 Years of Economic Reforms in India

The reform policy aimed towards greater freedom for doing business outside government control, reducing the role of public sector while giving more space to private sector and doing away with MRTP/FERA Act. The reforms package opened up the Indian economy to global competition, stressed on fiscal consolidation and discipline for macroeconomic stability, liberalized trade and capital markets and expanded competitive private positioning of public goods like health, education, public transport and infrastructure etc. It also advocated foreign investment policies to attract foreign investment in the country. Towards maintaining higher pace of economic reforms, Indian Government has taken an important and revolutionary move recently to curb the black money menace through massive scale of demonetization. Initially, this bold move may cause some temporary inconvenience among the common mass but this short lived inconvenience is a price that is worth paying for the long-term benefit of addressing this menace.

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