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CATALYTIC ROLE OF THE BANKING SECTOR FOR INDIA'S ECONOMIC REVIVAL

CMAs SPEAK ON OPPORTUNITIES IN BANKING AND FINANCE

Journal of

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory Body under an Act of Parliament)

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Statutory body under an Act of Parliament

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- **THE INSTITUTE OF COST ACCOUNTANTS OF INDIA** (erstwhile The Institute of Cost and Works Accountants of India) was 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**

Headquarters
CMA Bhawan, 12 Sudder Street
Kolkata - 700016

Institute Motto

असतोमा सद्गमय
तमसोमा ज्योतिर् गमय
मृत्योर्मामृतं गमय
ॐ शान्ति शान्ति शान्तिः

From ignorance, lead me to truth
From darkness, lead me to light
From death, lead me to immortality
Peace, Peace, Peace

Delhi Office
CMA Bhawan, 3 Institutional Area
Lodhi Road, New Delhi - 110003

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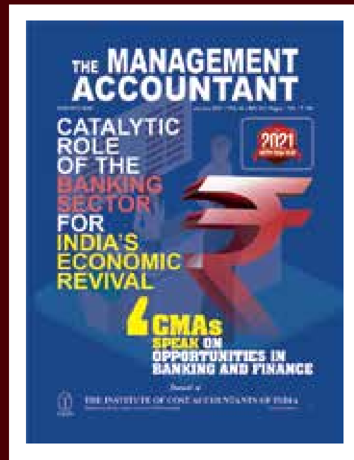

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We have expanded our Readership from **1** to **94** Countries

Afghanistan, Algeria, Argentina, Australia, Azerbaijan, Bahrain, Bangladesh, Belgium, Benin, Botswana, Brazil, British Indian Ocean Territory, Bulgaria, Cambodia, Cameroon, Canada, Chile, China, Colombia, Croatia, Czech Republic, Djibouti, Egypt, France, Gambia, Germany, Ghana, Great Britain, Greece, Honduras, Hong Kong, Hungary, Iceland, India, Indonesia, Iraq, Ireland, Italy, Jamaica, Japan, Jordan, Kazakhstan, Kenya, Kuwait, Lebanon, Liberia, Lithuania, Malawi, Malaysia, Mauritius, Mexico, Morocco, Myanmar, Namibia, Nepal, Netherlands, New Zealand, Nigeria, Oman, Pakistan, Papua New Guinea, Paraguay, Peru, Philippines, Poland, Portugal, Qatar, Romania, Russia, Rwanda, Saudi Arabia, Serbia, Seychelles, Singapore, Slovakia, Slovenia, South Africa, Spain, Sri Lanka, Suriname, Sweden, Switzerland, Syria, Taiwan, Tanzania, Thailand, Turkey, Uganda, Ukraine, United Arab Emirates, United Kingdom, United States of America, Vietnam, Zaire, Zimbabwe.

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EDITORIAL

Greetings!!!

'Banks' form the backbone of every economy and play a pivotal role in the lives of citizens by providing them with essential financial services. The impact of the COVID-19 crisis has come on top of a combination of persistently low interest rates, regulatory changes, and competition from shadow banks and new digital entrants that have challenged the traditional bank business model over the past decade.

The Government of India and the Reserve Bank of India have been taking various initiatives to inject liquidity into the banking system and provide some respite to customers during the COVID-19 crisis. One such measure was offering a three-month moratorium on term loans. This has led to a spike in customer queries and service requests. Recently in the month of November, the Government announced the Emergency Credit Line Guarantee Scheme 2.0 under which stressed sectors can avail themselves of debt moratoriums for up to five years, consequently would help revive pandemic-hit companies and encourage them to invest in building new capacities. The ECLGS 2.0 will provide collateral-free, additional credit at capped interest rates to firms in 26 stressed sectors identified by the KV Kamath panel in October. The stressed sectors identified by the panel include aviation, power, construction, steel, roads and real estate.

Even, Public Sector Banks have massively stepped up to support the nation during the COVID-19 crisis. From different modes of staffing to remote working, more than 80,000 bank branches were operational during COVID-19. Additionally, there has been 90% uptime of self-service machines during the COVID times and around three times increase in Aadhaar Enabled Payment System transactions through micro ATMs, and enhanced doorstep banking support by more than 75,000 Bank Mitras.

A comprehensive agenda for smart, tech-enabled banking has been adopted for FY 2020-21, under which PSBs have initiated eShishu Mudra for straight-through processing of loans to micro-enterprises and digital personal loan for customers. PSBs have started providing customer-need driven credit offers through analytics and partnerships with FinTechs and e-commerce companies. Many PSBs have already started taking steps in line with the reform priorities. Progress of PSBs will continue to be tracked on metrics linked to Reform Action Points, and their progress will be published through a quarterly index.

The concept of remote work culture has been introduced in the banking industry recently, which will continue to remain in the post-Covid world as well. Banks are trying to adopt more comprehensive business continuity plans to prepare for unexpected situations like the current crisis. This includes a mix of digital workspace, cloud scalability, intrinsic security and enhanced network capabilities.

Our Institute is already carrying out various Certificate courses on BFSI domain for up-gradation of existing knowledge and skills and for acquiring new knowledge and skills for practicing members, professionals and students. Further, the COVID-19 crisis can be seen as an opportunity for a bold cost transformation. The Cost and Management Accountants with their specialized professional skill, expert knowledge and analytical capabilities can assist banks to manage their costs effectively. This would enable the Banks to achieve service excellence and focus on long-term initiatives.

This issue presents a good number of articles on the cover story "Catalytic Role of the Banking Sector for India's Economic Revival" presented by distinguished experts. Also, we have tried to incorporate the wonderful insights on Banking issues shared by eminent speakers of the Live Discussion event organized by our Journal & Publications Directorate. We look forward to constructive feedback from our readers on the articles and overall development of the Journal. Please send your emails at *editor@icmai.in.* We thank all the contributors to this important issue and hope our readers would enjoy the articles.

Wishing you all a very happy and prosperous New Year 2021!!!

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Statutory Body under an Act of Parliament

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Toll Free: 1800 345 0092/1800 110 910 **Website:** www.icmai.in

Members, Students, Employees & Well Wishers of the Institute Wishing you a Happy, Healthy & Prosperous

New Year 2021

JANUARY

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Only Central Govt. Gazetted Holidays*

JANUARY
26 Republic Day

MARCH
29 Holi

APRIL
02 Good Friday
21 Ram Navami
25 Mahavir Jayanti

MAY
14 Id-ul-Fitr
26 Buddha Purnima

JULY
21 Id-ul-Zuha (Bakrid)

AUGUST
15 Independence Day
19 Muharram
30 Janmashtami

OCTOBER
02 Mahatma Gandhi's Birthday
15 Dussehra
19 Milad-un-Nabi or Id-e -Milad (Birthday of Prophet Mohammad)

NOVEMBER
04 Diwali (Deepavali)
19 Guru Nanak's Birthday

DECEMBER
25 Christmas Day

**https://dopt.gov.in/sites/default/files /Holiday%20list%20%281%29.pdf*

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Mission
"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."

Motto
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तमसोमा ज्योतिर् गमय
मृत्योर्मामृतं गमय
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Vision
"The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprises globally."

Behind every successful business decision, there is always a CMA

THE MANAGEMENT ACCOUNTANT

PAPERS INVITED

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

Month		Theme		Subtopics
February 2021	Theme	Healthcare Cost Management in India: The Way forward	Subtopics	⊙ Cost Benefit Analysis (CBA) in Healthcare Industry ⊙ Time-driven Activity Based Cost Model for improved Healthcare Resource Mapping ⊙ Balanced Scorecard: A Powerful Organizational Tool for Strategic Planning and Driving Performance in Healthcare Industry ⊙ Impact of Artificial Intelligence for Cost-Effective Clinical Trials in the New Normal ⊙ Price-Transparency in the age of COVID-19: The growing importance of Cost Accounting ⊙ Health Insurance: Demystify New Challenges, Products, and Opportunities during COVID-19 and beyond ⊙ Wellness Programmes: A remedy for reducing Healthcare Costs ⊙ Frugal Innovation, Digital Health and Data Sciences: the Way forward for India to attain Trillion Dollar Economy ⊙ Government Policies to curb Healthcare Cost and provide affordable Healthcare Services for the mass ⊙ Value Addition to Healthcare: Role of CMAs
March 2021	Theme	Women in the Workplace: Stepping towards Generation Equality	Subtopics	⊙ Social, Political and Legal Dimension of Women Empowerment ⊙ Self Help Group (SHG): An effective approach towards Women Empowerment in India ⊙ Electronic and Print Media: A significant tool to accelerate Women Empowerment ⊙ Dynamic Role of Women in the Workforce ⊙ Factors concerning female participation in the Corporate Sector ⊙ Breaking Barriers: Women Change-makers in this era of digitization ⊙ Gender Equality Efforts by the Government ⊙ Female leaders shaping the future world: Building a New Normal ⊙ Women in Board Rooms ⊙ Women Entrepreneurs in India
April 2021	Theme	Foreign Direct Investment (FDI) and Economic Growth	Subtopics	⊙ Insights on India's FDI Policy ⊙ FDI: Crucial for India's post-Covid growth story ⊙ Reforms and Liberalization of foreign investment policy in Civil Aviation, Coal and Mineral Sector ⊙ FDI in Defence to enhance Self-Reliance ⊙ FDI in SMEs ⊙ Atmanirbhar Bharat Abhiyaan & FDI ⊙ FDI Inflow in the Capital Market ⊙ Foreign Direct Investment process for Startup businesses ⊙ Issues and Prospects surrounding FDI inflows in Information and Broadcasting Sector ⊙ FDI and International Trade Correlations ⊙ Foreign Direct Investment in India: Reporting & Compliance
May 2021	Theme	Telecommunication Sector: Potential Catalyst for Digital India Movement	Subtopics	⊙ 25 years of Mobility: Glorious Journey of Indian Telecom Industry ⊙ Focusing on Ease of Doing Business in Telecom Sector: To make India a $3 trillion Digital Economy ⊙ India's stand in Post COVID-19 Pandemic World to build a Digitally empowered Society ⊙ Atmanirbhar Bharat: 5G is heralding India's Digital Leadership ⊙ Outlook on Data Consumption, Subscriber Base and Average Revenue Per User (ARPU) ⊙ Impact of Adjusted Gross Revenue (AGR) on the Telecom Industry ⊙ Revenue, Profitability and Credit Outlook of Telecom companies ⊙ High Bandwidth, Automation and App Dependent Networks: Future of Telecommunications Industry ⊙ Cyber security: Challenges and Prospects ⊙ Indian Telecom Industry: a key towards success of Industry 4.0

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 anywhere else. Please send your articles by e-mail to editor@icmai.in latest by the 1st week of the previous month.

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CMA Biswarup Basu
President
The Institute of Cost Accountants of India

"Life loses half its interest if there is no struggle — if there are no risks to be taken."

– Netaji Subhash Chandra Bose

PRESIDENT'S COMMUNIQUÉ

My Dear Professional Colleagues,

At the outset, I wish you all a very happy, healthy and prosperous new year 2021. The year 2020 has been challenging for all of humanity due to outbreak of COVID-19 pandemic. The economic and social disruption caused by the pandemic is devastating. We've been confronted with creating and adapting to new ways of learning, working and living our lives amid stressors that we have never experienced before.

India is emerging stronger after COVID-19 with robust agricultural growth and a revival in industrial production including production of consumer durables. We believe that the Indian economy could well be the fastest growing Asian economy in the year 2021.

We also need to rethink the future of our environment and tackle climate change with determination. Only then can we protect the health, livelihoods, food security and nutrition of all people, and ensure that our 'new normal' is a better one.

Meeting with Hon'ble Union Minister of State for Finance and Corporate Affairs

I had an opportunity to meet Shri Anurag Singh Thakur, Hon'ble Union Minister of State for Finance and Corporate Affairs on 30th December 2020 along with CMA Balwinder Singh, Immediate Past President and CMA Chittaranjan Chattopadhyay, Chairman BFSI Committee & Indirect Taxation Committee of the Institute to discuss about professional developments and ongoing activities of the Institute in depth.

We submitted the representations to the Hon'ble Minister on three vital issues and requested him to consider these genuine demands of the Institute favorably.

i. The Institute submitted a detailed justification for the Inclusion of "Cost Accountant" in the definition of "Accountant" given in the Explanation to section 288(2) of the Income Tax Act, 1961 and requested him to consider our demand on merits while processing the recommendations of DTC Task Force.

ii. The Institute submitted that change of the name of the Institute to the Institute of Cost and Management Accountants of India (ICMAI) will be in line and completely harmonious with Section 5 of The Cost and Works Accountants Act, 1959 as amended in 2012, whereby the Associate and Fellow members of the Institute are entitled to use the letters "ACMA" & "FCMA" respectively after their names and would also allow our members to compete with the members of other similar Institutes globally.

iii. The Institute submitted the representation supported with all facts and figures to conclude that the Cost Accountants (CMAs) are equally qualified and experienced to undertake concurrent audit in all banks and request the Hon'ble Minister to issue necessary directions to the Reserve Bank of India to include Cost Accountants (CMAs) for Appointment as Concurrent Auditors in Scheduled Commercial Banks.

During the meeting, Hon'ble Minister also released the Guidance Note on "Aide Memoire on Lending to Micro Small and Medium Enterprises Sector" published by the Banking Financial Services and Insurance Committee of the Institute. It is available as a priced publication and members and others are requested to collect a copy as it would be a resourceful handbook in MSME Sector which is very useful for CMAs either in practice or in service. The handbook is a compendium of all the various rules, laws and regulations, enactments of the MSME Sector along with the various policies of the Government and schemes applicable to the MSME sector. It also has the holistic picture of the entire lending process of the MSME sector by the financial institutions. The handbook has been contributed by prologues of ministers, regulators, leaders of banks and other persons of eminence.

We also presented the Inaugural Volume of CMA Agri Bulletin to Hon'ble Minister which was released on 23rd December 2020 by the Agriculture Task Force of the Institute.

Meeting with Advisor (Cost), Cost Audit Branch, MCA

As informed in my earlier communique that the

Institute has been continuously following up with the Ministry of Housing & Urban Affairs and Ministry of Corporate Affairs for the inclusion of Cost Accountants for certification under section 4(2)(l)(D)of the RERA Act, 2016. In this regard, I along with CMA Balwinder Singh, Immediate Past President, CMA Chittaranjan Chattopadhyay, Chairman BFSI Committee and CMA B.B. Goyal, Advisor, ICWAI MARF and former Addl. Chief Adviser (Cost), Ministry of Finance, GoI had a meeting with Ms. Mithlesh, Advisor (Cost), Cost Audit Branch, Ministry of Corporate Affairs on 30th December to discuss our submission and to consider our request favorably to give the recommendation to Ministry of Housing & Urban Affairs for authorizing Cost Accountants also for certification under sub-clause (D) of clause (l) of sub-section (2) of section 4 of The Real Estate (Regulations and Development) Act, 2016. We strongly believe that the Ministry of Housing & Urban Affairs will bring out the necessary amendments in the Act soon.

Meeting with Hon'ble Speaker, West Bengal Legislative Assembly, Govt. of West Bengal

On 11th December 2020, I along with CMA Ashis Banerjee, Chairman, EIRC, CMA Arundhati Basu, Vice Chairperson, EIRC had a meeting with Dr. Biman Banerjee, Hon'ble Speaker, West Bengal Legislative Assembly, Govt. of West Bengal to discuss on different professional matters. We also gave him a representation to include Cost Accountants for Accounting and Audit of various Government Departments.

Certification/Empanelment of Cost Accountants in SBI

I wish to inform the members that the Institute has written to the State Bank of India to issue suitable instructions for facilitating Cost Accountants in applying for the assignments issued by the bank. In response, SBI has stated that Cost Accountants are eligible for empanelment as an ASMs (Agency for Specialised Monitoring) and Forensic Auditor being appointed by IBA. Further, the bank has been obtaining certification of borrowing companies from Cost Accountants in line with RBI circular no. RBI/2008-2009/379 dated 10th February 2009 and Cost Accountants are also eligible for empanelment as bank stock and receivable auditor of SBI.

Recognition of CMA qualification by UK, NARIC

With the objective of enhancing the recognition and professional opportunities for its students and members across the globe, the International Affairs Committee and Professional Development & CPD Committee of the Institute had engaged UK NARIC (National Recognition Information Centre in United Kingdom) to conduct an independent benchmarking study for evaluating the comparability of the CMA Intermediate and Final Course in the context of the UK and UAE education systems.

I am happy to share with you that UK NARIC has evaluated CMA qualification comparable to specific Regulated Qualifications Framework levels of UK and UAE, the details of which are available at https://icmai.in/upload/Institute/Updates/Recognition-by-UK-NARIC.pdf.

This independent benchmarking of the CMA qualification would ensure widespread, international acceptance of CMA qualification. The benchmarking results would strengthen the position of CMA members and help corporates gain a better understanding of the relevance and standing of the CMA qualification. It would also provide opportunities for higher studies and enhanced professional opportunities for CMA members / semi qualified professionals in the UK, Middle East and other foreign jurisdictions accepting NARIC evaluation.

Opening of London Overseas Centre of Cost Accountants

It gives me immense pleasure to inform you that the Institute has opened its 11th Overseas Centre of Cost Accountants at London, UK to take care of the interest of members and support the development of CMA profession in the region. The virtual inauguration event of London Overseas Centre will be held on 23rd January 2021.

WEBINT on Climate Change and Sustainability Accounting and Reporting

I am happy to inform you that the Institute organised a WEBINT on the theme "Climate Change and Sustainability Accounting and Reporting" on 31st December 2020. Shri Suresh Prabhu, Hon'ble MP (Rajya Sabha) & India's Sherpa for G20 & G7 Nations has kindly agreed to be the Chief Guest of the event and provided his valuable video message. He said that CMAs have a key role to play in driving sustainable strategic and operational decisions. He urged the Institute to take necessary steps to undertake more empirical studies on the role of CMAs in accounting for sustainable development. Prof. Lakshman R. Watawala, President of the Institute of Certified Management Accountants of Sri Lanka and Past President SAFA said that Sustainability reporting is gaining momentum globally as an important communication tool for companies to disclose their sustainability plans and performance and enhance stakeholder confidence. I along with CMA P Raju Iyer, Vice President, CMA Balwinder Singh, Immediate Past President and CMA Neeraj D. Joshi, Chairman, Management Accounting Committee also shared our views and thoughts on the topic during the session. The event was hosted by CMA H. Padmanabhan, Chairman CAT and AAT Board of the Institute. CMA B.B. Goyal, Advisor, ICWAI MARF and former Addl. Chief Adviser (Cost), Ministry of Finance, GoI moderated the session and CMA (Dr.) P.V.S. Jagan Mohan Rao, Immediate Past President & Advisor SAFA and Former Council Member of the Institute was the resource person who deliberated in detail on the topic.

I now present a brief summary of the activities of various Departments/Committees/ Boards of the Institute, in addition to those detailed above:

AGRICULTURE TASK FORCE

It gives me immense pleasure to inform that the Institute through its Agriculture Task Force has observed 'National Farmers' Day' on 23rd December 2020 by organising Agriculture Meets by RCs and Chapters of the Institute across the country. I congratulate CMA P. Raju Iyer, Vice President of the Institute and Chairman of Agriculture Task Force for taking initiatives towards exploring the ways and means of Augmenting Farmers Income by utilizing by skills and expertise of CMAs. I am thankful to my Council Colleagues who have extended their whole-hearted support for the venture.

- National Conference on Sustainable Agriculture for Atmanirbhar Bharat

Agriculture Task Force of the Institute organised a National Conference on the theme "Sustainable Agriculture for Atmanirbhar Bharat" on 23rd December, 2020 at Jamshedpur, Jharkhand. I had the opportunity to attend the National

Conference which was inaugurated by Shri Mahesh Poddar, Hon'ble Member of Parliament, Rajya Sabha (virtually) & Shri Kunal Sarangi, MLA, Jharkhand and graced by Shri Jagdish Arora, Executive Director, Steel Authority of India (virtually), CMA Kunal Banerjee, Past President of the Institute, CMA P. Raju Iyer, Vice President and Chairman, Agriculture Task Force (virtually), CMA Chittaranjan Chattopadhyay, Chairman, Banking, Financial Services & Insurance Committee and Indirect Taxation Committee, CMA Avijit Goswami, Former Council Member, CMA Santosh Sharma, Agriculture Task Force Member, CMA Rakesh Sinha, Agriculture Task Force Member, CMA Jyoti Prakash, Chairman of Jamshedpur Chapter, CMA Rameshwar Prasad, Vice Chairman of Jamshedpur Chapter of the Institute, CMA Sudipta Ghosh Das, Women Agriprenuer and Shri Rajeev Kr Gupta, Finance Officer (VRS), Government of Jharkhand & Curator, TEDxKanke. The Agri meet witnessed the participation from members of the Institute, Agri scientists from Birsa Agriculture University, Agri economists, green infrastructure experts, floriculture experts, dairy experts, FPO's and agripreneurs.

I am happy to share that the Agriculture Task Force of the Institute released a Concept Paper on "Augmenting the Farmer's Income: Roadmap for CMAs" in this National Conference. We feel elated to receive a message from **Hon'ble Prime Minister of India, Shri Narendra Modi** congratulating the Institute for its efforts and value-added services to join the Government initiative in Doubling Farmer's income. It was also endorsed by Shri Narendra Singh Tomar, Hon'ble Union Minister of Agriculture & Farmers Welfare, Rural Development and Food Processing Industries who also has accorded his message congratulating the effort made by the CMAs in making an Atmanirbhar Bharat in its true sense. Shri Parshottam Rupala, MoS (Agri & Farmer Welfare) also complemented the Institute for putting efforts in Augmenting Farmer's Income and for bringing out the Concept Note on Agriculture.

⊙ National Agriculture Meet

I am happy to inform that the Institute also organised a virtual National Agriculture Meet on 23rd December 2020. Shri Nitin Jairam Gadkari, Hon'ble Minister for Road Transport & Highways and Micro, Small and Medium Enterprises, Government of India has addressed as the Chief Guest in the "National Agriculture Meet" through virtual platform. The inaugural issue of CMA Agri Bulletin was released by Hon'ble Minister. The Institute also signed an MOU with GPS Institute of Agricultural Management, Bengaluru to jointly associate & work towards contributing in the field of Agriculture and related activities, conducting joint research in areas of Agriculture Costing and Pricing and also in organizing joint seminars, conferences, workshops and short-term continuing education programs.

Shri N. Ramchander Rao and CMA PVN Madhav, Hon'ble MLCs, Telangana addressed as the Guests of Honour in the National Agriculture Meet. CMA P Raju Iyer, Vice President and Chairman, Agriculture Task Force of the Institute had given the welcome address followed by my address. CMA Chittaranjan Chattopadhyay, Chairman, BFSI Committee and Indirect Taxation Committee moderated the inaugural session which also had special address from dignitaries.

Members of Agriculture Task Force of the Institute - CMA (Dr.) Shreehari Chava, CMA (Dr.) Arindam Gupta, CMA Zitender Rao, CMA Rabindra Kaushik, CMA (Dr.) K Ch A V S N Murthy, Chairman, Journal & Publications Committee, CMA Neeraj D. Joshi, Chairman, Management Accounting Committee were present and offered their valuable address in the Agri Meet. CMA Jyotsna Rajpal, Coordinator Nagpur Chapter, ICAI also shared her thoughts with the participants.

⊙ Agriculture Meet by Nagpur Chapter

I wish to inform that the Nagpur Chapter also observed 'National Farmers' Day' on 22nd December 2020. The virtual Agriculture meet was inaugurated by me and Shri LL Raval, CGM, NABARD & graced by Shri Samay Bansod, Whole Time Director, Manas Agro Industries & Infrastructure Ltd., CMA PV Bhattad, Past President, CMA P. Raju Iyer, Vice President and Chairman, Agriculture Task Force, CMA Chittaranjan Chattopadhyay, Chairman BFSI Committee, CMA Shriram Mahankaliwar, RCM, WIRC, CMA Anil Verma, Chairman of Nagpur Chapter, CMA VVS Murthy, Secretary, Nagpur Chapter, CMA (Dr.) Shreehari Chava, Member, Agriculture Task Force, CMA Jyotsna Rajpal, Coordinator Nagpur Chapter.

BOARD OF ADVANCED STUDIES & RESEARCH

The Board of Advanced Studies & Research of the Institute of Cost Accountants of India in association with SAP India organized a Virtual International Seminar on 'Digital Transformation with SAP S/4HANA' on 6th December 2020. I had the opportunity to inaugurate the virtual event. The welcome address was delivered by CMA Debasish Mitra, Chairman, Board of Advanced Studies & Research and a special address was delivered by CMA P. Raju Iyer, Vice President of the Institute. The vote of thanks was offered by CMA (Dr.) D.P. Nandy, Sr. Director, ICAI.

Speakers at the technical sessions were Dr. Ravi Surya Subrahmanyam, Director, SAP Practice – The Hackett Group India Ltd., CMA Anirban Mukhopadhyay, SAP Consultant UK, CMA Dinesh Choudhary, SAP Consultant UK, CA CS Ravi Gupta, SAP Finance Expert and CA Soumya Bhattacharya, SAP Program Manager, Capgemini. The objective of the webinar was to provide an overview on SAP S/4HANA and its Capabilities in the area of Financial and Cost Accounting. Speakers of the Webinar shared their Experience on SAP S/4HANA Finance with respect to Digitalization and Digital Transformation with SAP S/4HANA. Nearly 500 Participants including members and students had participated and benefited out of this webinar.

The Institute has entered into an MoU on 23rd December 2020 with National Institute for Micro, Small and Medium Enterprises, Hyderabad, an Organization of the Ministry of MSME, Government of India for academic, training and research collaboration to assist MSME sector in India during a virtual seminar in the presence of Shri Nitin Jairam Gadkari, Hon'ble Minister for Road Transport & Highways and Micro, Small and Medium Enterprises, Government of India. The Board of Advanced Studies & Research of the Institute is entrusted to execute the activities in association with NI-MSME.

CORPORATE LAWS COMMITTEE

I am pleased to share that the Corporate Laws Committee organised a special 4 session series on valuation related to IND AS by an eminent speaker. The course was spread over 2 weeks and was very much appreciated by the members and other professionals. The Committee is encouraged to organize various such special series on Corporate and other related laws.

DIRECTORATE OF CAT

WEBINT

CAT Directorate continued conducting the webinars on vivid topics suiting young CAT & CMA students, learned Members of the Institute and exclusively for women.

The Webinar Series "Youngsters - Be Entrepreneurs" being organised jointly with T&EF committee every Saturday has garnered a great response as it is being held at an opportune moment while CAT & CMA examination are around the corner. Also, a completion certificate will be awarded upon attending all the sessions of the Webinar series. Further, and most importantly, an exemption from undergoing mandatory internship under CAT course of forty five (45) days shall be granted to the students, again upon attending all the sessions of the Webinar series.

The WEBINT series on Companies Act, 2013 with Companies (Amendment) Act, 2020 was concluded on 28th December, 2020. I am happy to learn that all the ten sessions held under this series were taken well by you all. The concluding session, which was moderated by CMA B.B. Goyal, Former Addl. Chief Adviser (Cost), Ministry of Finance, had a galaxy of eminent speakers and stalwarts of the CMA profession.

The "Women's Exclusive" WEBINT series on 'Life and Work Management' continued in the month of December 2020 too. Women face a unique set of challenges balancing their lives at workplace and home, I believe the deliberation at this series must have helped them to get motivation as to how to tackle those.

The weekly WEBINT series on IND AS has resumed from Sunday the 20th December, 2020 and will be running each Sunday this month too. I urge your active participation in such an important topic.

I place on records the efforts of CMA H. Padmanabhan, Chairman, Committee for Accounting Technicians (CAT), who is able to connect with Members and student folk equally through these sessions, which is reassuring for them that the Institute thrives to offer them all the assistance during these hard times.

CAT Meetings and Development

The delegation of CAT held a Meeting with Shri Nawab Malik, Hon'ble Minister for Skill Development and Entrepreneurship, Government of Maharashtra on 18th December, 2020 in Mumbai requesting to implement the CAT course in the state of Maharashtra for the benefit of youth of the state. I compliment all members of CAT under the Chairmanship of CMA H. Padmanabhan and the officials of the CAT team for their excellent execution. Further, team CAT is in constant touch with the Ministries of Minority Affairs and Skill Development of Government of India to get the CAT course recognised and implemented under their schemes. Furthermore, the proposal sent by the CAT Department to the Chief Ministers of all the states of India is eliciting a positive response; latest in the fray is response from the state of Assam who wants to get the CAT Course implemented across the state. As a follow up to the proposal, team CAT visited the state of Jharkhand. More developments are in the offing and I am hopeful that in my next communiqué I may share another slice of good news w.r.t. CAT course.

Seminar in Budaun (Uttar Pradesh) for promotion of CAT Course

I am glad to see the activities towards promotion of the CAT course that had come to a grinding halt are slowly coming to normalcy. The CAT Directorate has been receiving requests from its existing partners for visiting their institution for the promotion of CAT course. Based on such a request, the CAT Directorate conducted a Seminar on 21st December, 2020 at Asim Siddiqui Memorial Degree College in Budaun, Uttar Pradesh. The visiting team from CAT addressed the gathering at that college and let the students know the benefits, advantages and future prospect of CAT course.

CAT Examination Foundation Course (Entry Level) Part - I Examination - January 2021 term

I wish students all the best for the examination scheduled to be held on 17th January, 2021. It may be recalled that the examination will be held through online mode wherein candidates would not be required to go out and can appear using mobile/laptop/desktop/tab from the safety of their home only.

PROFESSIONAL DEVELOPMENT & CPD COMMITTEE

I would like to congratulate the Chairman, Professional Development & CPD Committee for an initiative to conduct the online Mandatory Capacity Building Training (e-MCBT) for the new practitioners who have acquired COP on and from 1st February 2019 covering practical aspects in allied areas of practice. I am glad to inform you that Professional Development Directorate has successfully conducted the 1st batch of e-MCBT on weekends during 7th November 2020 to 20th December 2020. The deliberations in the technical sessions and interactive sessions by the eminent speakers across the country were highly appreciated by the participants.

Keeping in view the encouraging response from 1st batch of e-MCBT, we are delighted to announce the enrollment for 2nd batch started on 1st January 2021. We look forward to have more participation for this batch.

I would like to inform you that the **UDIN Amnesty Scheme, 2020** of the Institute of Cost Accountants of India has been **extended by one month, i.e., upto 31st January, 2021**. The Practising Cost Accountants who have not generated UDIN within 15 days of signing the document from **1st October 2019 to 31st December 2020** are permitted to generate the UDIN under this Amnesty Scheme through UDIN portal of the Institute.

PD Directorate sent representation letters by mail to various organizations for the inclusion of Cost Accountants for providing professional services. I am pleased to inform you that on Institute's representation, Assam Inland Water Transport Development Society (AIWTDS) and Sports Authority of Gujarat included Cost Accountant Firms for Internal Audit.

The PD Portal has details for Tenders/EOIs during the month of December 2020, where Cost Accountants are required in National Health Mission Idukki, District Health & Family Welfare Society Karnal, District Health & Family Welfare Society Yamunanagar, Assam Inland Water Transport Development Society (AIWTDS), District Health & Family Welfare Society Panchkula, Municipal Corporation Adityapur, District Health & Family Welfare Society Kurukshetra, Sports Authority of Gujarat, Braithwaite & Co. Limited, National Health Mission Jind, Rajasthan State Mines

& Minerals Limited, West Bengal State Food Processing & Horticulture Development Corporation, District Health & Family Welfare Society Gurugram, Jammu & Kashmir Project Construction Corporation Limited (JKPCC Ltd.), Kerala State Electricity Board Limited (KSEBL), Hindustan Copper Limited, Neyveli Lignite Corporation (NLC) India Limited, Jharkhand Bijli Vitran Nigam Limited, Ranchi, Airport Authority of India Guwahati, Odisha Mining Corporation Ltd., Ferro Scrap Nigam Limited, Ulhasnagar Municipal Corporation, Chandigarh International Airport Limited (CHIAL), etc.

Professional Development and CPD Committee along with PHD Chamber of Commerce and Industry is organizing "GST Knowledge Series". The first webinar session was held on 17th December 2020 on "GST Annual Return (GSTR-9) and GST Audit Report (GSTR-9C), Open Issues, Challenges and Way Forward".

During the month of December 2020 around hundred webinars were organised by different committees of the Institute, Regional Councils and Chapters on topics of professional relevance and importance. We are sure our members are immensely benefited with the deliberations in the sessions.

INTERNATIONAL AFFAIRS COMMITTEE

As informed in my earlier communiqué that the Institute is receiving overwhelming response from various Embassies/ High Commissions in India to the Expression of Interest submitted conveying our intent to train their people in the Cost & Management Accounting techniques/ methodologies, impart CMA course, and help promote their own CMA Institute. During the month, CMA Vijender Sharma, Chairman, International Affairs Committee along with CMA B.B. Goyal, Advisor, ICWAI MARF & Former Addl. Chief Adviser, Ministry of Finance, GoI had the opportunity to meet Mr. Milan Distal, Third Secretary and Mr. Frantisek Jirasek, Counsellor of the Embassy of the Czech Republic and H.E. Mr. Sinisa Pavic Ambassador, Embassy of Republic of Serbia. Subsequent to these meetings, the Institute has also submitted the detailed proposal along with draft MoUs to five embassies in Delhi, namely (i) Islamic Republic of Afghanistan, (ii) Republic of Trinidad and Tobago, (iii) Republic of Ghana, (iv) Czech Republic and (v) Republic of Serbia and a detailed proposal to the Kingdom of Lesotho for their kind consideration.

On 15th December 2020, CMA Vijender Sharma, Chairman International Affairs along with CMA B.B. Goyal had a meeting with Shri Manoj Pandey, Joint Secretary to the Government of India, Ministry of Corporate Affairs to discuss about the efforts being made by the Institute to promote CMA course in other countries and requested the Ministry to sensitize our Diplomatic Missions, through the Ministry of External Affairs, to extend required help to the Institute in promoting the CMA Course.

- **CAPA Members Meeting and EGM**

I wish to inform that I along with CMA Balwinder Singh, IPP and CMA Vijender Sharma, Chairman International Affairs Committee attended the CAPA Members Meetings on 9th December 2020. I also attended the CAPA EGM wherein the initiatives taken by CAPA during 2020 were discussed.

- **65th SAFA Board meeting**

I along with CMA P Raju Iyer, Vice President and CMA Balwinder Singh, IPP attended the 65th meeting of South Asian Federation of Accountants (SAFA) Board held on 20th December 2020.

TAX RESEARCH DEPARTMENT

The Tax Research Department has submitted a representation for Inclusion the name of CMAs in DGFT Portal and I am happy to inform you that it has been intimated from DGFT that name of CMAs has been included as desired. Request for Inclusion of Cost Accountants (CMA) in Advertisement No.1/ 2020-21 of IDBI Bank and extension of due date of Income Tax Returns and Tax Audit Report for A.Y. 2020-21 has been submitted to the respective authorities.

Tax Research Department on behalf of the Institute participated in Pre-budget meeting for Union Budget 2021-22 on 23rd December 2020 and placed the suggestions before CBDT on DT and IDT matter of Inclusion of Cost Accountants in the definition of 'Accountant' under section 288(2) of Income Tax Act, 1961 has also been presented before the members of CBDT by CMA P Raju Iyer, Vice- President, ICAI.

Webinars have been conducted on the topics: (i) Recent Changes in GST (ii) E-Invoicing in GST (iii) Issues in Presumptive Taxation-Section 44AD, 44AE and 44AE and (iv) The Recent Changes in 26AS, New ITR Forms & TDS related issues. Classes for all the Taxation Courses- (i) Certificate Course on GST, (ii) Advanced Certificate Course on GST, (iii) Certificate Course on Filing of Returns, (iv) Certificate Course on TDS are going on seamlessly. Taxation portal is being updated regularly. The 77th and 78th Bulletin has been published.

BANKING, FINANCIAL SERVICES AND INSURANCE COMMITTEE

- **Launch of the 2nd Batch of Certificate Courses on Credit Management of Banks:**

The 2nd batch of the Certificate Course on Credit Management of Banks have started from 26th December, 2020 in virtual mode. The admission for the 2nd batch of Certificate Courses on Concurrent Audit of Banks and Certificate Course on Treasury and International Banking has been taken till 31st December and the courses would thereafter start for the benefit of the participants.

- **Launch of Banking, Financial Services and Insurance (BFSI) Chronicle – 4th Volume - December 2020:**

The 4th volume of the BFSI Chronicle was successfully published in electronic mode as done on previous occasions which contains articles of contemporary interest by experts from the BFSI sector. I compliment CMA Chittaranjan Chattopadhyay, Chairman, BFSI Committee for bringing out successfully the 4th edition of the BFSI chronicle."

- **Certificate Course on Investment Management in joint collaboration with NISM:**

We have started the 2nd batch of Investment Management (Level1)- Stock Selection and Trading on Equity on 12th December, 2020. The 1st batch which had started from 18th October was concluded on 29th November, 2020. We have declared the results and issued the Certificates to the successful candidates. We are very happy to state that the 3rd batch admission for the Investment Management (Level1) had already started and very soon we would start the 1st batch of Investment Management (Level II): Technical Analysis and Mutual Fund. We hope the members and students would take the opportunity by taking admission in the course of capital markets which is very useful in today's scenario.

- **WEBINT on ''International Conclave on Macro Economics, International Trade, Banking & Finance in Post Covid-19' on 3rd December 2020:**

The BFSI Committee organized the event to discuss and deliberate on the contemporary issues in the areas of Macro Economics, Banking & Finance and International Trade. The WEBINT was moderated by Prof (Dr.) Sugata Marjit, Distinguished Professor, Indian Institute of Foreign Trade (IIFT) & Former Vice Chancellor, University of Calcutta as Guest of Honour and Panelist in the said WEBINT. Prof Lakshman R. Watawala, President, ICMA Sri Lanka delivered the opening address while other speakers were Dr. Manoj Pant, Director, IIFT, Dr. Hiranya Mukhopadhyay, Principal Public Specialist of Asian Development Bank, Dr. Soumya Kanti Ghosh, Group Chief Economic Adviser, State Bank of India and CMA Agneshwar Sen Associate Partner and Head Trade Policy, Tax and Economic Policy Group EY, LLP. The concluding remarks was given by CMA B.B. Goyal, Former Addl. Chief Adviser, Ministry of Finance, and Head of Indian Cost Accounts Service. It was attended by members globally and the event was very successful. The WEBINT had generated great interest among the audience including stakeholders and print media and the same was adequately covered in Indian Express daily in its all the editions on 12th December 2020.

- **Webinars:**

The BFSI Department had organized 4 webinars on FEMA 1999, Hedging Forex Risk and Trade Finance. The Department would be organizing such webinars every weekend and CMA Nijay Gupta, Forex Expert would be presenting in these sessions which would be beamed every Saturday from 10 am to 12 pm in the coming weeks. We request all the members to join in large numbers to understand and comprehend the matters related to International Finance.

- **Joint Webinar:**

A Joint webinar was organized with Indian Chambers of Commerce and PFRDA on Understanding the impact of the pandemic on Retirement Benefits Planning. The Keynote Address presented by the speakers namely Shri Supratim Bandyopadhyay, Chairman, PFRDA, Shri Mono Phukon, General Manager, PFRDA, Ms. Preeti Chandrashekhar, India Business Leader-Health & Wealth and Fellow Actuary, Mercer and Ms. Bahroze Kamdin, Partner, Deloitte Haskins & Sells LLP. CMA Chittaranjan Chattopadhyay, Chairman, BFSI Committee presented his views and offered the vote of thanks for the programme.

MANAGEMENT ACCOUNTING COMMITTEE

I am happy to share that the Management Accounting Committee under the Chairmanship of CMA Neeraj D. Joshi has successfully organized a 5-day WEBINT series of 'Capacity Building Program on Integrated Reporting' from 14th to 18th December, 2020. Dignitaries from various industries had addressed this valuable program. I congratulate the Chairman for such an exceptional program on Integrated Reporting, which is very relevant at present times. I thank the eminent speakers, CMA Raj Mullick, Senior Executive Vice President, RIL; Mr. Michael Bray, Director In-Country Engagement, IIRC; Mr. Rajendran Arunachalam, Executive Vice President & Group CEO, Thermax Ltd.; CMA Dr. Asish K. Bhattacharyya, former Director IMT Ghaziabad and former Professor of IICA, Manesar; CMA Milind Date, Director (Learning & Development), ISDC; Mr. Nitin Kumar and Ms. Mitika Bajpai both Corporate Responsibility Managers, RIL; A special address was presented by the Immediate Past President of the Institute, CMA Balwinder Singh, who is also the Nominee of the Institute on International Integrated Reporting Council (IIRC).

MEMBERSHIP DEPARTMENT

During the month of December 2020, 132 new members have been enrolled as Associate members and 30 Associate members have been upgraded to Fellowship. I congratulate and extend a warm and hearty welcome to all such members.

To enjoy all the benefits of membership I call upon all final passed students having 3 years of relevant working experience to apply for Associate membership at the earliest. Application for membership are available both by online and physical copy mode. For ready reference the link for online application of membership is as follows - https://eicmai.in/external/ChooseApplicationType.aspx.

ICMAI REGISTERED VALUERS ORGANISATION (RVO)

I am pleased to share that ICMAI RVO has organized the 10th Online Batch for Securities or Financial Assets, 6th COP Programme for Registered Valuers, 1st Master Class on Valuation, Workshop Cum Interactive Meet - Issues Relating to Valuation in Current and Emerging Scenario and Saturday Webinar on regular basis.

INSOLVENCY PROFESSIONAL AGENCY (IPA) OF THE INSTITUTE

Insolvency Professional Agency of the Institute has organized Master Class on Group Insolvency on 5th & 6th December 2020, Webinar on Insolvency and Bankruptcy Journey and way forward in association with Enqube collaborations on 14th December 2020, Master Class on Personal Guarantors to Corporate Debtors from 18th to 20th December 2020, Pre- Registration Training jointly by 3 IPAs during 21st to 28th December 2020 and Roundtable on Discussion Paper on Engagement of Professionals on 22nd December 2020 for the professional development of its members.

From the core of my heart, I wish prosperity and happiness to members, students and their family on the occasion of New Year, Guru Gobind Singh Jayanti, Lohri, Birthday of Swami Vivekananda, Makar Sankranti, Pongal, Netaji Subhas Chandra Bose Jayanti & Republic Day and wish them success in all of their endeavours.

I wish students all the best for their online examination!

Stay safe and healthy!

With warm regards,

Biswarup Basu

CMA Biswarup Basu

January 1, 2021

SUSTAINABLE AGRICULTURE FOR ATMANIRBHAR BHARAT

Message from Hon'ble Prime Minister of India, Shri Narendra Modi congratulating the Institute for its efforts and value-added services to join the Government initiative in Doubling Farmer's income

सत्यमेव जयते

प्रधान मंत्री
Prime Minister

MESSAGE

It is heartening to learn that The Institute of Cost Accountants of India has organised a virtual 'Agriculture Meet' on December 23, 2020. The Concept Paper on agriculture "Augmenting the Farmers' Income: Roadmap for CMAs" being brought out on the occasion is commendable.

The growth and prosperity of the nation is intimately connected to agriculture and the all-round development of our farmers. Adopting a holistic approach, we have been giving utmost importance to agriculture sector.

From strengthening existing infrastructure to leveraging technology-intensive methods, our integrated measures are aimed at transforming the lives of our hardworking farmers.

Comprehensive steps from seed to market are constantly opening new vistas of opportunities for our farmers. Continuous boost to agriculture and allied sectors is giving farmers the independence to take decisions, providing them more options for better prices of their produce and easy access to modern methods of farming. Valued stakeholders like ICAI's such an endeavour adds strength to our resolve towards a prosperous future for our *Annadata*.

The deliberations during the 'Agriculture Meet' and the Concept Paper being brought out will surely chart out a roadmap to augment the income of our farmers.

Best wishes for all success of the digital Meet and the publication of the Concept Paper.

(Narendra Modi)

New Delhi
पौष 01, शक संवत्, 1942
December 22, 2020

CMA Biswarup Basu
President
The Institute of Cost Accountants of India
CMA Bhawan, 3, Institutional Area
Lodhi Road
New Delhi

SUSTAINABLE AGRICULTURE FOR ATMANIRBHAR BHARAT

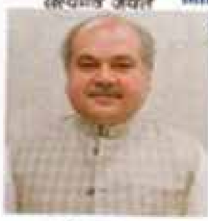
Message from Shri Narendra Singh Tomar, Hon'ble Union Minister of Agriculture & Farmers Welfare, Rural Development and Food Processing Industries, Government of India congratulating the effort made by the CMAs in making an 'Atmanirbhar Bharat' in its true sense

नरेन्द्र सिंह तोमर

NARENDRA SINGH TOMAR

कृषि एवं किसान कल्याण,
ग्रामीण विकास और पंचायती राज मंत्री
भारत सरकार
कृषि भवन, नई दिल्ली

MINISTER OF AGRICULTURE & FARMERS WELFARE,
RURAL DEVELOPMENT AND PANCHAYATI RAJ
GOVERNMENT OF INDIA
KRISHI BHAWAN, NEW DELHI



Message

It gives me immense pleasure to know that the Institute of Cost Accountants of India is organizing a **National Conference on "Sustainable Agriculture for Atmanirbhar Bharat" on 23rd December, 2020.**

I am proud that the Institute is the 2nd largest Cost & Management Accounting body in the World and the largest in Asia, having approximately 5,00,000 students and 85,000 qualified CMAs either in practice or in employment all over the globe.

'Atmanirbhar Bharat Abhiyan' focuses on the importance of promoting local products. The mission is also expected to complement "Make in India" initiative which intends to encourage manufacturing in India including agriculture sector which has a great potential. Atmanirbhar Krishi is important to achieve the goal of Atmanirbhar Bharat.

Sustainable agriculture envisages balanced Agri mix between food grains, pulses, cereals, vegetables and so on. Therefore the Indian farmers need to be properly educated and encouraged about the optimal agri product mix wherein the Institute of Cost Accountants of India can play a pivotal role.

I firmly believe that the Cost Accountants are capable enough in devising such a cost mechanism to reduce the cost of agricultural products substantially and to increase the operational efficiency to enable the farmers to achieve higher levels of Income.

Agricultural Costing can assist the policy planners opting balanced approaches towards inclusive growth by enabling optimized resources access and use.

I whole-heartedly look forward to the CMA fraternity for their professional involvement and assistance towards fulfilling the noble initiative of the Government. It is highly commendable that the Institute has already been taking a number of good initiatives to raise awareness in the agricultural domain for the benefit of the society at large.

I am pleased to learn that the Agriculture Task Force of the Institute of Cost Accountants of India is bringing out Concept Paper on Agriculture emphasizing augmenting farmers income.

I extend my best wishes to the Agriculture Task Force of the Institute for taking such thoughtful initiatives and wish the Conference a grand success.

(Narendra Singh Tomar)

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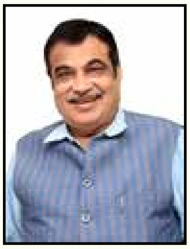
SUSTAINABLE AGRICULTURE FOR ATMANIRBHAR BHARAT

Message from Shri Nitin Gadkari, Hon'ble Union Minister For Road Transport & Highways & Micro, Small and Medium Enterprises, Government of India

नितिन गडकरी
NITIN GADKARI



सत्यमेव जयते

मंत्री
सड़क परिवहन एवं राजमार्ग;
सूक्ष्म, लघु एवं मध्यम उद्यम
भारत सरकार
Minister
Road Transport and Highways;
Micro, Small and Medium Enterprises
Government of India

Message

I am delighted to know that the Institute of Cost Accountants of India is organising a "Agriculture Meet" across the country to observe 'National Farmers Day' on 23rd December, 2020.

Agricultural sector plays a strategic role in the process of economic development of a country. Indian agricultural industry, with its allied sectors, is undeniably the largest livelihood provider in India. Most of the industries depends upon agri sector for their raw materials.

Cost Accountants can help the farmers in reducing the cost of the Agriculture, increasing the revenue and searching the multiple sources of additional revenues. The contribution of the CMAs in price regulation of the essential commodities, cost control of the PSUs, and wealth maximisation of the manufacturing & service sectors is well known. The entry of CMAs into agriculture sector is a laudable initiative.

I am pleased to learn that the Institute of Cost Accountants of India is bringing out the Concept Paper on Agriculture and CMA Agri Bulletin which emphasizes the role of CMAs in Augmenting the Farmers income. It is commendable that the Institute has already been taking a number of initiatives to raise awareness through various programmes that they have been organising.

I congratulate the Agriculture Task Force of the Institute of Cost Accountants of India for taking such initiatives. I convey my best wishes for future endeavours.

(Nitin Gadkari)

Date: 17th December, 2020
Place: New Delhi

Room No. 501, Transport Bhawan, 1, Sansad Marg, New Delhi – 110 001, Tel.: (RTH) 011-23710121, 23711252 (O), 23719023 (F).
Room No. 168, Udyog Bhawan, Rafi Marg, New Delhi – 110 011, Tel.: (MSME) 011-23061566, 23061739 (O), 23063141 (F).
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NATIONAL FARMERS' DAY CELEBRATION AND NATIONAL AGRICULTURE MEET

23rd December, 2020

Key takeaways of the Agriculture Meet

- Upgrade farmers to Agripreneurs
- Create Smart farms around every Smart City
- Collect agri data and help farmers in taking more informed decisions
- Use a blend of Natural Intelligence and Artificial intelligence in agriculture
- Create low-cost sustainable warehouses, food processing units and other infrastructures around farms
- To build up an efficient supply chain
- Help FPO's, cooperatives and other agri organizations with Cost and management expertise
- Help government in designing policies and plans for the new age farmers
- Institute can help in Minimum Support Price (MSP) calculation
- MSP Pricing may be transformed into Compatible Support Pricing
- Role in Export Pricing Policy Mechanism
- Strategies of forward and backward integration in agriculture
- Promoting integrated and scientific farming
- Promoting quality output per rupee and per acre
- Using by-products of agriculture for different other uses like ethanol as fuel etc.

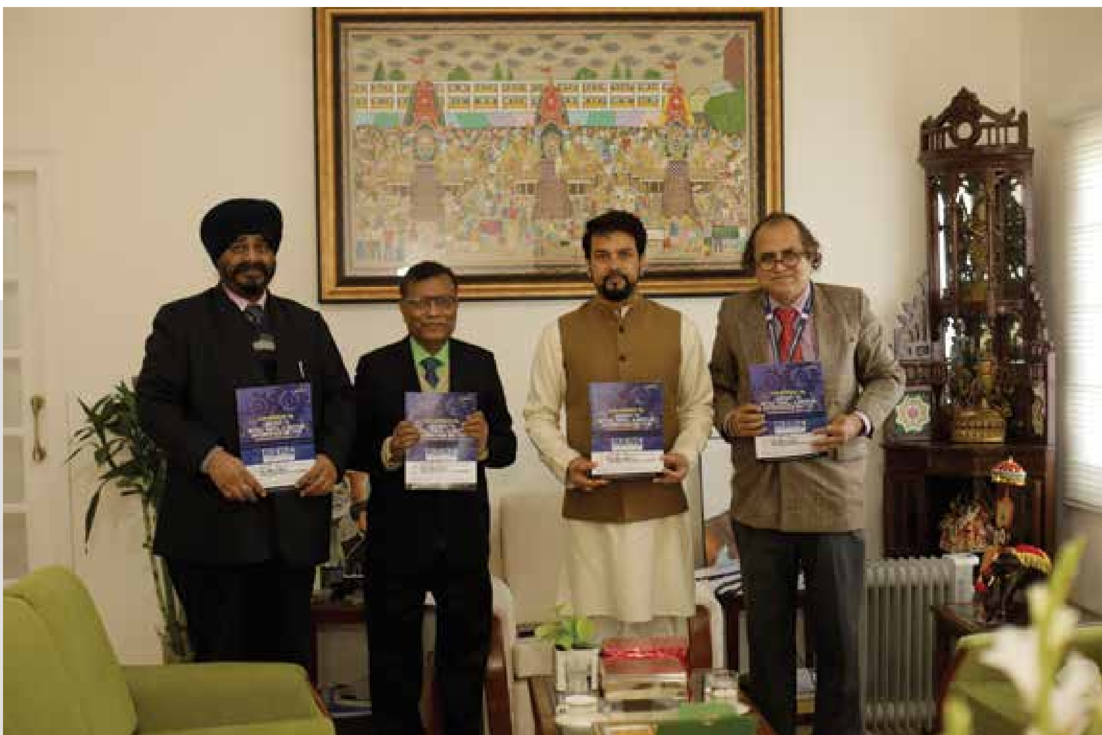
Role for CMAs in Agri Sector

- Pricing
- Revenue Management & Cost Control
- FPO Management
- Financial Services
- Agricultural Supply Chain Development
- Inventory Management
- Capacity Building
- Agricultural Value Chain Management
- Cost Benefit Analysis
- Value Added Studies
- Mechanization
- Sustainability
- Transition from Agri 4.0 to Agri 5.0

GLIMPSES OF CELEBRATION OF NATIONAL FARMERS' DAY
organized by Agriculture Task Force of the Institute on 23rd December, 2020 at Jamshedpur, Jharkhand

Institute presented copy of Inaugural Volume of CMA Agri Bulletin to Hon'ble Minister of State for Finance and Corporate Affairs Shri Anurag Singh Thakur on 30th December 2020

CMA Biswarup Basu, President, CMA Balwinder Singh, Immediate Past President and CMA Chittaranjan Chattopadhyay, Chairman BFSI Committee & Indirect Taxation Committee of the Institute extending greetings to Shri Anurag Singh Thakur, Hon'ble Union Minister of State for Finance and Corporate Affairs on 30th December 2020.



Release of "Aide Memoire on Lending to Micro Small and Medium Enterprises Sector" (including restructuring of MSME credits) at the hands of Shri Anurag Singh Thakur, Hon'ble Union Minister of State for Finance and Corporate Affairs on 30th December 2020.

FROM THE DESK OF CHAIRMAN

Banking, Financial Services & Insurance Committee
The Institute of Cost Accountants of India

CMA Chittaranjan Chattopadhyay

Amidst a global crisis, the role of Financial Institutions has become more vital than ever. Banks and Financial Markets have to reinvent themselves on the fly while implementing New Government Programs in weeks instead of years keeping security and compliance mandates intact.

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 customers' expectations and improve profitability. The future of banking in India looks not only exciting but also transformative. Despite somewhat difficult Current Operating Environment, the 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 will continue to develop and expand.

CMAs are playing a major role in framing business strategy and value creation of any organization. Some of the major role of CMAs are:

- Improving Cost Competitiveness.
- Resource & Performance Management.
- Financial Reporting and Strategy.
- Cost Audit and Assurance.
- Direct and Indirect Taxation.
- Internal Audit and Management Audit etc.

Financial Services form the lifeblood of economic growth and development. They facilitate setting up of big and small businesses as also for the expansion of business enterprises.

The present issue covers a good number of articles on the Cover Story '*Catalytic Role of the Banking Sector for India's Economic Revival*' by distinguished experts and authors.

'*CMAs Speak on Opportunities in Banking and Finance*' is a new initiative and effort of Journal Department to disseminate the opportunities available to CMAs in Banking Sector. Banking, Financial Services and Insurance (BFSI) Committee in association with the Journal & Publications Committee has taken up the initiative to publish '**Opportunities related articles in Banking Sector**' at one place. Most of the young CMAs and also those who are registered recently as a practising CMAs will find them very informative and useful. The following ten articles contributed by CMAs have found their place in the present "The Management Accountant" Journal under the series of "*CMAs Speak on Opportunities in Banking and Finance*".

1. Opportunities for CMAs under IBC, 2016.
2. Forensic Audit (Financial Institutions & IBC, 2016)
3. Certifications of Borrower Companies.
4. Agencies for Specialized Monitoring – ASM.
5. Stock and Book Debts Audit.
6. Need and Importance of MSME Registration.
7. Process of Re-structuring of Bank Loans.
8. Cost Management in the Banking Industry.
9. Trade Receivables Discount Scheme (TReDS).
10. Import Substitution Industrialization (ISI) and Economic Growth.

The BFSI Department is continuously serving the members with inclusion of three numbers of Certificate courses which are market oriented and useful for the members, banking professionals and others viz, Certificate Course on Concurrent Audit of Banks, Certificate Course on Credit Management of Banks, Certificate Course on Treasury and International Banking. The Department is also having a certificate course on Investment Management in collaboration with NISM (an Institute set up by SEBI). The 1st Batch for all the courses has been completed successfully and the participants have responded with positive vibes for these courses. The Department has also started the BFSI Chronicle which is a journal of the Department. It has compilation of articles in BFSI sector, regular updates in the sphere of BFSI etc. The Department is also providing updates in the BFSI portal for the benefit of all the visitors of the portal. The Department is vigorously representing to Banks, NBFCs, Insurance Companies for opportunities of CMAs. The Department is also representing to the authorities for seeking opportunities for the members and qualified CMAs.

The Department is conducting WEBINARS, WEBINTS and International Conclaves on contemporary topics of interest.

Readers are requested to send feedback to the department and write to bfsi@icmai.in for further improvement of the functioning of BFSI Department.

The best time for new beginning is now...dare to begin...Thank you for remaining with us in the Year 2020, a Year which could never be forgotten...It would be our privilege to remain with you and receive your best wishes for 2021...Wish you a very Safe, Happy and Healthy New Year 2021.

CMA Chittaranjan Chattopadhyay

January 1, 2021

WEBINT HELD ON 3rd DECEMBER 2020 INTERNATIONAL CONCLAVE ON "MACROECONOMICS, INTERNATIONAL TRADE, BANKING & FINANCE IN POST COVID-19"

The Banking, Financial Services and Insurance (BFSI) Committee of the Institute of Cost Accountants of India organized a Webint on **International Conclave on 'Macroeconomics, International Trade, Banking & Finance in Post Covid-19'** on 3rd December, 2020, from 5.00 PM to 7.00 PM.

The International Conclave kicked off with welcome address by CMA Chittaranjan Chattopadhyay, Chairman, BFSI Committee who set the tone of the conclave introducing all the eminent luminaries in the field of Economics, Trade, Banking & Finance. The key note address was delivered by Prof. Lakshman R Watawala, President, Institute of Certified Management Accountants, Sri Lanka and other panellists were Prof. (Dr.) Manoj Pant, Director, Indian Institute of Foreign Trade, CMA Agneshwar Sen, Associate Partner and Head, Trade Policy, Tax and Economic Policy Group EY, LLP; Dr Soumya Kanti Ghosh, Group Chief Economic Adviser, SBI Corporate Centre, Dr. Hiranya Mukhopadhyay, Principal Public Management Specialist, Asian Development Bank and CMA B.B. Goyal, Former Addl. Chief Adviser (Cost); Ministry of Finance, Government of India. The conclave was moderated by Prof. (Dr.) Sugata Marjit, Economist and Distinguished Professor, Indian Institute of Foreign Trade.

CMA Biswarup Basu, President of the Institute delivered the inaugural address stating that the timing of the conclave is very apt and apposite and stressed the need for holding more such conclaves mentioning how the Indian economy has behaved in recent times.

Prof. Lakshman R Watawala, in his address, highlighted how the pandemic has posed an enormous challenge as well as tremendous opportunities for reaching 2030 agenda of Sustainable Development Goals (SDGs). He spoke about Integrated and Sustainability Reporting where Cost and Management Accountants have an enormous role to play. The panel discussion gained momentum with the panel discussion led by Prof (Dr.) Sugata Marjit who drew the sketch of the theme with his lucid speech. Prof. Manoj Pant gave an overview of the present macroeconomic uncertainties and how the thrust has been shifted to the agricultural sector which has acted as an insurance indicator in the post covid 19 scenario.

CMA Agneshwar Sen spoke on the WTO and the trade barriers mentioning about 'MFN' and how India could leverage its position. He delved on the various facets of International Trade in some countries post COVID-19 vis-a-vis in India along with the role of CMAS in industry and trade facilitating promotion of International Trade.

Dr. Soumya Kanti Ghosh mentioned that more than 90% of the transactions have been happening digitally as online banking transactions have become the order of the day. He delved on the behavioral economics stating that the sale of car has increased manifold as people are reluctant to use public transport. Dr. Hiranya Mukhapadhyay spoke about financial stimulus being received by India, Bangladesh, Pakistan and other SAARC nations. He stated that the Government has come out with a package for the MSMEs. Prof. (Dr.) Sugata Marjit summed up the discussions with his thought provoking observations. CMA B. B. Goyal stated that this is not a traditional economic recession causing a serious challenge to the economy. If this situation continues, then the government may be forced for a lockdown again.

The conclave concluded with closing remarks of CMA P. Raju Iyer, Vice President.

LIVE DISCUSSION ON
"CATALYTIC ROLE OF THE BANKING SECTOR FOR INDIA'S ECONOMIC REVIVAL"

Directorate of Journal and Publications of the Institute presented a **Live Discussion** through Google Meet on improvement strategies of the Management Accountant Journal with reference to January 2021 issue based on the theme **"Catalytic Role of the Banking Sector for India's Economic Revival"** held on **December 16, 2020**.

The dignitaries from **The Institute of Cost Accountants of India** who graced the event were, **CMA Biswarup Basu,** President of the Institute**; CMA P. Raju Iyer,** Vice-President of the Institute; **CMA Chittaranjan Chattopadhyay,** Council Member & Chairman**,** Banking, Financial Services & Insurance Committee of the Institute and **CMA (Dr.) K Ch A V S N Murthy,** Council Member & Chairman, Journal & Publications Committee of the Institute**.** We were privileged to have **CMA Mohan Vasant Tanksale**, Former CEO, Indian Banking Association; **CMA DLS Sreshti,** Practicing Cost and Management Accountants; **CMA T S N Raja,** Practicing Cost and Management Accountants; **CMA (Dr.) P. Siva Rama Prasad**, Former AGM, SBI; **Shri B. Raj Kumar**, Former Dy. Chief Executive, Indian Banking Association and also associated with **The Institute of Cost Accountants of India** as an Advisor to the Banking, Financial Services & Insurance Committee; **CMA Manoj Batra**, DGM, IDBI; **Shri Kaushik Chatterjee**, Vice President, Financial Institution and Government Banking Group, RBL Bank and **Dr. Divya Kumar Agrawal**, Chief Manager (Research), State Bank Institute of Credit and Risk Management as **Speakers** of the event.

CMA (Dr.) Debaprosanna Nandy, Director - Studies, Advanced Studies, Research, Training & Placement and Editor of The Management Accountant & Research Bulletin of the Institute was the Moderator of the Live Discussion session. Moreover, all officials of the Journal and Publications Department too attended the Meet.

CMA (Dr.) Nandy asserted that Banking is the pillar of any economy. A robust and resilient banking sector is crucial towards ensuring continued growth of an economy, so from 2014 onwards it has been decided that the first issue of the Management Accountant Journal should be devoted to Banking.

CMA Chittaranjan Chattopadhyay welcomed all the eminent dignitaries and requested Shri Kaushik Chatterjee from RBL to include CMAs in the Customer Profile at par with other professionals, as has been done in the DGFT by including name of Cost Accountants (CMAs) in DGFT Portal in the dropdown "Register User As". Since the January 2021 issue of the Management Accountant Journal is devoted to Banking, this reflects that the Institute is very serious about the BFSI sector and added that lot of CMAs are at the Helm of Affairs at various Banks. Further, congratulated CMA (Dr.) K Ch A V S N Murthy and CMA (Dr). Debaprosanna Nandy for the endeavours taken to organizing such a productive discussion session.

CMA (Dr). P Siva Rama Prasad shared his thoughts regarding the developments required in the Management Accountant Journal. He indicated that the Management Accountant Journal is a *Communication Vehicle* between the Institute and CMA practitioners. More articles are required on professional scope, best strategies and latest guidelines in practice and regulator guidelines. Clippings of 'Job Opportunities', i.e. recruitment notification of various companies, banks, NBFCs for CMAs to be published on monthly basis. Interviews with Promoters of Start-Up Companies / Low Cost of Operations Companies/ e-Marketing/ Online Marketing/ Technology Companies/ Fintech Companies etc. needs to be published in the Journal. This would also help the practicing as well as young CMAs. The Journal should act as a 'Reference Book' and should be handy for 'Day to day Practice' of the CMAs. Both existing and current opportunities that are available to CMAs in the Banking/ Financial System should be communicated through this Journal at frequent intervals; to instigate Young CMA to explore those opportunities.

CMA DLS Sreshti said that the Management Accountant Journal should be very lucid in content and for research based article only the synopsis to be mentioned and some links should be

CMA Biswarup Basu

CMA P. Raju Iyer

CMA Chittaranjan Chattopadhyay

CMA (Dr.) K. Ch. A V S N Murthy

CMA Mohan Vasant Tanksale

CMA DLS Sreshti

CMA T S N Raja

CMA (Dr.) P. Siva Rama Prasad

Shri B. Raj Kumar

Shri Kaushik Chatterjee

CMA Manoj Batra

CMA (Dr.) Debaprosanna Nandy

provided for elaborate study. He stated that in 2014-15, the Independent Evaluation Committee (IEC) was formed to evaluate Techno-Economic Viability (TEV) and the proposed restructuring package. IEC consisted of independent experts, decided by Indian Banks' Association (IBA) in consultation with RBI. The members were selected from institutions engaged in promotion of accounting, finance and industry professions, to ensure unbiased and objective evaluation in each case. Finance representatives were only CMAs and the feedback about their service was noteworthy. There are unlimited areas for CMAs now and the Government is also whole-heartedly supporting them to the extent of their professional development.

Expanding Credit is the primary role that the bank should play to revise the consumer demand. For the benefit of the customers, relaxing the risk assessment models/parameters; structural shift in the government policies, banks should come out and relax their norms for NBFCs so that there can be a strategic partnership between banks and NBFCs; use of Digital Channels and introduction of technology for lending which has become rapid due to covid situation; Digital Trade Financing, another possibility that can happen to make Trade Financing paperless and Net Banking are some of the points highlighted by **Mr. Kaushik Chatterjee,** Vice President, RBL Bank. He further stated that there is a concept known as a *Virtual Relationship Manager* and the vehicle has been used as WhatsApp. Banks are crunching big data using their Robotic Engine and discussing the product and services through WhatsApp with their customers. These models can help the Indian banks in exploring new types of strategic partnership, a new type of risk sharing models and a new type of lending routes.

CMA TSN Raja shared his thought provoking ideas for the improvement of the Journal and opined that there must be a specific mechanism to approach the right professional and scoop out the data and try to put it in a right form of an article and publish the same in the Management Accountant Journal so that practitioners get benefitted.

CMA Mohan Vasant Tanksale in his addres mentioned that acquiring the CMA professional degree helped him to be a successful banker. Also, claimed that CMAs can act to the banker's expectations. Moreover added, that The Management Accountant Journal can include columns on business opportunities for banks, i.e., how banks can invest/ collaborate with Startups and IT companies in the best possible manner to upscale its technological efficiency and improve customer service in return helping them with a host of services including financial, advisory, etc.

Shri B Raj Kumar said that the Journal should be exciting and inspiring. More importance to be given on hands on experience than theory based articles. Success stories of Entrepreneurs and young CMAs can be incorporated; Interviews of heads of associations like CII, FICCI, AIMA, IBA once in a quarter can be published for better networking; one page could be reserved for the renowned speakers in the world of finance; CMA Students can be encouraged to write articles. He also said that one segment to be devoted for HR-based article on People Management. Articles on Digital Banking, DoorStep Banking and Ease 3.0 can be added.

CMA Biswarup Basu, President and **CMA P. Raju Iyer,** Vice-President of the Institute expressed their gratitude for organizing such a thought-provoking discussion session. Also, welcomed the suggestions given by the key speakers. Further, CMA Biswarup Basu, hon'ble President of the Institute proclaimed that all the possible measures will be taken regarding overall improvement of the Journal for the sake of its members and students, as well as for other professionals.

CMA (Dr.) K Ch A V S N Murthy concluded the session thanking all the eminent dignitaries and said that the Institute wants to be more connected with the banking environment. Initiatives will be taken so that this issue becomes a banking reckoner useful for every banker. Besides, expressed his desire to implement the suggestions towards improvement of The Management Accountant Journal in the forthcoming days.

Team - Journal & Publications Directorate

PROGRAM OF THE MANAGEMENT ACCOUNTING COMMITTEE

5-DAYS WEBINT SERIES OF 'CAPACITY BUILDING PROGRAM ON INTEGRATED REPORTING'

14th TO 18th DECEMBER, 2020

The Management Accounting Committee under the Chairmanship of CMA Neeraj D. Joshi had successfully organized 5-day WEBINT series of 'Capacity Building Program on Integrated Reporting' from 14th to 18th December, 2020. Dignitaries from various industries had addressed this valuable program. The program evolved discussions on the concept of Integrated Reporting <IR>, new approach to corporate reporting that helps organizations tell a better story to investors, about how it creates value for the corporate world, how integrated financial reporting can be a real competitive advantage with live cases from the industries, organisation's strategy, business model, governance, performance and future prospects effectively within a broader economic context.

The inaugural session was addressed by Guest of Honours CMA Raj Mullick, Senior Executive Vice President, RIL and Mr. Michael Bray, Director In-Country Engagement of International Integrated Reporting Council (IIRC); the President of the Institute, CMA Biswarup Basu, Vice President CMA P. Raju Iyer; Chairman of the Committee, CMA Neeraj D. Joshi; Immediate Past President, CMA Balwinder Singh who is also the Nominee of the Institute on IIRC. The technical session of day 1 was addressed by CMA Dr. Asish K. Bhattacharyya, former Director IMT Ghaziabad and former Professor of IICA, Manesar; wherein he briefed on the IIRC and its <IR> framework, the evolution of <IR> movement with its benefits and challenges.

Day 2 & 3 of the program was addressed by CMA Milind Date, Director (Learning & Development), ISDC. He detailed on the concepts of <IR>, Integrated Thinking, requirements of <IR>, Value Creation, its guiding principles and influence on internal and external environment. He also discussed some live business cases to introduce the concepts aligning six Capitals into the Business Model.

Day 4 was addressed by two industry experts, Mr. Nitin Kumar and Ms. Mitika Bajpai, Corporate Responsibility Manager Strategists, Reliance Industries Ltd. They presented case study on implementing <IR> from the consultants' perspective. Together, they responded to various questions of the participants who, very eagerly, listened to all the presentations.

The 5th day was addressed by a very prominent personality from the corporate world, Mr. Rajendran Arunachalam, Executive Vice President & Group CFO, Thermax Ltd. He addressed the participants on implementing <IR> from the Industry perspective. A huge number participant attended this 5-days program on Integrated Reporting and showed their utmost eagerness to listen to the expert speakers on the valuable topic. Each day, the program was followed by Question and Answer session, wherein many of the listeners posed their queries for the expert speakers and the presentations of the program were shared with the participants.

GLIMPSES OF
5-DAYS WEBINT SERIES OF
'CAPACITY BUILDING PROGRAM ON INTEGRATED REPORTING'

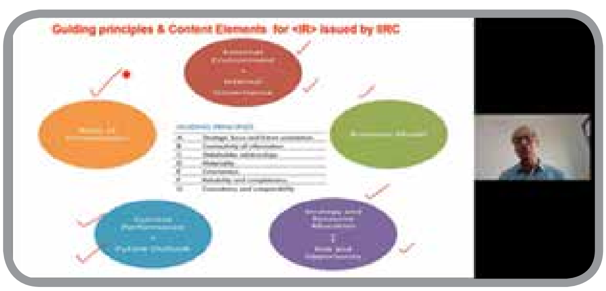












Kind Attention

Our Members, MSME Entrepreneurs, Bankers and Consultants

The Banking, Financial Services and Insurance Committee (BFSI) of The Institute of Cost Accountants of India has brought out a book on **Aide Memoire on Lending to Micro, Small & Medium Enterprises Sector (Including Restructuring of MSME Advances).** This handbook has been released on 30th December 2020 in the august hands of **Shri Anurag Singh Thakur,** Hon'ble Minister of State for Finance and Corporate Affairs. This handbook contains messages from Smt. Nirmala Sitharaman, Hon'ble Minister, Ministry of Finance and Corporate Affairs and Shri Nitin Gadkari, Hon'ble Minister, Ministry of MSME.

This Aide Memoire on Lending to MSME is designed keeping in view the 'All-in-One' book for 'promoters / start-up entrepreneurs', specific skill needs of 'Banking Professionals' in handling the MSME credit portfolio in a Bank and it is a Guidance Note to the practising consultants of MSME Sector.

The book deals with the important Topics related to MSME Sector, some of which are:

- ✓ Registration process.
- ✓ Environmental compliance.
- ✓ How to prepare TEV Report?
- ✓ Process of credit proposals.
- ✓ Credit appraisal of bank proposals.
- ✓ Re-structuring process of bank loans.
- ✓ Registration and eligibility criteria of TReDS.
- ✓ Global Tender
- ✓ Listing guidelines of SEBI etc.

Further, various concepts related to MSME Sector have been explained keeping the practical aspects in focus.

Each chapter in the handbook is important and all endeavours have been made to provide latest developments/ guidelines in the relevant fields to acquire cutting-edge knowledge by the readers.

Price of the Book: ₹500/-

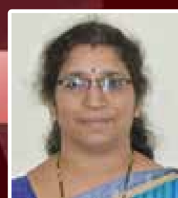
Available:- the BFSI portal on the Institute website ***www.icmai.in***

THE MANAGEMENT ACCOUNTANT

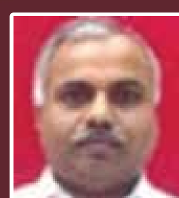
CATALYTIC ROLE OF THE BANKING SECTOR FOR INDIA'S ECONOMIC REVIVAL









4 CMAs SPEAK ON OPPORTUNITIES IN BANKING AND FINANCE

ROLE OF CMAs IN BANKING

CMA Mohan Vasant Tanksale
Former CEO - Indian Banks' Association
Stategic Consultant, SWIFT, India Domestic Services Pvt. Ltd., Mumbai
mohan.tanksale@gmail.com

At the outset let me wish you all a very Happy New Year and wish CMAs are able to complement & supplement the efforts of the Banking Industry in addressing challenges of Asset Quality & Opportunities of Credit Creation. I strongly feel that there could be enough opportunities for CMAs to assist Banking Industry and the Borrowers on the following issues.

1. Efficient due diligence of the Project whether MSME or Large on various data points available in public domain and vetting the financial parameters using cost optimisation characteristics. Because of these skills, CMAs were approved for being part of Independent Evaluation Committee by IBA.
2. Bankers are using external agencies, in case of large accounts above a specific level, for independent credit monitoring, which entails proper utilisation of funds across the supply-chain, proper valuation of assets & application of funds.
3. CMAs can develop expertise in assisting Small & Mid caps entrepreneurs in proper compilation of Project Report which is Technically feasible & Economically viable. The expertise lies in understanding the environment & validate assumptions based on facts & figures.

I will conclude by saying that CMAs can create an environment of confidence & trust between lenders & borrowers.

My best wishes.

CMAs, THE LIFELINE OF BANKING

Abstract

A Bank is a financial institution licensed to receive deposits and make loans. Banks offer variety of services, number of products for deposit & lending and perform multiple activities. In all their activities and operations, Cost & Management Accountants (CMAs) and Cost Accounting Systems play very important and decisive role enabling the managements to take effective decisions & make bank favoured policies & schemes. CMAs assist the banks to accomplish its objectives; to evaluate and improve the adequacy & effectiveness of its operations, internal controls, governance processes, and the risk management & control systems. This in-turn helps banks to improve their performance, efficiency, productivity, profitability, and sustainability.

CMA B. B. Goyal
Former Addl. Chief Adviser (Cost) &
Head, Indian Cost Accounts Service
Ministry of Finance, Govt. of India, New Delhi
goyalbb@gmail.com

Banking is the lifeline of economy; CMA is the lifeline of Banking

What is Banking?

A Bank is a financial institution licensed to receive deposits and make loans. Thus, the core business of banks is acceptance of deposits from public [& institutions] for the purpose of lending or investment. It is a business activity of accepting and safeguarding money owned by other individuals and entities. Banks give a safe place to store cash. This money is then lent out to different class of customers to make profits. In the process, bank helps promote lot of economic activities. The deposits should be repayable on demand or at the end of fixed term and can be withdrawn by cheque, draft, or otherwise.

With the passage of time, the activities covered by banking business have widened and now various other services are also offered by banks. The banking services these days include issuance of debit and credit cards, providing safe custody of valuable items, lockers, ATM services, demat services and online transfer of funds across the country / world. Banks also provide various other services such as wealth management, currency exchange, life & non-life insurance, underwriting, etc.

Category of deposits include saving bank deposits, term deposits, recurring deposits, flexi deposits and NRI deposits. Other deposits include Government schemes like NPS, PPF, RBI Bonds, Senior Citizen Savings, Sukanya Samriddhi Scheme, Gold savings, etc. Loans can be personal loans or business loans. Personal loans include home loan, auto loan, education loan, consumer loan, gold loan, etc. Business loan include project financing, term loan, cash-credit, overdraft, bill of exchange, bill discounting, etc. Banks also grant agriculture/ farm loans and food credits. Besides branch banking, banks now offer internet banking, phone banking, mobile banking, ePay, etc. Banks provide direct & indirect tax payment facility, pension payments, passport Seva Kendra, etc.

Under the Pradhan Mantri Jan Dhan Yojna, large number of 'Unbanked' population has been brought to the banking fold. It helped in transfer of large number of financial benefits under different schemes directly to the accounts of beneficiaries without any middleman or fear of any diversion of public funds to scoundrels or dishonest persons.

Status of Scheduled Commercial Banks

Tables no. 1 below give summarized Balance Sheet of 20 public sector banks, 22 private sector banks, 45 foreign banks and 7 small finance banks as on March 31, 2019. Table no. 2 contains their abridged Profit & Loss Statement for the financial year 2018-19[1]. It may be seen that all scheduled commercial banks put together earned net interest income of Rs.4.3 lakh crore during 2018-19 which was more than 42% of their sum of interest expense and operating expenses. However, they ended up showing net loss after making provisions and contingencies, mainly on account of non-performing assets and bad loans. Largely, the public sector banks are responsible for this plight of banking industry in the country.

[1]All data used in this article has been sourced from the Reserve Bank of India

Table No. 1

Balance Sheet of Commercial Banks as at March 31, 2019

(Rs. Crore)

Details	Public Sector Banks (20)	Private Sector Banks (22)	Foreign Banks (45)	Small Finance Banks (7)	All Scheduled Commercial Banks (94)
1. Capital	51059.94	21344.34	77809.12	4213.25	154426.65
2. Reserves and Surplus	546065.53	527664.99	96978.99	5820.99	1176530.51
3. Deposits	8486214.54	3770012.73	581856.73	49177.69	12887261.69
3.1 Demand deposits	552460.61	517356.08	171907.19	1954.65	1243678.53
3.2 Savings bank deposits	2799444.50	1045648.45	59458.88	7245.34	3911797.17
3.3 Term deposits	5134309.43	2207008.20	350490.66	39977.70	7731785.99
4. Borrowings	761612.21	775324.03	151366.79	21367.21	1709670.24
5. Other liabilities & provisions	317985.47	203590.69	148801.24	2957.43	673334.83
Total Liabilities	**10162937.69**	**5297936.79**	**1056812.88**	**83536.57**	**16601223.92**
1. Cash in hand	42272.77	29835.47	477.52	414.32	73000.09
2. Balances with RBI	413701.34	176818.33	33179.28	1913.47	625612.42
3. Balances with banks & Money at call	359506.55	175075.50	91097.85	4053.55	629733.46
4. Investments	2702386.23	1219516.78	383415.33	14951.95	4320270.30
5. Advances	5926286.37	3327328.07	396723.88	59491.11	9709829.43
6. Fixed Assets	107318.44	36141.69	4425.67	1251.13	149136.93
7. Other Assets	611465.99	333220.94	147493.34	1461.04	1093641.30
Total Assets	**10162937.69**	**5297936.79**	**1056812.88**	**83536.57**	**16601223.92**

Table No. 2

Profit & Loss Statement of Commercial Banks for 2018-19

(Rs. Crore)

Details	Public Sector Banks	Private Sector Banks	Foreign Banks	Small Finance Banks	All Scheduled Commercial Banks
I. Interest Earned	681778.97	393690.40	55568.80	9688.35	1140726.51
II. Other Income	94024.85	73455.11	14252.65	1220.55	182953.15
Total (I+II)	**775803.82**	**467145.50**	**69821.45**	**10908.89**	**1323679.66**
III. Interest Expended	450613.59	231256.69	24476.22	4543.04	710889.53
IV. Operating Expenses	175386.44	109276.63	18591.13	4202.66	307456.86
Total (III+IV)	**626000.02**	**340533.32**	**43067.35**	**8745.70**	**1018346.39**
V. Net Interest Income (I-III)	**231165.38**	**162433.70**	**31092.58**	**5145.31**	**429836.98**
VI. Provisions and Contingencies	216411.81	98991.16	12246.26	1081.42	328730.66
VII. Operating Profit (I+II-III-IV)	**149803.80**	**126612.18**	**26754.10**	**2163.20**	**305333.27**
VIII. Profit (Loss) during the year	**-66608.01**	**27621.01**	**14507.83**	**1081.77**	**-23397.39**

Table no. 3 gives Selected Performance Ratios for groups of all public sector banks, private sector banks, foreign banks and small finance banks for the financial year 2018-19. Study of this data reveals number of learning features. For example, for public sector banks (PSBs), Credit + Investment to Deposits Ratio is 101 compared to 120 for private banks and 134 for foreign banks. While lending, PSBs are taking safer approach – their ratio of secured advances to total advances is nearly 83 compared to 77 for private banks and 45 for foreign banks. Accordingly, the quantum of risk affects its earning ability – PSBs' ratio of net interest income to total assets is 2.33 compared to about 3.3 for private & foreign banks. Further, compared to their peers, even the non-interest income is much lower in PSBs. On the expenses side, ratio of wage bill to intermediation cost is more than 57 in PSBs as against about 35-36 in all other banks. If we look at the gap between return on advances and cost of funds, it was 3.07 in PSBs as against 4.38 in private banks, 4.56 in foreign banks and whopping 9.69 in small finance banks.

Table No. 3

Bank Group-wise Selected Performance Ratios

Details	Public Sector Banks	Private Sector Banks	Foreign Banks	Small Finance Banks	All Scheduled Commercial Banks
1. Cash - Deposit Ratio	5.37	5.48	5.78	4.73	5.42
2. Credit - Deposit Ratio	69.83	88.26	68.18	120.97	75.34
3. Investment - Deposit Ratio	31.84	32.35	65.90	30.40	33.52
4. (Credit + Investment) - Deposit Ratio	101.68	120.61	134.08	151.38	108.87
5. Ratio of deposits to total liabilities	83.50	71.16	55.06	58.87	77.63
6. Ratio of demand & savings bank deposits to total deposits	39.50	41.46	39.76	18.71	40.00
7. Ratio of priority sector advances to total advances	32.51	30.21	27.16	68.62	31.73
8. Ratio of term loans to total advances	55.19	68.06	38.85	89.99	59.15
9. Ratio of secured advances to total advances	82.96	77.45	44.75	59.47	79.37
10. Ratio of investments in non-approved securities to total investments	19.80	23.73	20.25	22.20	20.96
11. Ratio of interest income to total assets	6.87	7.92	5.77	14.33	7.16
12. Ratio of net interest income to total assets (Net Interest Margin)	2.33	3.27	3.23	7.61	2.70
13. Ratio of non-interest income to total assets	0.95	1.48	1.48	1.81	1.15
14. Ratio of intermediation cost to total assets	1.77	2.20	1.93	6.22	1.93
15. Ratio of wage bills to intermediation cost	57.55	35.87	36.14	50.61	48.46
16. Ratio of wage bills to total expense	16.12	11.51	15.60	24.32	14.63
17. Ratio of wage bills to total income	13.01	8.39	9.62	19.50	11.26
18. Ratio of burden to total assets	0.82	0.72	0.45	4.41	0.78
19. Ratio of burden to interest income	11.93	9.10	7.81	30.78	10.91
20. Ratio of operating profits to total assets	1.51	2.55	2.78	3.20	1.92
21. Return on assets	-0.65	0.63	1.56	1.59	-0.09
22. Return on equity	-11.44	5.45	8.77	12.59	-1.85
23. Cost of deposits	5.01	5.14	3.79	7.03	5.00
24. Cost of borrowings	4.81	6.64	2.94	9.83	5.54
25. Cost of funds	4.99	5.40	3.61	8.04	5.06
26. Return on advances	8.06	9.78	8.17	17.73	8.68
27. Return on investments	7.20	6.99	6.23	7.06	7.06
28. Return on advances adjusted to cost of funds	3.06	4.37	4.56	9.69	3.62
29. Return on investments adjusted to cost of funds	2.21	1.59	2.62	-0.98	2.00

Activity Based Costing in Banks

We have seen that over the period, the canvas size of banking services and products has grown too large. Use & application of the state-of-art technology has become a necessity & its impact is increasing every day. Banks are now facing more diverse, complex and competitive business environment. In this complexity, the efficiency in operations and skilful management of risks involved in lending would significantly affect the bank's profitability. The time old paradigm of measuring any product's profit zone based on solely its net interest margin is no longer valid. Non-interest costs have become very significant. To support the management decision making in introducing different products and services to suit to different class of depositors, borrowers and other customers and also add to the bottom line of its financial statements, the bank must learn to accurately assign all costs to various activities and all activities to different products and services, thereby be able to link all non-interest costs to its entire portfolio of products, services and customers. Bank should implement right type of control systems to measure and manage all its products, services and customers in a most cost-effective manner.

Now looking at the wide range of deposit and lending services rendered by Banks, there is need to address key areas of its operations. First issue is to find cost of all activities and operations. For this, there is need to build a model for implementation of Activity Based Costing (ABC) as the costs differ for each depositor, each borrower, each customer, each scheme, each function, and each operation. There is need to find cost of raising funds, cost of using funds, cost of supporting various products, services & customers, and general administrative costs. Only a CMA after implementing ABC can find right data, right information & right solutions for the bank management to take right decisions to improve liquidity, competitiveness, productivity, profitability, and sustainability.

Below paras briefly explain these cost hubs.

Cost of Raising Funds – it comprise of interest cost, other fund raising activities and transaction costs. Banks need to make efforts to attract depositors. General Fund raising activities include cost of maintaining branch operations, marketing of products to the general public, and similar endeavors. Transaction Fund raising activities would be the cost of processing of deposits, clearing of checks, providing pass-books & statements, generating year-end tax forms and reports, etc. Banks incur lot of efforts and expenses in raising funds. Majority bank branches exist to attract and service depositors. Many products are developed to make bank deposits financially attractive. Customer accounts must be administered and a host of other transactions handled simply to support the funds placed in the bank by its depositors. Following the basic logic of ABC, the need to accumulate funds causes these types of activities and the performance of these activities causes the bank to incur a portion of its costs. As a consequence, activity-pools should be established that will accumulate these activity costs and then link them to the funds they help make available to the bank.

Cost of Using Funds – making loans and investments, excluding the funds blocked in cash/ liquid reserves as per RBI mandated CRR & SLR that give no return and also the deposits made with RBI at much lower interest rate.

Making loans involves priority sector lending, food credit, personal loans and business loans, including loans to MSMEs. All these loans carry activity cost as well as transaction cost. These loans/credits widely differ in terms of returns and the risks. Cost of Non-Performing Assets (NPAs) vs. total loans under each category reveals the extent of risks. We will separately discuss impact of NPAs and how the CMAs can plan an effective role to assist banks resolve this menace.

In terms of investments, majority funds are blocked in government securities and leftover funds are invested in shares, debentures & bonds. In majority banks, loans to investments ratio is much lower entailing much lower return on assets. For example, credit to investment ratio in PSBs is 2.2 compared to 2.7 in private sector banks.

Cost of Supporting Customers – it denotes marketing cost to attract depositors and borrowers. Banks must compete with other banks for business – not only for the depositors who provide funds, but also for the borrowers who use these funds. Marketing efforts are directed toward attracting depositors and borrowers. It involves introducing variety of products & services, offering attractive add-ons, providing best & world class service, VIP treatment, as well as launching publicity campaigns. All costs related to support customers need to be segregated and assigned to the relevant bank's products.

Cost of Supporting Product/Service Lines - Costs attached to different products viz. debit & credit cards, lockers, ATM services, demat services, wealth management, currency exchange, life & non-life insurance, underwriting; deposit & government schemes like NPS, PPF, RBI Bonds, Senior Citizen Savings, Sukanya Samriddhi Scheme, Gold saving; home loan, auto loan, education loan, consumer loan, gold loan, & personal loan; business loan including project financing, term loan, cash-credit, overdraft, bill of exchange, bill discounting, etc. It also entail cost of internet banking, phone banking, mobile banking, ePay, direct & indirect tax payment facility, pension payments, passport Seva Kendra, etc. While it is much easier to relate the interest cost to each product or service, it is very difficult to correctly measure & assign other costs. It would be important to note that when we do cost-benefit analysis for each product or service, we may find that in many cases high-volume products are making losses and certain low-volume products are in fact giving profits to the bank. Same is the case with customer-profitability analysis; segment-profitability analysis; and geography-profitability analysis. This can be done only by a CMA after successfully implementing a Costing System.

Administrative Costs – it represents fixed costs incurred on corporate office and other zonal or regional offices. These also include the cost of general activities such as human resources, general accounting & finance, regulatory reporting, general management, information technology, legal and the like. The costs included under this category should be such that cannot be assigned to any specific activity. The cost of these general and administrative activities should be accumulated in a single basket and added to all of the bank's products and services by using the appropriate cost drivers.

Non-Performing Assets (NPAs)

Non-Performing Assets (NPAs) is a term used by banks & financial institutions to refer to the amount of debts that they have failed to collect or the people owing have failed to honor their contractual obligations of paying both the principal and interest amount. As per regulations made by RBI, all banks are obligated to classify such default loans as non-performing assets that their customers fail to honour within the prescribed period i.e. the banks are not receiving either principle or interest payments. This total amount of default is also known as 'Gross' NPA. On the other hand, 'Net' NPA is the amount that results after deducting provision for doubtful and unpaid debts from the sum of the loans defaulted. It is the actual loss that the bank incurs after loan defaults. Gross non-performing assets do not constitute the actual loss facing the bank.

Year-wise details of movement of non-performing assets of all scheduled commercial banks during last 10 years from 2009 to 2019 are given in the table no. 4 below. Details of loans that are subjected to restructuring and the amount of corporate debts already restructured as at the end of March 2019 are also given in the next table. It may be noted that gross NPAs first trebled [three times] during 2011 to 2015 and then again trebled during 2015-19 i.e. showing more than 10 times increase in the last decade. This is serious and requires solution. CMAs and the Cost Accounting System have answers.

Note: *I repeat, all data given below has been sourced from the Reserve Bank of India.*

Table No. 4

Non-Performing Assets (NPAs) of all Scheduled Commercial Banks

(Rs. Crore)

Year	Gross NPAs					Net NPAs	
	As on March 31 (previous year)	Addition during the Year	Reduction during the Year	Write-off during the Year	As on March 31 (current year)	As on March 31 (previous year)	As on March 31 (current year)
2019	1,038,683.81	314,448.92	179,711.10	236,947.85	936,473.78	520,804.55	355,076.17
2018	726,460.59	604,253.57	128,301.47	162,733.36	1,039,679.33	394,640.89	520,837.64
2017	612,012.54	415,823.00	128,174.61	107,823.20	791,791.05	349,947.22	433,120.60
2016	322,589.93	442,192.46	80,333.91	72,501.19	611,947.28	175,437.28	349,814.44
2015	263,361.88	208,638.14	88,468.24	60,196.63	323,335.15	142,421.04	175,841.06
2014	194,041.10	190,087.65	99,932.80	19,814.82	264,381.14	98,693.11	142,656.01
2013	142,903.33	138,206.16	75,701.60	11,354.58	194,053.31	65,204.63	98,693.86
2012	98,233.46	107,520.72	57,237.84	5,613.02	142,903.32	41,782.88	65,204.87
2011	83,908.86	70,439.85	48,073.22	8,302.34	97,973.15	38,725.07	41,799.16
2010	68,284.32	69,579.69	43,245.66	9,917.53	84,700.83	31,564.16	39,126.62
2009	54,836.85	52,345.87	33,870.70	4,983.82	68,328.20	24,225.46	31,564.18

Table No. 5

Loans Subject to Restructuring & Corporate Debt Restructured

(Rs. Crore)

Details		Public Sector Banks	Private Sector Banks	Foreign Banks	Small Finance Banks	All Scheduled Commercial Banks
Loans Subjected to Restructuring						
Standard Assets during the Year	(1)	28051.60	8798.73	38.55	5.49	36894.37
Sub-Standard Assets during the Year	(2)	5349.38	1199.85	144.34	0.06	6693.64
Doubtful Assets during the Year	(3)	70652.72	22820.25	434.88	1.25	93909.09
Total 1 [(1)+(2)+(3)]	**(4)**	**104053.70**	**32818.83**	**617.77**	**6.80**	**137497.10**
Corporate Debt Restructured						
Standard Assets during the Year	(5)	2078.43	1019.83	-	-	3098.26
Sub-Standard Assets during the Year	(6)	686.74	27.75	-	-	714.49
Doubtful Assets during the Year	(7)	38547.74	5508.49	135.77	-	44192.00
Total 2 [(5)+(6)+(7)]	**(8)**	**41312.92**	**6556.07**	**135.77**	**-**	**48004.76**
	(9)	**145366.62**	**39374.90**	**753.54**	**6.80**	**185501.86**

Recently, we have seen number of cases of bank & NBFC failures & frauds. These include Global Trust Bank, Bank of Punjab, Bharat Overseas Bank, Centurion Bank of Punjab, Yes Bank, PMC Bank and the latest being Lakshmi Vilas Bank. In addition, cases of huge bank frauds & bad loans were observed; say PNB's bad loans to Nirav Modi & Mehul Choksi, ICICI Bank's bad loans to Videocon Group, and crumbling ILFS and DHFL having outstanding loans of Rs.91000 crore and over Rs. 1 lakh crore respectively.

Causes of NPAs

Data above shows that last 10 years have recorded phenomenal increase in the NPAs. Broad reasons of rise in NPAs or Bad Loans leading to bank failures can be summarized as under:

- Defective lending process – failure to follow three cardinal principles viz. Principle of Safety, Principle of Liquidity, and Principle of Profitability
- Poor credit appraisal system
- Failure to assess Marketability, Acceptability, Safety, & Transferability of assets offered as securities
- Aggressive lending practices
- Conspiracy by banks & promoters
- Inflated project costs

- Inflated stock valuations
- Overvaluation & over invoicing of assets by promoters
- Fudging of Financial Statements by borrowers
- Willful defaults by competent borrowers – no willingness to pay
- Inability to analyze financial status & credit rating of promoters
- Poor MIS and Financial Accounting System in Banks
- Improper SWOT analysis of industry/sectors
- Unable to check long-term viability of projects
- Failure of banks to check frauds & diversion of funds
- Poor monitoring by banks
- Poor ability of banks to judge project costs and risks
- Inadequate contingency planning for mitigating project risks
- Inappropriate project handling, ineffective management, lack of adequate resources, and lack of advanced technology
- More loans to already defaulting borrowers/corporates
- Unviable Debt-Restructurings
- Over optimism & aggressive bidding by promoters
- Creation of quasi-monopolies
- Exaggerated demand forecasts
- Default in retail loans due to job failures
- Default in farm loans due to crop failures
- Global slowdown
- Natural calamities
- Changing government policies
- Widespread corruption
- Political interference
- Last & latest, Covid-19 pandemic & economic lockdowns

Induction of Cost & Management Accountants in the Bank Boards & their Audit Committees and other key positions can surely find solutions and address majority of the above mentioned causes of banks' miseries.

Steps taken by Government & RBI to address NPAs

To address the menace of NPAs, Government of India and Reserve Bank of India has taken number of corrective steps. A few important ones are indicated below:

- Launch of 7-proned plan called **'Mission Indradhanush'** to make working of public sector banks more transparent and professional in order to curb the menace of NPA.
- Introduction of Insolvency and Bankruptcy Code, 2016 for faster recovery of bad loans.
- Introduction of **'Asset Quality Review'** (AQR) in 2015
- Withdrawal of Corporate Debt Restructuring (CDR) mechanism, Strategic Debt Restructuring (SDR), Joint Lenders' Forum (JLF), Sustainable Structuring of Stressed Assets or S4A, and 5:25, schemes.
- Government has implemented a comprehensive 4R's strategy, consisting of recognition of NPAs transparently, resolution and recovery of value from stressed accounts, recapitalizing of PSBs, and reforms in PSBs and the wider financial ecosystem for a responsible and clean system.
- **Prompt corrective action (PCA)** of the RBI help to mitigate financial stability risks by arresting the deterioration in the banking sector so that further capital erosion is restricted and banks are strengthened to resume their normal operations.
- **'Project Sashakt'**– the five-pronged strategy to deal with NPAs recommended by the Sunil Mehta-led Committee.
- Setting-up of National Financial Reporting Authority (NFRA) to act against erring auditors and auditing firms.
- Implementation of Indian Accounting Standards (Ind AS) in banks & financial institutions.
- RBI introduced improved monitoring of all default cases of more than Rs.5 crore
- Proposal to set-up Public Sector Asset Rehabilitation Agency (PARA) to assume the NPA of public sector banks in India.

Role of CMAs in resolving the NPAs

In the light of multi-pronged strategic steps initiated by the RBI & Government to address the aforesaid alarming situation, one would tend to ask the following questions regarding the role of Cost & Management Accountants and Cost Accounting System to help resolve this critical situation.

(i) ***How Cost Accounting and Cost Audit can help prevent rise of NPAs and successive failure of Banks and NBFCs in India?***

(ii) ***What role Cost & Management Accountants (CMAs) can play in the Banking Industry in India?***

There can be many ways to answer these questions, but the most concise and authentic version may be as under:

- Banks & financial institutions require different set of cost data for evaluating business proposals for grant of loans, for monitoring the performance of their clients, for correct valuation of inventories, and for undertaking industry risk analysis, etc. The information derived from cost records and cost audit reports facilitates the corporates, bankers, financial institutions and regulators 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.
- Cost audit data is highly relevant for banks & financial institutions to make performance analysis, inter-firm comparison and monitoring. Similarly, such data can also be used for economic analysis, competitiveness studies and bench-marking studies. Further, owing to the technological developments and changed requirements, the Cost Reporting follows the

business process flow within the organisation in presenting the data production/service unit-wise, SKU/SBU-wise, business vertical-wise, customer group-wise and not for the company as a whole. This will help the banks to strengthen their monitoring of company performance in a more effective manner, thus safeguarding their loans.

- Considering the long-term nature of project loans and risks involved therein, banks should use the services of Cost & Management Accountants to carry out due diligence of projects including doing pre-bid advisory, preparing financial model by estimating free cash flows for the project, doing promoter analysis and preparing structure of funding to meet specific requirements in a project. This mechanism offers a great potential to add value for all stakeholders, specifically to the Banking & Financial Institutions.
- CMAs can help banks to undertake cost-benefit analysis of their activities, products, operations, people, processes, infrastructure, etc. to determine the areas which are more profitable and areas which are less profitable or unprofitable. This exercise would enable the banks to identify the wasteful costs and non-value adding activities and discontinue the loss making business segments and focus on more profitable products and services. CMAs can help the banking industry to install "efficient & effective cost management systems" for their operations/activities. CMAs can act as a driving force to achieve the objectives of banking sector while being competitive on one hand and utilizing the available resources in profitable, efficient and cost effective manner through cost control and cost reduction.
- Object-wise and asset-wise proper utilization of funds require detailed examination of the Company's financial and non-financial records. Recently, large number of cases of real estate companies have come to light where substantive part of funds deposited by the intended flat buyers were diverted in other areas or even squandered by the promoters for their own benefits. Similar cases of misappropriation of public funds or even borrowed funds have been found by the Forensic Auditors in other listed or non-listed companies undergoing insolvency proceedings with the NCLT. Cost accounting system is well poised to capture proper utilization of company's resources in different activities, products, segments, etc. In fact, the basic principles of activity based costing or resource consumption accounting that follows the bottom-up approach, is to find efficient deployment of all resources, financial & non-financial, to each activity, product, or business segment. This mechanism can help the regulators to early detect cases of any misappropriation of funds and act as a guide for corrective actions. Such a report would also help the watchful eyes of shareholders, bonds/debenture holders, investors, other stakeholders and above all, the banks and financial institutions.
- As part of the process, cost audit measures the parameters indicating the efficiency in the effective utilization of financial, physical, human resources etc. Cost audit is not a routine exercise with respect to verification or attestation of cost records and related documents. It brings out the weaknesses in the internal working of a company for the benefit of the management and other agencies for necessary action. While 'Financial Audit', 'Internal Audit' and 'Secretarial Compliance' were all basically 'Attestation Functions', the cost audit brings a different perspective on productivity, waste management, product mix, resource allocation, power utilization and in several other areas in which the management had to be constantly vigilant to sustain competition in the local or global market. This mechanism can prove to be a game-changer for the banks and financial institutions.
- Banks & Financial Institutions should intensively use cost data available in product/service-wise cost statements annually filed with the Central Government for all major companies in India. They can also seek such data/information directly from the corporate borrowers, duly certified by a practicing Cost Accountant.
- CMAs can play very effective role by sitting as Director on the Board of various Banks and Financial Institutions, including as a member of their Audit Committees to oversee the effectiveness of lending process and internal control framework.

Suggestive Steps to improve Banking

As already indicated above, we have seen that Government and RBI have, in the recent past, taken number of measures to reform the public sector banks and wider financial ecosystem in the country. Following steps are suggested to further improve the banking and financial industry in India:

- Primarily, there is an urgent need for the banks to rework their business strategies, innovate on products tailored to customers' needs and improve efficiency in the delivery of customer-centric financial services
- There is need to promote/ improve usage & application of (digital) e-banking with adequate measures to cover safety & cyber security risks
- Greater emphasis on customer education through programs, print & electronic media, publications, seminars, etc.
- Continuous training & skill-upgradation of employees in latest tools, techniques, methodologies, data analytics, artificial intelligence, etc.

- Application of latest IT systems, tools & applications
- Strengthening & effective implementation of internal control systems, more importantly the cost accounting & control systems
- Introduction of technology-enabled financial instruments
- Introduction of more cost-effective saving, borrowing and lending options
- More & faster consolidation of smaller, regional, rural & cooperative banks, including recapitalizing their assets
- Banks should clean up their balance sheets and improve performance on a sustained basis to remain competitive
- Lastly, RBI should further improve its regulatory framework to strengthen financial reforms in the country

Post Covid-19 Measures & Role of CMAs

The Covid-19 pandemic is a global shock 'like no other', involving simultaneous disruptions to both supply and demand in an interconnected world economy. On the supply side, labour, infections, lockdowns, business closures, and social distancing cause supply disruptions. On the demand side, layoffs and the loss of income (from morbidity, quarantines, and unemployment) and worsened economic prospects reduce household consumption and firms' investment. Key challenges for any empirical economic analysis of Covid-19 are how to identify this unprecedented shock, how to account for its non-linear effects, how to consider its cross-country spillovers, and how to quantify the uncertainty surrounding forecasts, given its unprecedented nature.

Nearly a year into this pandemic that has ravaged the global economy, there are still no firm solution, only clear pathway is containing the virus itself AND to some extent vaccines. US is suffering its most rampant transmission and major nations in Europe are again under lockdown. Spread of new virus strain in UK & few other nations has caused wide-spread havoc. Prospects remain grim for a meaningful worldwide recovery before the middle of next year and far longer in some economies. Substantial job growth could take longer still. As per IMF's recent assessment, world economy will contract by 4.4% this year. United Nations Conference on Trade and Development (UNCTAD) says that world trade is on track to fall by as much as 9% this year. Next year, the world economy is expected to grow by 5.2%, according to the IMF, but that would still leave it only 0.6% larger than in 2019.

Recent economic indicators & other data shows that Indian economy is gradually moving back to its recovery path. To support, our Hon'ble Prime Minister announced a special economic & comprehensive fiscal package to the tune of Rs. 20 lakh crore. To supplement the Government measures, RBI injected virus-fighting stimulus of Rs. 8 lakh crore. In addition, to tackle the stress arising out of the unfortunate Covid-19 situation, RBI first issued Resolution Framework on August 06, 2020 and later set up a committee under the chairmanship of Mr. K.V. Kamath[2] to provide an analytical guidance to the financing institutions for debt restructuring. The committee in its report dated September 06, 2020 recommended following five financial ratios related to leverage, liquidity, and debt serviceability for 26 sectors which could be factored by lending institutions while finalizing a resolution plan for a borrower.

- Total Outside Liability / Adjusted Tangible Net Worth (TOL / Adjusted TNW)
- Total Debt / EBIDTA
- Current Ratio
- Debt Service Coverage Ratio (DSCR)
- Average Debt Service Coverage Ratio (ADSCR)

Incorporating the committee's recommendations, and with the intent of facilitating revival of the real economy and mitigating the impact on the ultimate borrowers, RBI provided a window under the current Resolution Framework for the Covid-19-related stress enabling the lenders to implement a resolution plan for eligible corporate exposures without change in ownership, while classifying such exposures as standard, subject to specified conditions.

Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions 2019, issued on June 7, 2019 provided a principle-based resolution framework for addressing borrower defaults under a normal scenario. Earlier, RBI had mandated that in respect of all Borrowing arrangements exceeding Rs.500 crores, an Independent Evaluation Committee (IEC) would carry out an evaluation of the Techno-Economic Viability (TEV) and the Proposed Restructuring Package. As per guidelines issued by IBA, Cost Accountants were included in these IECs and they have played very significant role in correctly evaluating Techno-Economic Viability Reports of various corporates. Further, as per Regulations 5 and 9 of the Insolvency and Bankruptcy Board of India (Insolvency Professionals) Regulations, 2016, CMAs are authorized to act as an Interim Resolution Professionals, Liquidators, Resolution Professionals and Bankruptcy Trustees. By virtue of this, majority CMAs have developed excellent skills in the preparation of "Resolution Plans" that are submitted to the Committee of Creditors (CoC) under IBC, 2016. In view of this background and expertise, CMAs are best suited to support the Corporates to prepare their "Resolution Plans" to be submitted to the Banks / Financial Institutions for restructuring of their loans under the Resolution Framework for Covid-19 related Stress issued by the RBI on August 06, 2020. Banks should also follow a similar strategy and engage CMAs to help resolve the Covid-19 related Stress Assets of large corporates.

Audit in Banks & Role of CMAs

There are various types of audits done in banks. These are Statutory Audit, Concurrent Audit, Risk Based Internal (Inspection) Audit, Stock Audit, Receivables (Book Debts) Audit, and IS (Systems) Audit. Each audit has different objectives and significance. Among these, Concurrent audit is aimed to timely detect serious errors and irregularities, and helps in averting fraudulent transactions and preventive vigilance in banks. Stock audit and

[2] Mr. K.V.Kamath is former chief of the New Development Bank of BRICS countries, former Chairman of Infosys Limited, and former Non-Executive Chairman of ICICI Bank. He also served as ICICI Bank's founder and Managing Director and CEO.

Receivables (Book Debts) audit help banks to watch safety & security of its working capital loans, and other credit facilities like cash-credit, overdraft, bill discounting, LC/FLC, etc. granted to the borrower. Both these audits act as an important supplement to the Risk Based Internal Audit that provides a watchful, assurance & consulting support to the bank's Audit Committee and Board. Therefore, these audits occupy a prime position in the bank functioning.

Reserve Bank of India in its circular dated September 18, 2019 on Concurrent Audit System said that *"Concurrent audit aims at shortening the interval between a transaction and its independent examination. It is, therefore, integral to the establishment of sound internal accounting functions and effective controls and is regarded as part of a bank's early warning system to ensure timely detection of serious errors and irregularities, which also helps in averting fraudulent transactions and preventive vigilance in banks."*

Ministry of Finance, Department of Financial Services in their letter dated September 26, 2012 had advised all Banks that their Inspection & Internal Audit departments should include Cost Accountants. In other words, another very effective area for contribution by CMAs towards improving the banks performance, efficiency, productivity, profitability and sustainability is effective concurrent audit, and stock & receivable audit.

CMAs have been recognized as the best professionals to give quality services in concurrent audit and stock & receivables audit. Therefore, majority public sector and private sector banks recognize the exemplary skills of CMAs and prefer them for conducting concurrent audit and stock & receivables audit. To mention a few are SBI, IOB, CBI, BoB, BoI, Allahabad Bank, Syndicate Bank, Indian Bank, Andhra Bank, Canara Bank, UCO Bank, NABARD, etc. An effective Performance Monitoring System coupled with quality Concurrent Audit and Stock & Receivables Audit by CMAs can necessarily help all banks to improve their project financing & performance monitoring skills, take timely measures to strengthen the working capital exposures and substantially reduce the bad loans & NPAs.

CMA as Chief Cost Officer

Presently, all banks have Chief Executive Officer (CEO) and Chief Finance Officer (CFO) – though their designations may differ from bank to bank. Though CMAs are eligible to be appointed as CEO or CFO, but there is much greater need felt to create the position of Chief Cost Officer (CCO), the position which is most vital for the bank's survival and sustainability. We have seen that Cost & Management Accountants are lifeline of banking industry. Therefore, before we close the discussion, it is very strongly recommended that all Commercial Banks should, on priority, create a position of Chief Cost Officer [designation may differ] and fill it up with an experienced Cost & Management Accountant.

OPPORTUNITIES FOR CMAs UNDER IBC, 2016

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Opportunity-1

The Insolvency Resolution process in India has, in the past involved the simultaneous operation of several statutory instruments. These include the Sick Industrial Companies Act, 1985, the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, the Recovery of Debt Due to Banks and Financial Institutions Act, 1993, and the Companies Act, 2013. Broadly, these statutes provided for a disparate process of debt restructuring, and asset seizure and realization in order to facilitate the satisfaction of outstanding debts.

As is evident, a plethora of legislations dealing with insolvency and liquidation led to immense confusion in the legal system, and there was a grave necessity to overhaul the insolvency regime. All these multiple legal avenues and a hamstrung court system led to India witnessing a huge piling up of non-performing assets of financial system, and creditors waiting for years to recover their money.

Banks in India are going through unprecedented times with stressed loan portfolio touching all-time high. There is an apprehension that there could be further significant additions as many stressed loan accounts have been disguised as standard.

Realizing the problem, RBI has attempted to force Banks to clean up balance sheets and come out with many regulatory steps aimed at improving banks ability to deal with such stressed accounts. However, such frameworks have proved unsuccessful.

In this scenario, the Indian Government introduced the Bankruptcy and Insolvency Code, 2016 which Consolidated the existing frameworks and created a new institutional structure.

The Code creates time-bound processes for Insolvency Resolution of Companies and Individuals which thereby will help India improve its World Bank Insolvency Ranking.

The Code has opened a new opportunity for professionals particularly the Cost Accountants.

Opportunities for CMAs: When an application is filed with NCLT by financial creditors, operational creditors and corporate debtors, CMAs will get the following opportunities subject to completion of Limited Insolvency Examination and other eligibility criteria as stipulated by IBBI in this regard. Various Opportunities are:

- ✓ ***Interim Resolution Professionals-IRP.***
- ✓ ***Resolution Professionals-RP.***
- ✓ ***Liquidators.***
- ✓ ***Bankruptcy Trustees.***
- ✓ Representative for class-of-creditors.
- ✓ Forensic Auditor (no qualification specified in the Code).
- ✓ Transactions Auditor.
- ✓ Other services like registered valuer (Subject to completion of IBBI Valuers Examinations i.e., land and building, plant and machinery and securities or financial assets valuation).
- ✓ Preparation of 'Information Memorandum'.
- ✓ Preparation of 'Resolution Plans'.
- ✓ Administrator as per SEBI Regulations, 2018.

The Insolvency and Bankruptcy Code (IBC), 2016 was notified by the Government of India on 28th May 2016. The Act consolidates and amends the laws relating to re-organisation and insolvency resolution of corporate persons, partnership firms and individuals in a time bound manner for maximisation of value of assets of these persons, to promote entrepreneurship, availability of credit and balance the interests of all the stakeholders.

The Government has provided a mechanism in the Code for resolving insolvency and bankruptcy through Insolvency Professionals subject to the supervision and control of the Adjudicating Authority and regulation by Insolvency Bankruptcy Board of India (IBBI) and Insolvency Professional Agency (IPA).

ELIGIBILITY CRITERIA

Only a Registered IP can act as 'Resolution Professional' or 'Trustee' and 'Liquidators' under the Companies Act, as well as under the Code. For the purpose of the quality of the services required to carry on the business of debtors as an on-going concern and to maximise the value of the corporate debtor, the entry norms for the IPs are strict, requiring professional standing of not less than 10 years for CA/CS/CWAs & Advocates and 15 years for candidates from the management stream, subject to passing of an examination and completing a 50 hours pre-registration course.

The IP occupies a pivotal position and acts as an intermediary between the debtor / creditors on the one hand and the Adjudicating Authority on the other hand and functions under the watchful eyes of the Agency and the Board.

Insolvency Professional (IP) / Insolvency Professional Entity (IPE)

As per the Insolvency and Bankruptcy Code, 2016 (the Code), an Insolvency Professional (IP) means an eligible person:

a) Enrolled with an Insolvency Professional Agency (IPA) as its member and,

b) Registered with Insolvency and Bankruptcy Board of India (the Board) as an Insolvency Professional (IP).

The Board has institutionalized the concept of an Insolvency Professional Entity (IPE) whereby several IPs can come together and pool their resources and capabilities to form an IPE so as to handle insolvency proceedings involving very high stakes or where complex issues of law or practical difficulties are involved. In terms of applicable regulations, the sole objective of IPE would be to provide support services to IPs who are its partners or directors, as the case may be.

An IPE can take the form of a company, a limited liability partnership or a partnership having minimum net worth of ₹1 Crore. However, IPEs are neither enrolled as members of an IPA nor registered as IP with the Board. They cannot act as IPs under the Code but can provide support services to their directors / partners who are IPs.

Those who are not having 10 Years of Professional Experience

The Graduate Insolvency Programme (GIP) is the first of its kind programme for those aspiring to take up the Insolvency Profession as a career or seeking to take up other roles in the value chain, in India and in foreign jurisdictions. A student who completes the GIP will be eligible for registration as an IP under the Code, without having to wait to acquire the 10 Years of experience as required by the Code at present.

Opportunities to CMAs

As per Regulations, an IP can accept or undertake any assignment as . Section 16 provides for the appointment and term of the Interim Resolution Professional by the Adjudicating Authority.

ROLE AND RESPONSIBILITIES OF 'INTERIM RESOLUTION PROFESSIONAL'

- ✓ Manage operation of the corporate debtor as a going concern.
- ✓ Public announcement.
- ✓ Appointment of Registered Valuers.
- ✓ Collection / verification and determination of claims.
- ✓ Collation of claims.
- ✓ Constitute a Committee of Creditors.
- ✓ Holding first meeting of CoC.
- ✓ Preparation of partial Information Memorandum.
- ✓ Monitor assets of the corporate debtor.
- ✓ Determine financial position of corporate debtor.
- ✓ Collect all information relating to the assets, finances and operations of the corporate debtor.

The term of the Interim Resolution Professional shall continue till the date of appointment of the Resolution Professional under section 22.

RESOLUTION PROFESSIONAL (RP)

The Resolution Professional shall conduct the entire corporate insolvency resolution process and manage the operations of the corporate debtor during the corporate insolvency resolution process period**.**

Role and Responsibilities of 'Resolution Professional'

- ✓ Conduct entire CIRP.
- ✓ Manage the operations of corporate debtor.
- ✓ Take immediate custody and control of all the assets.
- ✓ Preserve and protect the assets of the corporate debtor including continued business operations.
- ✓ Represent and act on behalf of the corporate debtor including court cases.
- ✓ Raise interim finances subject to the approval of the CoC.
- ✓ Update list of claims.
- ✓ Prepare Information Memorandum.
- ✓ Invite prospective lenders, investors, and any other person to put forward resolution plans.
- ✓ Providing access of information to resolution applicant.
- ✓ Check resolution plan for compliance with the Code and present it to CoC.
- ✓ Submit resolution plan approved by CoC to NCLT.
- ✓ Send Copy of order of NCLT approving / rejecting resolution plan to participants and resolution applicants.

LIQUIDATOR

The 'Liquidator' is an Insolvency Professional on whom all the powers of the Board of Directors, Key Managerial Personnel and the partners, as applicable, of the corporate debtor are vested by the Adjudicating Authority upon liquidation order being passed under section 33 of the Insolvency and Bankruptcy Code, 2016. Where the Adjudicating Authority passes an order for liquidation of a corporate debtor initially under CIRP, the Resolution Professional appointed under CIRP shall act as the Liquidator for the purpose of liquidation unless replaced by the Adjudicating Authority.

Role and Responsibilities of 'Liquidator'

- ✓ To receive, collect and verify

claims of all the creditors.

- ✓ To take into custody / control and evaluate all the assets, property, effects and actionable claims of the corporate debtor- protect and preserve the assets & properties.
- ✓ Form and hold liquidation estate as a fiduciary for the benefits of the creditors.
- ✓ Carry on business for beneficial liquidation as necessary.
- ✓ Sell movable and immovable properties by auction / private contract.
- ✓ Obtain professional assistance.
- ✓ To institute or defend suit.
- ✓ Investigate financial affairs of CD for undervalued / preferential transactions.
- ✓ Apply to NCLT for orders and directions as required.
- ✓ Prepare preliminary report, assets memorandum, sale report etc.
- ✓ Maintain relevant records.
- ✓ Realise and distribute liquidation proceeds.

BANKRUPTCY TRUSTEE

Section 125 provides that an Insolvency Professional may be proposed to be appointed as the Bankruptcy Trustee. On application under sections 122 and 123 the Adjudicating Authority shall direct the Board within seven days of receiving the application for bankruptcy to confirm that there are no disciplinary proceedings pending against such professional. If no Insolvency Professional is proposed by the applicants, then the Adjudicating Authority shall direct the Board within seven days of receiving the application to nominate a Bankruptcy Trustee. The Board shall within ten days either confirm the appointment of the proposed Insolvency Professional as the Bankruptcy Trustee for the bankruptcy process or reject the appointment.

The Bankruptcy Trustee confirmed or nominated shall be appointed as the Bankruptcy Trustee by the Adjudicating Authority in the bankruptcy order. The Adjudicating Authority shall provide a copy of the application for the bankruptcy and a copy of the bankruptcy order to the Bankruptcy Trustee.

Functions of Bankruptcy Trustee

Section 149 of the Code provides that the Bankruptcy Trustee shall perform the following functions:

- ✓ Investigate the affairs of the bankrupt
- ✓ Realize the estate of the bankrupt
- ✓ Distribute the estate of the bankrupt.

OTHER OPPORTUNITIES FOR CMAs

Apart from IRP, RP and Liquidator the CMAs are having the several opportunities under the IBC.

IRP/ RP/ Liquidator may avail the services of other Cost Accountants in Practice.

a) Representative for Class of Creditors

Appointment of Authorised Representative for classes of creditors under section 21 (6A) (b) of the Insolvency and Bankruptcy Code, 2016.

Regulation 16A (1) of the Insolvency and Bankruptcy Board of India (Insolvency Resolution Process for Corporate Persons) Regulations, 2016 (Regulations) provides that where the corporate debtor has at least ten financial creditors in a class, the Interim Resolution Professional shall offer a choice of three Insolvency Professionals and a creditor in the class may indicate its choice of an Insolvency Professional, from amongst the three, to act as its Authorised Representative. The Insolvency Professional, who is the choice of the highest number of creditors in the class, is appointed as the Authorised Representative of the creditors of that class. The Authorised Representative Collects voting instructions from the respective class of creditors, attends the meetings of the Committee of Creditors (CoC) and casts vote in respect of the said class in accordance with the instructions he receives from the creditors.

b) Appointment of Valuers

The RP shall appoint two valuers within *seven days* of his appointment to determine the 'fair value' and the 'liquidation value' of the corporate debtor.

Registered valuer is a new concept introduced by Section 247 of the Companies Act, 2013 to regulate the valuation of the various assets and liabilities related to a company and to standardize the procedure of valuation in line with International Valuation Standards.

Before introduction of the concept of Registered Valuer, the valuation of assets and liabilities was arbitrary and not a regulated one. There were doubts and window dressing in the arbitrary valuation. Regulated valuation not only solve the above issues but also assures the authenticity of the valuation.

The Companies (Registered Valuers and Valuation) Rules, 2017, as amended, require that only a person registered with the IBBI as a Registered Valuer can conduct valuations required under the Companies Act, 2013 and the Insolvency and Bankruptcy Code, 2016 with effect from 1st February, 2019.

There are three categories of Registered Valuer on the basis of assets class:

- ✓ Land & building valuer.
- ✓ Plant & machinery valuer.
- ✓ Securities or financial assets valuer.

Opportunity

In terms of the IBC Code, the IRP need to appoint two valuers to determine liquidation value. Valuers also required for valuation of current assets (akin to stock audit) Valuer is also required for valuing the assets under liquidation.

PREPARATION OF INFORMATION MEMORANDUM

The RP shall submit the Information Memorandum' in electronic form to each member of the Committee within two weeks of his appointment, but not later than fifty-fourth day from the insolvency commencement date, whichever is earlier. The RP shall share the Information Memorandum only after receiving an undertaking from a member of the Committee to the effect that such member shall maintain confidentiality of the information and shall not use such information to cause any undue gain or undue loss to itself or any other person.

Opportunity

To prepare an Information Memorandum, the IRP / RP take the assistance of experts like CMAs.

INVITE PROSPECTIVE RESOLUTION APPLICANTS

The RP shall invite the prospective resolution applicants to submit the resolution plan, by publishing brief particulars of the invitation for expression of interest in Form G of the Schedule at the earliest and not later than the seventy-fifth day from the insolvency commencement date. The RP shall conduct a due diligence based on the material on record in order to satisfy that the prospective 'Resolution Applicant' fulfils such criteria as may be laid down by him with the approval of committee of creditors, having regard to the complexity and scale of operations of the business of the corporate debtor and such other conditions as may be specified by the Board. The RP should comply with the applicable provisions of section 29A and also with other requirements, as specified in the invitation for expression of interest.

Opportunity

Preparation of resolution plan - Multiple resolution plans can be submitted to IP by the interested parties who are called as resolution applicants. CMAs can assist resolution applicants in the preparation of such resolution plans.

FORENSIC AUDIT / TRANSACTIONS AUDIT

The Insolvency and Bankruptcy Code itself casts an obligation on the Insolvency Professionals requiring a comprehensive forensic audit, where warranted. The Code also casts a duty on the Insolvency Professional to report preferential, undervalued, overvalued, defrauding and extortionate transactions executed by the promoters to unjustly benefit themselves or related parties.

As per the Code the IRP need to collect all information relating to the assets, finances and operations of the corporate debtor for determining the financial position of the corporate debtor, including information relating to the following :

I. Business operations for the previous two years

II. Financial and operational payments for the previous two years

III. List of assets and liabilities as on the initiation date

IV. Such other matters as may be specified;

Opportunity

Forensic Audit - IBC provides for look back period of two years in case of related parties and one year in case of other parties. It might be needed to conduct a forensic audit in some matters wherein Cost Accountants can provide the required services as forensic auditor.

Some other opportunities areas under:

- ✓ *Stock Audit:* Most corporate debtors enjoy working capital limits. It may be necessary to conduct periodic stock audit of the corporate debtor during the CIRP process.
- ✓ *Internal / Concurrent Audit:* RP can appoint internal / concurrent auditors during the period when the business is under CIRP.
- ✓ *Monitoring and supervision of resolution plan*: IBC requires provision of monitoring and supervision of the Resolution Plan after its approval by NCLT during its period. CMAs can provide services by way of such monitoring and supervision.
- ✓ *Consultation and Strategizing:* Enjoy the fruit with less risk and legal responsibility.
- ✓ *Data Uploading / Verification:* As per IBC Code IRP and RP are needed to collate and verify claims of the creditors. In a large operating company data could be huge. IRP/RP may avail the services of practicing CMAs for data uploading in 'Information Utility'.
- ✓ *Management of Borrower:* IRP/RP are required to manage the business of the borrower on a 'going concern basis'. IRP/RP may engage CMAs and other professionals for assisting the Management like for example as CFO.
- ✓ *Secretarial and Legal Work:* The CIRP process requires enormous procedural works like book-keeping, holding of meeting, recording minutes, communication with NCLT etc. IPs are expected to take help of professionals in this regard.
- ✓ *Representing Lenders:* Creditors who are part of COC are allowed to appoint other IP (other than RP) as their representative in COC. FCCB (Foreign Currency Convertible Bonds) and ECB (External Commercial Borrowings) holders are expected to use this facility.
- ✓ *Representing before NCLT / NCLAT:* A party to any proceeding or appeal before the Tribunal or the Appellate Tribunal, as the case may be, may either appear in person or authorise one or more Cost Accountants to present his case before the Tribunal or the Appellate Tribunal.

OPPORTUNITY FROM SEBI FOR IPS

The Securities and Exchange Board of India (Appointment of Administrator and Procedure for Refunding to the Investors) Regulations, 2018, [Regulations] provide for appointment of Insolvency Professionals (IPs) as Administrators.

The IBBI and the SEBI have mutually agreed upon to use a panel of IPs for appointment as Administrators for the effective implementation of the Regulations. The IBBI shall prepare a panel of IPs keeping in view the requirements of SEBI and the Regulations and the SEBI shall appoint the IPs from the panel as Administrators, as per its requirement in accordance with the Regulations.

The panel shall have zone wise list of IPs. An IP will be included in the panel against the zone where his Registered Office (address as registered with the IBBI) is located. For example, an IP located in the City of Surat (Gujarat) will be included in Ahmedabad Zone, which covers the State of Gujarat.

EXPECTED APPLICANTS UNDER IBC

Banks' Corporate NPA Cases:

CMAs are in continuous contacts with credit intensive branches of Commercial Banks, Stressed Resolution Branches, Non-Banking Financial Corporations, Chambers of Commerce Associations (Operational Creditors) etc. Examples to source the applicants from banks are (subject to empanelment with the concerned banks):

Where banks have initiated legal action against the debtor for recovery of dues, under the Recovery of Debts Due to Banks and Financial Institutions Act, 1993 (RDDBFI) and the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI).

Where the corporate debtors have sought legal action for collective resolution of insolvency, either under the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA) etc earlier.

Where banks have chosen to restructure the debt under RBI's restructuring or similar mechanisms and have failed.

Cases where lenders or other non-lending creditors have filed cases under the winding-up provisions of the Companies Act, 1956.

CONCLUSION

Resolution Professionals play a very significant role for the efficient operation of the insolvency process. They have to perform a whole range of functions and duties that are vested in them. The primary responsibility of a Resolution Professional is to conduct the corporate insolvency resolution process (CIRP) with transparency. He is also required to possess appropriate skills, knowledge, and expertise to ensure that the proceedings are conducted in an effective manner and carry out the duties and responsibilities vested in him. MA

FORENSIC AUDIT (FINANCIAL INSTITUTIONS & IBC, 2016)

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Opportunity-2

Financial Sector

In May 2015, the Reserve Bank of India (RBI) mandated the banks to use Forensic Audit as a preventive and investigate tool to detect frauds and deal with "red flagged accounts" (RFAs) of corporate borrowers over ₹50 Crores. After five years, the problem of NPAs still remained acute in the case of large corporate loans. The introduction of beneficial ownership provisions in the Companies Act, 2013, Insolvency and Bankruptcy Code 2016 (Section 29A), banks' Know Your Customer (KYC) and Anti Money Laundering (AML) provisions etc. also require deployment of Forensic Audit methods to identify the actual beneficiaries of funds disbursed by the banking sector.

IBC, 2016

The following types of transactions / conduct can be identified as the ones covered under the IBC, 2016, and related avoidance proceedings which are essentially aimed at compensating the estate of the insolvent company:

a) Preferential transactions under section 43
b) Undervalued transactions u under section 45
c) Transactions defrauding creditors under section 49
d) Extortionate credit transactions under section 50
e) Fraudulent trading under section 66(1)
f) Wrongful trading under section 66(2)

There are thousands of cases under the Insolvency and Bankruptcy Code. It is almost a ritual for the Resolution Professionals (RPs) to take an opinion from the CMAs for such matters. CMAs are looked upon as the most competent professionals for this kind of an assignment. This can be a good starting point to gather experience in the field of Forensic and Transaction Audit.

MEANING OF OBJECTIVE

'Audit' in general, refers to the examination or inspection of various books of accounts by an auditor followed by physical checking of inventory to make sure that all departments are following documented system of recording transactions. It is done to ascertain the accuracy of financial statements provided by the organization.

Audit can be done internally by employees or head of a particular department or externally by an outside firm or an independent auditor. The idea is to check and verify the accounts by an independent authority to ensure that all books of accounts are made in a fair manner and there is no misrepresentation or fraud that is being committed.

A forensic audit can be conducted in order to detect and prosecute a party for fraud, embezzlement or other financial claims". Thus, in the context of a bank, all transactions and decisions involving finance are analysed with a view to arrive at the truth. But a Forensic Audit does not stop with mere audit of accounts. It goes a step further to find out the basis on which each decision was taken. Since decisions could be of myriad types that could directly impact the financial affairs of an entity it is imperative that the auditor shall probe all types of such decisions taken in the Bank concerned.

SIGNIFICANCE OF FORENSIC AUDIT

Forensic Auditing has assumed an important role in both private and public organizations since the dawn of the 21st century especially in the advanced economies. The catastrophe in some prominent public companies such as Enron and WorldCom (MCI Inc.) in the late 1990s, coupled with the terrorist attacks of September 11, 2001 and the subsequent frauds in the corporates like Satyam and a leading Nationalised Bank in India have emphasised the need for Forensic Auditing / Accounting, creating a new, important and lucrative specialty field for accounting professionals . Forensic Auditing procedures target mostly financial and operational frauds, discovery of hidden assets, and adherence to Regulations.

The significance of Forensic Audit could be described as under :

- In general, Forensic Audit, which is described as a specialized field of accountancy investigates fraud and analyses financial information to be used in legal proceedings.
- In Forensic Audit, a systematic and independent examination of the books, accounts, statutory records, documents and vouchers of an organization is made to detect fraud or probability of any fraud.
- Much beyond the official documents of the company, the Forensic Audit involves considerable of field work, trying to talk to multiple stake holders to gather information and then look for evidence to corroborate it .
- It also attempts to identify or to corroborate the culprit behind the fraud.
- It arranges and collects evidences about the fraud and the person accused of the fraud.
- The collected evidences and reviewed facts are used in legal proceedings which assists the Court in imposing punishment on the real perpetrator of the fraud.
- Forensic Audit uses accounting, auditing, and investigative skills to conduct investigations into theft and fraud. It encompasses both litigation support and investigative accounting. This makes Forensic Audit an apt tool in the contemporary times, ensuring financial health of the companies through aiding in the prevention, regulation and penalization of financial frauds and scams.

KEY ADVANTAGES

In this context some key benefits of Forensic Audit could be listed as under :

1. **Detection and Responsibility of Corruption:** In a Forensic Audit, while investigating fraud, an Auditor would look out for:
   - ✓ *Conflicts of Interest* - When the fraudster uses his / her influence for personal gains detrimental to the company. For example, a Manager allows and approves inaccurate expenses of an employee with whom he has personal relations. Even though the Manager is not directly benefitted in monetary terms from this approval, he is deemed to receive personal benefits after making such inappropriate approvals.
   - ✓ *Bribery* – As the name suggests, offering money to get things done or influence a situation in one's favour is bribery. For example, ABC bribing an Employee of B2C company to provide certain data to aid ABC in preparing a Tender offer to B2C.
   - ✓ *Extortion* – If B2C demands money in order to award a contract to ABC, then that would amount to extortion.

   In this process, Forensic Audit aids in detecting the corruption in the corporates and also determines the responsibility of the person liable for the corruption and its practices.
2. **Detection of Asset Misappropriation:** This is the most commonly prevalent form of fraud. Misappropriation of cash, raising fake invoices, payments shown to have been made to non-existing suppliers or employees, misuse of assets, or theft of inventory are some examples of asset misappropriation.
3. **Detection of Financial Statement Fraud:** Companies resort to this type of fraud essentially to present the company's financial performance as better than what it actually is. The intention of presenting such fraudulent numbers may be to improve liquidity, ensure that the top management continue to receive bonuses, or to deal with the pressure for better market performance. Some examples of the financial statement frauds are intentional forgery of accounting records, omitting transactions – either revenue or expenses, non-disclosure of relevant details in the financial statements, or not applying the requisite financial reporting Standards.
4. **Fraud Identification and Prevention:** Fraud is quite common in large organizations where the number of daily financial transactions is huge. In such an environment, an employee can easily indulge in fraudulent activities without being caught. Forensic Accounting helps in analysing whether the company's accounting policies are followed or not and whether all the transactions are clearly recorded in the Books of Accounts. Any deviation observed in the books of accounts can help in identifying fraud and necessary measures can be taken to prevent

it in the future.

5. **Making Sound Investment Decisions:** As Forensic Accounting helps in analysing the financial standing and weaknesses of a business, it provides a path for investors to make thoughtful investment decisions. A company committing fraud is definitely not a good option for investment. Therefore, the reports of Forensic Accountant act as a guide for potential investors of a company. Many organizations also apply for loans from various financial institutions. By performing an analysis, such institutions can come to a decision as to whether they would like to finance a company or not.

6. **Formulation of Economic Policies:** Various instances of fraud that are unearthed consequent to forensic analysis act as a reference for the Government to formulate improved economic policies that would be able to curb such fraudulent activities in the future. By doing so, the Government can strengthen the economy and prevent such illegal activities in the country.

7. **Rewarding Career Opportunity:** As a career, Forensic Auditing is extremely rewarding, as it not only involves regular auditing and accounting activities, but also involves identification, analysis, and reporting of the findings during an audit. The acceptance of reports generated by a Forensic Auditor by the court of law, gives them an upper hand as compared to other accountants. Good Forensic Auditors are in high demand and can easily draw attractive remuneration around the Globe.

SKILLS AND COMPETENCY REQUIREMENT OF A FORENSIC AUDITOR

General techniques used for collecting evidence in a Forensic Audit include the following: -

- Net worth and lifestyle comparisons of targets.
- Sourcing of information from on-line databases and social media profiling.
- Substantive techniques – For example, doing a reconciliation, review of documents, etc.
- Analytical procedures – Used to compare trends over a certain time period or to get comparative data from different segments.
- Computer-assisted audit techniques – Computer software programs that can be used to identify fraud.
- Understanding internal controls and testing them to understand the loopholes which enabled such fraudulent activities.
- Interviewing.

INSOLVENCY AND BANKRUPTCY CODE , 2016

With the advent of the Insolvency and Bankruptcy Code, 2016, (IBC), one of the supplementary areas that is picking up is the Transaction Audits for the past transactions in which the Insolvency Professional (IP) can appoint a competent External Agency for conducting the same.

Also, there are other areas wherein the review of the Resolution Applicant is required to be investigated for various pre-conditions under section29A. There reviews are like a Forensic Audit and also commonly referred so. Specialising in this kind of review promises a good opportunity which can be of interest for many emerging and growing firms.

The relevant sections relating to Transactional / Forensic Audit under the Insolvency and Bankruptcy Code are:

a) Preferential transactions under section 43

b) Undervalued transactions under section 45

c) Transactions defrauding creditors under section 49

d) Extortionate credit transactions under section 50

e) Fraudulent trading under section 66(1)

f) Wrongful trading under section 66(2)

Appointment of a Transaction Auditors

This being a regular requirement of the Resolution Professionals, it is critical for the interested Transaction Auditors to understand the legal provisions and process for handling the same. The role of Forensic Auditor is very crucial and therefore required in every sphere of business. The Forensic Auditor can identify the fund diversion, siphoning of funds and other related activities taking place , company.

With the support of Forensic Audit report, the Committee of Creditors (CoC) can identify and declare the promoters / directors of the corporate debtor company, as "wilful defaulter" and take necessary action. The IRP has to get hold of all the daily routine activities of the corporate debtor (CD) and therefore it is very difficult to delve deep into each and every transaction carried out during the last two years. Though the IBC itself doesn't place an obligation on IRP to appoint a Forensic Auditor but, for getting through the transactions in details, IRP appoints a Forensic / Transaction Auditor, with a focus to detect PUFE (Preferential, Undervalued, Fraudulent, Extortionate) transactions.

When to appoint a Transaction Auditor?

The Transaction Auditor may be appointed to support the opinion of the Resolution Professional. To ascertain this, we need to examine the time line under which the Resolution Professional needs to be submit such report to the Adjudicating Authority.

As per the Regulation 35A of the Insolvency and Bankruptcy Board of India (Insolvency Resolution Process for Corporate Persons) Regulations, 2016, for preferential and other transactions, the RP should do the following:

1. On or before the seventy-fifth day of the insolvency commencement date, the Resolution Professional shall form an opinion whether the corporate debtor has been subjected to any transaction covered under sections 43, 45, 50 or 66.

2. Where the Resolution Professional is of the opinion that the corporate debtor has been subjected to any transactions covered under sections 43, 45, 50 or 66, he shall make a determination on or before the one hundred and fifteenth day of the insolvency commencement date, under intimation to the Board.
3. Where the Resolution Professional makes a determination under sub-regulation (2), he shall apply to the Adjudicating Authority for appropriate relief on or before the one hundred and thirty-fifth day of the insolvency commencement date.

The above timelines are indicative of the time when the Transaction Auditor needs to be appointed.

Since the reporting is to be done on T + 75th Day, the same should be initiated at the earliest. The first COC happens latest on 30th days wherein any kind CIRP cost approvals can first be taken.

Hence, ideally in the first COC, there should be an agenda in this regard. The COC just needs to approve the fee budget for such Transaction Audit. Once done a request for proposal can be floated for the same.

Typical scope for the Transaction Audit

Typical scope of transaction audit includes the following :

i. To identify preferential transactions and transactions defrauding creditors.
ii. To identify fraudulent and wrongful trading.
iii. To identify undervalued / overvalued transactions through related / other entities.
iv. To identify extortionate transactions executed by the promoter to benefit himself / relative / other parties.
v. To identify any diversion or siphoning of funds.
vi. To ensure if the management of CD is involved in falsification or alteration of books of accounts and records.
vii. To assess the accountability of suspended Board of Directors.
viii. To check wilful concealment / removal / alteration of any property by anyone related or connected to the corporate debtor.

Does the CoC have a say in identifying a Transaction Auditor?

As per section 20(2)(A) the IRP has the right to appoint a professional. Since IRP is the one who is appointing the Forensic Auditor, he has the right of identifying, appointing, controlling, reporting, assign roles and responsibilities etc.

That means the CoC has no role with reference to the Forensic Auditor. The CoC directly cannot communicate with the Transaction Auditor'. The Auditor shall report to IRP; he is not bound to share the report with NCLT. The Audit Report is to be shared with NCLT directly by IRP as supporting his application to the NCLT or the disclosure as may be required.

Unlike CoC, the NCLT has the complete right to question the Forensic Auditor and hold him responsible for any false allegations. Also, the Forensic Auditor can be a legal evidence in proceedings before the NCLT.

The RP appoints the Forensic Auditor. CoC involvement is only upto the stage of approving the Forensic Auditor. Forensic Audit Report is submitted to the IRP and the IRP will share it with NCLT.

What is the reporting Hierarchy for the Transaction Auditor?

The Transaction Auditor has to report to the Resolution Professional. Then the same is left on the Resolution Applicant to take it further or use it in his report to the NCLT. There is no way of escalation if there is any nexus issue of the Resolution Professional with the KMPs.

Qualifications for being Forensic Auditors

There is no specific requirement mentioned anywhere in the IBC, 2016. But if CMAs are having good knowledge of 'internal audit' and 'credit management system of banks', it helps them a lot to complete the audit task easily.

Opportunities for Cost Accountants in Forensic Audit

There are thousands of cases open under the Insolvency and Bankruptcy Code. It is almost a ritual for the Resolution Professionals (RPs) to take an opinion from the Cost Accountants in such matters.

Cost Accountants are looked upon as the most competent professionals for this kind of assignment. This can be a good starting point to gather experience in the field of Forensic Audit.

CONCLUSION

A Forensic Audit does not stop with examining only the financial transactions of a bank. As the quality of decisions made and their end result are the direct outcome of different Departments within the bank, Forensic Audit cannot overlook other functions of the bank. Then only a total and comprehensive picture can emerge. To be effective and successful, Forensic Audit must study various inter-related activities of the bank carefully and submit its report within a reasonable time.

State Bank of India addressed a communication to The Institute of Cost Accountants of India that they were going to utilize the services of CMAs for Forensic Audit of bank fraud cases. Interested members should pursue the empanelment process advertised by SBI and apply for the same. It is hoped that other public and private banks and other financial institutions, will follow suit.

The IBC itself doesn't place any obligation on the IRP to appoint a Forensic Auditor. Having said that, for scrutinising the transactions in details, IRP appoints a Transaction Auditor, with a focus to identify the PUFE (Preferential, Undervalued, Fraudulent, Extortionate) transactions if any. The IRP gets held up with all the daily routine activities of the corporate debtors and therefore it is very difficult for him to delve deep into each and every transaction carried out during the last two years. The role of Forensic Auditor is very crucial and therefore is required in every sphere of business. The Forensic Auditor can identify the fund diversion, siphoning of funds and other related fraudulent activities, which may be carried out by the management of the company. Apart from this, with the support of Forensic Audit Report, the Committee of Creditors (CoC) can identify and declare the promoters / directors of the corporate debtor company, as *wilful defaulters.*

For Transactions Audit and Forensic Audit under IBC, 2016. CMAs should contact the Interim Resolution Professionals / Resolutions Professionals appointed by the NCLT / financial creditors for various IBC, 2016 cases filed in various Benches of the NCLTs located across the Country. The letter addressed to The Institute of Cost Accountants of India, by State Bank of India, Corporate Centre, Mumbai with regard to inclusion of Cost Accountants Firms for Forensic Audit is reproduced hereunder for information and ready reference of CMAs. MA

भारतीय स्टेट बँक
भारतीय स्टेट बैंक
State Bank of India

पतकर्जे नीती आणि कार्यविधि विभाग, 4था मजला, कॉर्पोरेट केन्द्र,
स्टेट बँक भवन, मादाम कामा रोड, मुंबई - 400 021.
ऋण नीति एवं कार्यविधि विभाग, 4थी मंजिल, कारपोरेट केन्द्र,
स्टेट बैंक भवन, मादाम कामा रोड, मुम्बई - 400 021.
Credit Policy & Procedures Department, 4th Floor, Corporate Centre,
State Bank Bhavan, Madame Cama Road, Mumbai - 400 021.

Tel.: 2274 0401-09 | Fax : 2202 1906 | I.P. No. : 100361

Shri J.K.Budhiraja

Secretary to Professional Development Committee and Director (PD)

The Institute of Cost Accountants of India

CMA Bhawan, 12, Sudder Street

Kolkata- 700016

No. CPP/SK/ 191 Date : 21.01.2015

Dear Sir,

Request for inclusion of Cost Accountants Firms for Forensic Auditor

With reference to your letter No. ICAI/PD/SBI-Forensic Audit/2014-15 dated 16.10.2014, we advise that the issue has been re-examined and requirement for empanelment of entities for undertaking Forensic Audit have now been broadbased to include hereafter members of the Institute of Cost Accountants of India (ICAI).

Yours faithfully,

(B.V Ramana)

Deputy General Manager

CERTIFICATION OF BORROWER COMPANIES

(DILIGENCE REPORT - LENDING UNDER CONSORTIUM ARRANGEMENT / MULTIPLE BANKING ARRANGEMENTS)

CMA KVN Lavanya
Practicing Cost Accountant
Hyderabad
31069lavanya@icmaim.in

Opportunity-3

In order to strengthen the information sharing system among banks in respect of borrowers enjoying credit facilities from multiple banks, the banks are required to obtain regular certification by a professional like Cost Accountants.. The introduction of diligence reporting by CMAs in Practice is expected to lay down a strong foundation for good governance culture among borrowing corporates

To develop the skills in this area, CMAs should acquire good knowledge of credit management system of banks.

INTRODUCTION

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

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

Accordingly, the Reserve Bank of India in consultation with the Indian Banks' Association, has come out with a framework to be observed by banks for improving the sharing / dissemination of information among the banks about the status of the borrowers enjoying credit facilities from more than one bank. Further, the banks are required to obtain regular certification of *Diligence Report* from a Professional, preferably a *Cost Accountant* about the conformity to statutory prescriptions in vogue. Thus, the banking industry in general and the Regulator, in particular, have reposed enormous trust on professionals like Cost Accountants .

The Diligence Report covers many critical and relevant matters such as details of the Board of Directors, shareholding pattern, details of the Forex exposure and overseas borrowings, risk mitigation through insurance cover in respect of all assets, payment of all statutory dues and other compliances, proper utilisation / end-use of the loan funds, compliance with mandatory Accounting Standards, compliance with various clauses of Listing Agreement in case of a listed company etc. The compact structure of the Diligence Report through its twenty-five paragraphs makes it obligatory for a practicing Cost Accountant to prepare the report after a critical examination of all relevant records and documents of the borrowing companies which demands a high degree of care, skill and knowledge.

RBI DIRECTIVES TO BANKS

The Reserve Bank of India vide its

Circular No. DBOD NO. BP. BC. 46/ 08.12.001/2008-09 dated September 19, 2008 advised all the Scheduled Commercial Banks (excluding RRBs and LABs) to obtain regular certification (*Diligence Report*) by a professional, preferably a Cost Accountant, regarding compliance of various statutory prescriptions that are in vogue, as per specimen given in the aforesaid notification. Further, Ithe RBI vide its Circular dated January 21, 2009 also advised all Primary Urban Co-operative Banks to obtain such Diligence Report. Subsequently the RBI vide its Circulars dated December 08, 2008 and February 10, 2009 revised the format of Diligence Report for Scheduled Commercial Banks and also for Primary Urban Co-operative Banks vide its Circular dated February 12, 2009. A list of circulars issued by the RBI in respect of diligence reporting is as under:

Sl. No.	Date of Issue	Circular No:	Copy Placed as
01	19.09.2008	DBOD NO. BP. BC. 46/08.12.001/2008-09	Annexure A
02	08.12.2008	DBOD No. B.P. BC 94/08.12.001/2008-2009	Annexure B
03	21.01.2009	UBD. PCB. No. 36/13.05.000/2008-09	Annexure C
04	10.02.2009	DBOD. No. BP.BC. 110/08.12.001/2008-09	Annexure D
05	12.02.2009	UBD. PCB. No. 49 /13.05.000/2008-09	Annexure E

GUIDANCE ON DILIGENCE REPORTING

The following paragraphs outline the compliance inputs that may be relied upon by the CMAs for the purpose of issue of 'Diligence Report'. Compliance inputs and checklist are indicative and CMAs shall not exclusively rely upon that, but use that as a guide and apply his own judgement to determine what is to be checked and to what extent.

Period of Reporting

Annexure - III to the RBI Notification provides that the Diligence Report shall be made on a half yearly basis.

Right to access records and methodology for diligence reporting

To enable the CMAs to issue the Diligence Report, the company (borrower) should provide the CMAs access at all times to the books, papers, minutes books, forms and returns filed under various statutes, documents and records of the company, whether kept in pursuance of the applicable laws or otherwise and whether kept at the Registered Office of the company or elsewhere which he considers essential for the purposes of Diligence Reporting.

The CMAs shall be entitled to require from the officers or agents of the company, such information and explanations as they may think necessary for the purpose of such reporting. However, depending on the facts and circumstances he / she may obtain a letter of representation from the company in respect of matters where verification by CMAs may not be practicable like for example matters like:

i. Dis-qualification of Directors;
ii. Show cause Notices received;
iii. Persons and concerns in which Directors are Interested etc.

Reporting with Qualification

Qualification, reservation or adverse remarks, if any, may be stated by the CMAs at the relevant places. It is recommended that the qualifications, reservations or adverse remarks of CMAs, if any, should be highlighted in the Diligence Report.

If the CMA is unable to form any opinion with regard to any specific matter, he shall state clearly the fact that he is unable to form an opinion with regard to that matter and the reasons thereof.

If the scope of the work required to be performed is restricted on account of limitations imposed by the company or on account of circumstantial limitations (like certain books or papers being in custody of another person or Government authority) the report shall indicate such limitation.

If such limitations are so material as to render the CMAs incapable of expressing any opinion, the CMAs should state that in the absence of necessary information and records, he is unable to report compliance(s) or otherwise by the company.

CMAs shall have due regard to the circulars and / or clarifications issued by the Reserve Bank of India from time to time. It is recommended that a specific reference of such circulars at the relevant places in the report be made, wherever possible.

Professional Responsibility and Penalty for False Diligence Report

While the RBI Notification has opened up a significant area of practice for CMAs, it equally casts onerous responsibility on them and poses a greater challenge whereby they have to justify fully the faith and confidence reposed by the banking industry and measure up to their expectations. CMAs must, therefore, take adequate care while issuing Diligence Report.

Any failure or lapse on the part of a CMAs in issuing a Diligence Report may not only attract penalty for false reporting and disciplinary action for professional or other misconduct under the provisions of The Cost and Works Accountant Act, 1959 but also make him liable for any injury caused to any person due to his / her negligence in issuing the Diligence Report.

Therefore, it becomes imperative for the CMAs to exercise great care and caution while issuing the Diligence Report and also adheres to the highest standards of professional ethics and excellence in providing his/her services.

CONCLUSION

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

The Central Vigilance Commission concerned at this development had attributed these phenomena to lack of effective sharing of information among banks. A felt need, all along has also been the requirement to have certification of statutory compliance by a company through a professional like a Cost Accountant so that the lending banker gets the desired comfort. Accordingly the Reserve Bank of India, in consultation with IBA, issued guidelines in September 2008 covering both the above aspects.

The introduction of diligence reporting by CMAs in Practice is expected to lay down a strong foundation for good governance culture among borrowing corporates and correspondingly enhance the comfort level of the banks by reducing the information asymmetry prevailing currently.

The banking industry places considerable importance on the certification and practicing CMAs should uphold the high values that are expected of them while issuing the Diligence Report. MA

भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
www.rbi.org.in

RBI/2008-2009/379

DBOD.No. BP.BC.110/08.12.001/2008-09 February 10, 2009

The Chairman & Managing Directors /
Chief Executive Officers of
All Scheduled Commercial Banks
(Excluding RRBs and LABs)

Dear Sir,

Lending under Consortium Arrangement / Multiple Banking Arrangements

Please refer to Paragraph 2(iii) of our circular RBI/2008-09/183/DBOD.No.BP.BC.46 /08.12 .001/2008-09 dated September 19, 2008 on the captioned subject.

2. In terms of Paragraph 2(iii) of the above circular, in order to strengthen the information sharing system among banks in respect of the borrowers enjoying credit facilities from multiple banks, the banks are required to obtain regular certification by a professional, preferably a Company Secretary, regarding compliance of various statutory prescriptions that are in vogue, as per specimen given in **Annex III** to the above circular.

3. In this context it is clarified that in addition to Company Secretaries, banks can also accept the certification by a Chartered Accountants & Cost Accountants. Further, on the basis of suggestions received from Indian Banks Association, **Annex III** - Part I & Part II (copy enclosed) has also been modified.

Yours faithfully,

(P. Vijaya Bhaskar)
Chief General Manager.

Encl: As above.

AGENCIES FOR SPECIALIZED MONITORING (ASM)

(LARGE VALUE ACCOUNTS)

CMA (Dr.) K. Muthupandian
Director-Finance
Andhra Pradesh Power Transmission Corporation Ltd
Andhra Pradesh
mpdirfinapt@gmail.com

Opportunity-4

The appointment of Agencies for Specialised Monitoring (ASM) by Banks for post-sanction credit monitoring has created vast opportunities for the Cost Accountants (CMAs) in the Banking industry. Read on to know more about it.

The year 2019 was a year of reckoning for the Indian banking sector. Indian Banks were reeling under a distress debt of around USD 200 Billion and were in dire need of debt restructuring and infusion of fresh capital.

Aggressive lending to the infrastructure sector in order to prop up the Indian Economy after years of great financial crisis (2008-2010), and various other factors including fraud and diversion of funds, had ultimately resulted in piling up of a huge amount of bad debts within the Banking sector.

The Govt. of India, in order to keep a latch on fraudulent activities and to prevent diversion of funds, has introduced the concept of ASM (Agency for Specialised Monitoring). Under the ASM, Banks will now appoint Specialized Monitoring Agencies to closely track the activities of the debtors (borrowers) including purchase / invoices, actual production vis-à-vis projections, high value transactions / payments as regards beneficiaries and purpose, cash inflow / outflow.

ASM will be applicable for all debtors where the exposure is above ₹250 Crore.

The scope of the monitoring work shall include the following:

- ✓ Concurrent review and Monitoring Procedures (for Working Capital).
- ✓ Concurrent Review and monitoring procedures (for term loan); preferably deployed when there is delay in implementation - ASMs for large accounts should be engaged in order to ensure proper monitoring of project implementation as per schedule and utilization of funds.
- ✓ Concurrent cash monitoring which includes the following:
  - ⊙ Cash inflow monitoring
  - ⊙ Cash outflow monitoring
- ✓ Fund flow analysis
- ✓ Non-cash parameters

The appointment of Specialised Monitoring Agencies by Banks for post-sanction credit monitoring has created vast opportunities for the Cost Accountants (CMAs) in the Banking industry.

Post-sanction credit monitoring starts from the moment credit is sanctioned to the borrower, and ends only when the account is closed.

Post-sanction credit monitoring is vital to maintain a healthy credit portfolio. Lack of post-sanction credit monitoring could turn an otherwise good credit selection, into an unviable proposition.

Post-sanction credit monitoring depends upon factors such as the type of credit facilities, nature of activity, purpose of loan, geography, market dynamics and regulatory requirements and it has to be fine-tuned on a case-to-case basis.

To make the credit monitoring process more robust, the Government has advised the Banks to avail the services of CMAs as Specialised Monitoring Agencies for clean and effective post-sanction follow-up on a common engagement basis, in the case of consortium lending.

This Agency for Specialised Monitoring has professionals with domain knowledge, experience and skills in different sectors and industries. In case of large exposure or exposure of a specialised nature, such agencies provide inspection services, stock audit, cash flow monitoring, and end-use, among others.

Banks have now started appointing external agencies to monitor loan accounts of ₹250 crores and above. These agencies would monitor all the transactions of an account on a day-to-day basis at the back-end.

This has created vast opportunities for CMAs, as the work stretches throughout the year and call for specialisation not only of the financial system, but actual business operations and functioning of the industry and business concerned.

The exposure of Banks to borrowers ranges from plain vanilla trading to complex project execution. Each exposure is unique in terms of the nature of exposure, purpose of credit, nature of borrower, the prevailing market scenario, geographic location, industry characteristics, etc, and entails different skill-sets and parameters for monitoring. In view of this, the scope of work for a Special Monitoring Agency is very broad.

Protocol with its techno-financial capabilities, is rightly placed to offer a 360-degree overview to the lenders with regard to their exposure to large borrowers, monitor the progress of the implementation / operation of projects on real time basis and simultaneously, monitor the operating and non-operating financial transactions of the debtor, including cash flow monitoring.

SCOPE OF THE WORK OF ASM

In case of Working Capital

a. Monitor the purchases / invoices of the company (about quantum and reasonableness of the rates) for procurement of raw material / spares / transportation of raw material etc. on daily / weekly basis and compare with monthly operation budget submitted by the company. The periodicity would be decided by Consortium / Bank.

b. Review of inventory build-up (including trade receivables and advances to the company) for operation of the units commensurate with funds released.

c. Monitor the actual operations (production / supplies etc.) vis-a-vis projections.

d. Verification of high value transaction / payment as regards beneficiary and purpose.

e. Assessment of financial information that has been and that will be provided by the company to its lenders including information related to its short term and long-term cash flows.

f. Identify key issues and submit the report along with suggestions with regard to smooth operations of the project.

g. Additional verification of evidence of end use of facilities to the company and its utilization as per the conditions laid down by the Consortium of Lenders.

h. Inspection / verification of stock / book debts and submission of monthly report (or as stipulated by lenders) about the inventory / receivable position of the company including slow moving inventory if any, to arrive at correct drawing power to the company.

i. Submit reports at regular intervals (say at quarterly interval or as stipulated by the member Bank) on:

   a. temporary / long term / unscheduled closure of manufacture facilities

   b. any untoward incident or suspicious business or unrelated activity

   c. non-cooperation from Borrower to provide general information

j. Source of margin towards working capital / letter of credit / bank guarantee.

k. Quality of book debt, their appropriateness, age-wise classification and eligible book debts for drawing power.

l. In case of consortium lending, ASM will monitor the status of borrowing with member Bank, conduct of accounts, business sharing etc.

m. Confirmation on availability of adequate insurance for the securities / stocks / assets with Bank clause noted.

n. Perform such other services as requested by the lenders and mutually agreed to by the party and lenders.

In respect of Term Loan

Project monitoring, preferably deployed when there is delay in implementation.

ASMs for large accounts should be engaged in order to ensure proper monitoring of project implementation as per schedule and utilization of funds.

The scope of work will broadly include the following:

a. Conduct physical inspection of the project at regular intervals or deploy official at the project site for continuous monitoring, document reviews and monitoring of progress reports on continuous basis especially vis-à-vis original timelines to avoid overruns.

b. Determine progress and appropriateness of related transactions (e.g. payments made to contractors and sub-contractors, vendors, orders placed and commercial terms thereof

c. Deviations in project progress vis a vis timelines and the amount disbursed. High value payment / dues to be clearly monitored to ensure proper utilization.

d. Periodical review of invoices and submission of Exception Report to the Consortium

e. Fortnightly review of production / supplies (quantities of work certified) vis-à-vis inventory consumption records and cash flow to contractor, sub-contractors and vendors, wastages, extent of rework and quality non-conformities raised by the company, and highlight the exceptions. A single Review Report will be released each fortnight for invoices raised and inventory consumed during that period.

f. Suggestions, if any, for improving the project management practices.

g. Verification / analysis of following to be done by ASM:

   i. Approval / clearances / compliances in the project.

   ii. Analysis of Government letters / instructions / audit reports / independent engineer's report / insurance / reports submitted to Government.

h. Sources of capital fund infusion / term borrowing / any other borrowing

i. Physical progress of project vis-à-vis fund infusion.

j. Perform such other services as requested by the lenders and mutually agreed to by the party and lenders.

GENERAL PARAMETERS FOR MONITORING

In addition to the above parameters, keeping in view the different credit monitoring aspects, some additional parameters like the following too need to be monitored by ASM for all loans.

a. Cash Inflow Monitoring

i. Sources of cash inflow based on estimates / projections.

ii. Source of unsecured loan / NCD, its tenor and rate of interest, if any / sale of fixed assets / investments, interest / dividend received from investment

iii. Profit ploughed back and any windfall / exceptional cash inflow e.g. profit from sale of fixed assets, tax refunds etc.

iv. Sources of margin, whether it is through borrowing or capital infusion and is brought as per sanction stipulations.

v. Monitoring of the payment transactions to / realisations from Group companies.

b. Cash Outflow Monitoring

i. Utilization in inventory build-up / acquisition of fixed assets / purchase-invoices of the company (about quantum and reasonableness of rates) for procurement of raw material / spares / transportation of raw material etc. on daily / weekly basis and compare these with monthly operation budget submitted by the company.

ii. Utilization in creditors repayment / repayment of term borrowing / loans and advances to other firms.

iii. Capital drawings, if any / interest / dividend pay-outs / redemption of debentures, if any / shares buy back, if any.

iv. Inter corporate transactions and / or related party transactions.

v. Timely and full payment of Government / statutory dues / analysis of any other kinds of outflows, if observed.

c. Fund Flow Analysis

To highlight on diversion of short-term funds in long term uses.

d. Non-Cash Parameter

i. ASM is expected to keep a watch on industry specific prevailing trends, cyclical changes, Government Policies and precautionary / mitigation measures, Sustainability / Sensitivity in Products / Business.

ii. High value vendor due diligence, market values vis-à-vis Invoice Price.

iii. Technological obsolescence and substitution measures.

iv. Industry experts should also be involved while conducting stock audit in sectors where raw material / finished goods are of technical nature.

v. To report on any litigation, court cases including asset classification of associate concerns.

ELIGIBILITY CRITERIA

- Firms / Companies Comprising of Qualified Engineers, Advocates, Chartered Accountants / **Cost Accountants**, sector specific experts with professional qualification and experience, etc. as Members / employees not in full time employment with any firm / company and registered with the appropriate authority such as Income Tax Authorities, Bar Council of respective State, Institute of Chartered Accountants of India (ICAI) / **The Institute of Cost Accountants of India**, etc. (as applicable) as members with minimum **experience of 3 years** in finance related assignments. No individual / proprietorship firm will be eligible to act as ASM.
- In no case, firms engaged in debt syndication, working as lenders' independent engineer, engaged for TEV study of any project and as Consultant will be considered for empanelment as ASM.
- Firms / corporates which display professional competence in handling such assignments and having satisfactory track record.
- Firms / companies should not have been blacklisted by any financial institution / other organizations / any Government Department. Firms / companies should furnish self-attested affidavit in this regard.
- Should have office at any of the major centres of the Country.
- The name of the firm / company or its promoter / partner, etc. should not be in the defaulters / barred / caution list published / displayed at websites of public bodies such as by RBI / IBA / ECGC /SEBI / CICs, etc. The firms / companies should furnish self-attested affidavit in this regard.
- Preference shall be given to those firms / companies which are having expertise in the sector in which their service is to be utilised and are up-to-date with current domain developments.

For example, ASMs having expertise in power sector may be utilised for monitoring power sector accounts.

CONCLUSION

Last Year's The Invitation seeking Applications for empanelment of agencies for Specialized Monitoring (ASM)' issued by the Indian Banks Association last year is appended hereunder. Interested persons may track IBA Web-site for the next announcement for ASM empanelment process. MA

Indian Banks' Association

Invitation for Applications for Empanelment of
<u>Agencies for Specialized Monitoring (ASM)</u>

Indian Banks' Association (IBA) invites application as per format attached from eligible firms / companies for empanelment as Agencies for Specialized Monitoring (ASM) for the banking industry.

The scope of work and eligibility criteria is enclosed. The applicant is required to comply with the eligibility criteria and ensure that the application is complete in all respects, properly indexed with enclosures duly flagged.

The **last date** for receipt of application complete in all respects **(in hard copy** only) at IBA, Mumbai is **December 19, 2019** by 4.30 p.m. Please note that no application will be accepted thereafter. Applications submitted through email will not be accepted.

The application is to be sent on the firm's / company's letter head addressed to:

The Chief Executive
Indian Banks' Association
6th Floor, Centre I, World Trade Centre
WTC Complex
Cuffe Parade
Mumbai – 400 005

STOCK AND BOOK DEBTS AUDIT

CMA Amitabha Datta
Practicing Cost Accountant
Kolkata
amitabhadatta57@gmail.com

Opportunity-5

Stock audit by external CMAs is one of the important tools of credit monitoring for banks. Apart from ensuring safety of realizable security, it also help the banks to discipline the borrowers or may act as a warning signal against probable future NPA. It would help the banks to take timely remedial measures to avoid substantial future losses. It also highlights the weaknesses, if any in the existing monitoring system of the branches through comments about maintenance of drawing power (DP) register, scrutiny of statements, review of accounts and compliance of audit findings. Over and above, Stock and Book Debts Audit also has the utility for the borrower. Comments about insurance inadequacies, wrong product description and locations stated in the Policies, if rectified in time may save the borrower from avoidable future losses.

Indians are availing the services of CMAs for 'Stock and Book Debts Audit' for the working capital loans (cash credit loans) sanctioned by them to the SME sector, mid-corporates and corporates. Banks will announce the empanelment process on yearly basis through the official web-sites. This information is available under procurements, expression of interest menus etc. in Banks' Web-sites. Hence, CMAs should keep a close watch on the web-sites of commercial banks for empanelment notification on Stock and Book Debt Audit of Banks.

One of the primary objectives of the banks is to lend money against security. Banks and financial institutions lend money against hypothecation and pledge of stocks, book debts and securities. It is in the interest of the banks to monitor the activities of the borrower so as to ensure that the money has been applied for the purpose for which it was borrowed for and public funds have not been squandered. It also has to ensure that the money is safe and there is adequate margin for the recovery of the loan.

Stocks and debtors are two very important areas requiring attention because they are the essence of every business activity and they provide the true indication of the strength and vitality of a business. The primary objective of verification, from any point of view, is to ascertain whether they are realizable in cash for the value stated. The best symptom for this is a good, healthy and regular movement of both. The thrust of any stock verification process is to verify the system followed or the procedure adopted to compile the quantities of stocks as on a given date and the rate applied for evaluation. The audit objectives remain the same though the accounting procedures may vary from business to business, country to country, and product to product.

The most essential components, which form a significant portion of the total assets of an entity in general and current assets in particular, are inventories and debtors. They are considered as the lifeblood of every business activity since they are the indicators of good health of the company. The basic objective of verification of the assets is to indicate their physical existence and safety aspects.

In view of such magnitude, entities obtain loans from banks in the form of cash credit against hypothecation of inventories and debtors. Consequently, the importance of the physical verification of inventories, their valuation and security aspects are not overemphasized, but rightly stated. Banks would like to get an assurance that the loans that have been advanced are backed by security that have a proper repaying capacity. Audit in banks is useful not only from the point of view of the management, which is the appointing authority but also from the point of other equally interested parties, who are interested for their different objectives viz, the Government, public, RBI, investors, depositors and analysts.

In order to get an assurance that the norms stated in the loan sanction form have not been violated , the bank appoints an external Auditor, who is an independent person. The Auditor undertaking such responsibility should take care that the requirements of the banks are met with and that lapses and inconsistencies have been detected in time.

The main purpose of conducting an Inventories Audit in banks is to get an assurance that the security against which the loan is sanctioned represents the quality and quantity it claims to possess. With this assurance, the purpose of the Inventories Audit as required by the bank is served. The examination of the securities against which the loan has been sanctioned consists not only of physical verification of the securities but also includes verification of aspects such as ownership, valuation and proper storage. The Auditor's role assumes great significance in this regard as his report is considered as veritable and neutral. He is therefore expected to be objective and unbiased while undertaking the Inventories Audit.

MEANING OF INVENTORIES

'Inventories' denote tangible property held for sale in the ordinary course of business or in the process of production for such sale or for consumption in the production of goods or services for sale, including maintenance supplies and consumables ,stores and spare parts meant for replacement in the normal course.

Inventories thus normally comprise of the following :

a) Stores.
b) Spares parts.
c) Loose tools.
d) Maintenance supplies.
e) Raw materials including components.
f) Work-in-process.
g) Finished goods including by-products.
h) Waste or by-products, etc.

MEANING OF DEBTORS

A debtor represents the amount due to an entity for goods sold or a service rendered or in respect of other similar contractual obligations but the amount includes such amounts which are in the nature of loans and advances. Debtors are represented only by documentary evidence in the form of Invoices and they don't have any physical existence.

CASH-CREDIT FACILITY

A major part of working capital requirement of any unit would consist of maintenance of inventories of raw materials, semi-finished goods, finished goods, stores and spares etc. In a trading concern the requirement of funds will be to maintain adequate inventories in trade. Finance against such inventories by banks is generally granted by way of 'cash credit facility' where drawings will be permitted against inventories of goods. It is a running account facility where deposits and withdrawals are permitted.

Cash credit facility is of two types (depending upon the type of charge on goods taken as security by Bank):

(i) ***Cash Credit - Pledge:*** When the possession of the goods is with the bank and drawings in the account are linked with actual movement of goods from / to the possession of the bank. The physical control over the goods is exercised by the bank.

(ii) ***Cash Credit - Hypothecation:*** Here the possession of the goods remains with the borrower and a floating charge over the inventories is created in favour of the bank. The borrower has complete control over the goods and the drawings in the account are permitted on the basis of inventories statements submitted by the Borrower.

INVENTORIES / RECEIVABLES AUDIT

The term 'Inventories Audit' in the context of banks refers to verification and valuation of the entire gamut of current assets, current liabilities, loans and advances, diversion of funds, application of funds, accuracy of inventories statements, arriving at the revised drawing power and any other matter connected with the credit administration by the banks.

The main thrust in Inventories Audit therefore, is towards authentication of the quantity, quality, composition and valuation of the Inventories and debtors.

GENERAL GUIDELINES FOR STOCK AUDITOR

Eligibility Criteria

✓ The Auditors should be from companies / firms of Chartered / **Cost Accountants** with at least 3 years of experience. Those companies / firms which have personnel with engineering background will be given preference to assist in conducting the Stock Audit .

✓ Those who are already empanelled with other banks / financial institutions and having good track record of handling the assignments will be given preference.

✓ Experience / competency in handling Stock Audit, adherence to the specified time frame, reasonableness of the charges and locational advantage will be taken into consideration.

Scope of Inventories Audit

The scope of the audit would cover all the aspects that have a direct impact on the working capital of the unit as well as the aspects relating to inventories that have a bearing on the bank finance. In other words, it deals with the matters that have an effect on the security and liquidity in the view of the banker.

Inventories Audit encompasses the following aspects:

a. Physical verification of inventories.
b. Verification of condition of storage.
c. Valuation of inventories and pointing out variances.
d. Valuation of obsolete / non-moving inventories.
e. Age-wise categorization of inventories.
f. Evaluation of the inventories management by the company.
g. Reconciliation of inventories

statements submitted with the accounting records maintained by borrowers particularly, relating to quantity, rate, value of inventories, age, marketability, etc.

h. Verification and evaluation of sundry creditors indicating separately those relating to inventories and their relationship with bank finance.

i. Commenting upon the sources of the raw materials, i.e., whether any credit is available for the material and which of the items are available against cash payments.

j. Review of the inventories valuation system.

k. Age-wise and value-wise qualification of debtors.

l. Determination of the drawing power.

m. Determining adequacy of the insurance cover.

n. Verification of documents / securities.

o. Commenting upon the comparative profitability and inventories ratio.

p. Ensuring the compliance of the terms and conditions of the sanctioned limit.

q. Verification of transactions with sister concerns, unsecured loans to directors and others.

r. Any other matter of interest to the bank.

Applicability of Inventories audit

Under the following circumstances it is advisable for banks to get annual Inventories Audit done by the independent agencies

a. Where there are over dues in term loans or other accounts, where the banks' stake is high.

b. Where there is evidence of pressure on the borrower from the creditors.

c. Where the inventories are stagnating.

d. Where ythe party is not submitting period inventories statements regularly.

e. Where there are grounds to suspect that the position of chargeable current assets indicated may not be correct.

f. Where there are too many qualifying remarks about inventories and receivables in the Auditor's Report on the Balance Sheet of a borrower.

g. Where the accounts are marked as sub-standard.

h. Suspect dealings in lending procedure, jeopardizing advances given.

i. An errant borrower, where Inventories Audit is needed to supplement actions of the branches for recovery.

j. Any other valid reason such as mismanagement, heavy losses, lockout, strikes etc

k. Fulfilling the criteria fixed by the Head Office in respect of Inventories Audit.

CONCLUSION

The responsibility of an auditor lies towards the entity which hires him and the authority, which regulates the profession to which the said auditor belongs. In case of Inventories Audit, the bank or the financial institution employs the auditor. They place reliance on the audit report and acts accordingly, due to which the auditors become responsible to them. The reports issued by the auditor also cater to the needs of others including the investors, society, creditors, etc.

The importance of Inventories Audit is not limited only to compliance and discharge of responsibility. Inventories Audit also acts as a warning signal to those accounts, which are likely to turn into non-performing assets (NPA). It may be possible that certain advances are prospective NPAs and their timely detection may prevent them from turning into actual NPAs. The auditor should try to detect such inconsistencies and plug these loopholes so as to prevent the misuse of funds. Thus, the Inventories Audit assists the bank in the process of early detection and prevention of NPAs, so that appropriate action can be taken and such instances avoided.

Auditors can perform this function in view of their expertise in this area and help banks to form a judgment. The Inventories Auditor thus should see to it that the purposes for which the Inventories Audit is undertaken are served satisfactorily. MA

COVER STORY

NEED AND IMPORTANCE OF MSME REGISTRATION

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Opportunity-6

MSME stands for Micro, Small and Medium Enterprises. Providing various services to the MSMEs by CMAs is a great opportunity and it is a WIN-WIN situation to both MSMEs and CMAs. Most of the MSMEs are not having the basic knowledge of the benefits of MSME Registration i.e., lower rate of interest from institutional credit (Banks, SIDBI and other financial institutions), benefit of lower margins for the credit extended by financial institutions to MSMEs when compared to other Sectors, lower or 'nil' collateral security while financing to MSMEs by commercial banks / financial institutions etc. However, registration of the MSME is a pre-condition for enjoying these benefits.

Due to increase in threshold limits of investment and turnover of MSMEs recently by the Government of India, numbers of industrial sector and service sector units have come under the ambit of MSMEs. New MSMEs can therefore enjoy the various benefits offered by the Government of India, state Governments, banks, SIDBI and other financial institutions by getting themselves registered. To achieve this task, CMAs role is an important one in providing services like Registration of MSMEs, extending TReDS Registration simultaneously, support MSMEs in the preparation of project reports, credit proposals etc. For this, they have to closely monitor and also interact with MSME Departments of State Governments, MSME Cluster Associations, SIDBI Branches, MSME Specialized Branches of the Commercial Banks, KVIC, Coir Board, MSME Clinics (Established by the State Governments), MSME Associations, Chamber of Commerce etc.

Present Status: The number of registered MSMEs in FY20 increased by 18.49 per cent to 25.13 lakh units from 21.21 lakh in FY19 (According to Government Data). The growth rate, however, declined in the last financial year. Overall, the number of registered MSMEs in India during the past five years stood at 90.19 lakhs. According to the MSME Ministry's Annual Report for the FY 2019-20, the MSME sector is dominated by Micro-enterprises. India has 6.33 crore MSMEs out of which 6.30 Crores — 99.4 per cent are micro-enterprises while 0.52 per cent — 3.31 lakh are Small and 0.007 per cent — 5,000 are medium enterprises.

Segment-wise as well micro-enterprises have been registered the most. The registered units increased from 18.70 lakh in FY19 to 22.06 lakh in FY20 while small units went up from 2.41 lakh to 2.95 lakh and medium-size businesses increased from 9,403 units to 10,981 units only during the said period.

MSME SECTOR AT A GLANCE 2019-20

- ✓ MSMEs provide large employment opportunities at lower capital cost than large industries (Manufacturing -360.41 Lakhs, Trade – 387.18 Lakhs, Other Services – 362.29 Lakhs and Total – 1,109.09 Lakhs).
- ✓ India's MSME sector comprises of 633.88 lakh units as per National Sample Survey 73rd Round (2015-16).
- ✓ MSME sector has created about 11.10 crore jobs in the country as per National Sample Survey 73rd Round (2015-16)

INFORMATION TECHNOLOGY INITIATIVES FOR MSMES

- ✓ **MyMSME**: Web based application module to submit and track online applications under various schemes of the Ministry.
- ✓ **MSME Sambandh**: Disseminates information on procurements by CPSEs/ Government Departments http:// sambandh. msme.gov.in.
- ✓ **MSME Samadhaan**: Empowers MSMEs to resolve the issues of delayed payments https:// samadhaan. msme.gov.in.
- ✓ **Udyog Aadhaar Memorandum**: Mobile friendly application for registration of MSMEs on self-certification basis.

CREDIT SUPPORT

The Prime Minister's Employment Generation Programme (PMEGP): Margin money assistance of Rs.1002.58 crore provided to 32,227 micro units.

Credit Linked Capital Subsidy Scheme (CLCSS): Subsidy worth Rs. 454.16 crore disbursed.

Credit Guarantee Trust Fund for Micro and Small Enterprises (CGTMSE): Credit guarantee cover of Rs. 27192 Crores approved for 4,07,209 MSEs.

(All figures upto December, 2019)

PERFORMANCE OF ATTACHED ORGANISATIONS 2019-20 (UPTO DECEMBER, 2019)

a) *The National Small Industries Corporation (NSIC)*
- ✓ This Corporation has achieved a total business of more than Rs. 321.09 cr
- ✓ It achieved a net profit before tax Rs. 85.79 crore

b) *Khadi and Village Industries Commission (KVIC)*
- ✓ Sale of Khadi products was of Rs. 2833.71 crore
- ✓ Sale of village industries products was of Rs. 60,343.69 crore

c) *Coir Board*
- ✓ During the year, the value of coir exports was Rs. 2100 crores.
- ✓ Coir production was recorded at 5,67,000 MT during the year.

NEW INITIATIVE OF GOVERNMENT OF INDIA

A Dashboard with current status of all the Schemes and major activities under the Ministry of MSME has been made functional since July,2019 and can be accessed at *http://dashboard.msme.gov.in.*

MSMEs are key contributors to the socio-economic development of the country. MSMEs cover almost 95% of industrial units, 50% of exports and 45% of employment. Opting for MSME registration is not a statutory mandate; however, it is advisable to obtain the benefits of the Micro, Small and Medium Enterprises Act. The initiative of MSME started in 2006 to create a competitive environment and encourage small businesses to ensure speedy development and boost the economy. Thus, encouraging the MSME to grow will result in the Socio-economic Development of the Country.

MSMEs are categorized into manufacturing and service sectors. Earlier, these two sectors were further classified based on the investment in Plant and Machinery or Equipments. The classification has recently been reset based on investment in Plant and Machinery or Equipments and annual turnover to create a greater scope of growth for the MSMEs.

The lower limits were killing the urge to grow as the units were unable to scale their businesses further. Also, there has been a long-pending demand for the revision of MSME classification so that they can further expand their operations while continuing to avail the MSME benefits. Now, under the **Aatmanirbhar Bharat Abhiyan (ABA)**, the Government has revised the MSME classification by inserting *composite criteria of both investment and annual turnover.* Also, the distinction between the manufacturing and the services sectors under the MSME definition *has been removed*. This will create parity between the sectors. Following is the revised MSME classification, where both investment and annual turnover, are to be considered for deciding an MSME.

Criteria	***Micro enterprises***	***Small enterprises***	***Medium enterprises***
Investment	Less than ₹ 1 Cr	Less than ₹ 10 Cr	Less than ₹ 50 Cr
Annual turnover	Less than ₹ 5 Cr	Less than ₹ 50 Cr	Less than ₹ 250 Cr

The classification given in the above table is for both manufacturing sectors and service sectors. Earlier manufacturing sectors and service sectors had different investment limits. The maximum limit of investment was higher for manufacturing sectors than service sectors. The earlier differences have been removed under the new classification.

MSME registration benefits

The reason behind MSME registration essentially to obtain wide-ranging benefits as outlined hereunder:

- MSME Registered enterprises can avail loans at lower interest rates than regular loans. Loans can be availed at an interest rate of as low as 1% to 1.5%.
- MSME Certificate holders can enjoy tax exemption under the MSME Act.
- MSME registered enterprises get preference for government-issued license and certificates.
- By getting registered under MSME, the cost of patenting and industry set up gets reduced due to various rebates and concessions.
- Many Government tenders are open only to MSME registered enterprises.
- An MSME gets easy access to credit.

THE REGISTRATION PROCESS

Registration Portal :	Ministry of Micro, Small and Medium Enterprises. https://msme.gov.in/online-application
Investment Criteria :	Below ₹ 50 Cr (Maximum limit)
Annual Turnover Criteria :	Below ₹ 250 Cr (Maximum limit)
Registration Fee :	₹ 1,999
Certificate :	One Certificate for one enterprise
Benefits of Registration :	Take advantage of various Government schemes initiated for the growth of MSMEs.

One can opt for MSME registration online or offline. The registration process for both manufacturing and service sectors can be done on a single platform of msme.gov.in. The process of MSME registration is explained in the ensuing paragraphs.

Fill up the form for MSME registration

- Go to the website of the MSME online application or paste this URL in another tab https://msme.gov.in/online-application.
- Fill up the form online or take a print out and fill-up the form offline.

Prepare the documents

- Prepare the documents with the assistance of the experts at MSME.
- The process can take upto 2 working days.

Make the application

- Submit the application form alongwith the required documents.
- After submitting the application, verification takes place.
- The verification can take upto 2 working days.

Approval and registration

- The registration will be done if the application has been approved.
- The MSME certificate will be delivered.

Components of the MSME registration application form

- Aadhaar details, PAN details, social category and gender of the entrepreneur.
- Name and type of enterprise.
- Address and contact details.
- Investment amount.
- Employee number.

The MSME registration fee is ₹ 1,999. Applicants can pay the fees using online payment gateways if the same is not waived by the government Moreover, investment limit is to be kept in mind while applying for the registration.

Documents required for registration

- Aadhaar Card
- Property Papers
- Rent Agreement
- Cancelled Cheque
- Partnership Deed (for Partnership Firms)
- Memorandum of Association (for Companies)
- Articles of Association (for Companies).
- PAN card copy
- Social category of the applicant (General, SC, ST or OBC)
- Physical ability of the applicant (Disabled or Not).-

Additional documents required for registration

Business address proof

- Own property: Allotment Letter, Property Tax Slip, Possession Letter.
- Rented property: Rent Receipts and NOC from the landlord.

Company Registration Proof

- Photocopy of Sale Bill.
- Photocopy of Purchase Bill (of raw material).

License and Purchase Bills for Machinery

- Photocopy of an Industrial License.
- Bills of machinery purchases and installations.

MSME certificate is evidence of MSME registration. For registering more than one enterprise, applicants must file separate MSME registration applications online or offline. The fees will be charged accordingly. Each enterprise will be allotted a separate MSME certificate. The Certificate is disbursed when an MSME application gets confirmed.

MSME certificate is valid as long as the enterprise is functioning. However, a provisional MSME certificate is valid for 5 years.

Udyog Aadhaar is the 12-Digit number which the MSMEs can obtain by going through the Udyog Aadhaar registration process. This 12 digit numeric Aadhaar number is required for the MSME registration.

MSME registration is for enterprises and businesses, not for individuals. However, a one-person enterprise or company is eligible for the MSME registration. The process and fees of the one-person enterprise will be the same as the regular MSME process and fees.

CONCLUSION

The micro, small and medium enterprises sector has emerged as a highly vibrant and dynamic sector of the Indian Economy during the last five decades. It contributes significantly to the economic and social development of the country by fostering entrepreneurship and generating large employment opportunities at comparatively lower capital cost, next only to agriculture. MSMEs are complementary to large industries as ancillary units and this sector contributes significantly to the inclusive Industrial development of the country. MSMEs are widening their domain across several sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as Global markets.

MSME sector has grown rapidly with government support and has proven to be the golden opportunity for the bold and inspired youth of the Country whose focus and talents can be well drawn towards Start-ups or MSMEs which are blessed with numerous relaxations and privileges like easy sanctions of bank loans, lower rates of interest, tax exemptions, recognitions, etc. This sector has also expanded the work profile of professionals like *Cost Accountants* who can step up in the vision of the emerging entrepreneurs and serve them with pre-eminent guidance about the project. A *Cost Accountant* can nurture the start-ups /MSMEs by playing a role of *one-stop of professional services* in the areas of compliance check-ups, taxation, fund raising, advisory services and many more... It is with this view and an overwhelming support of our Government of India that the *CMA profession should be able to have a firm foothold in the growth of the MSME.* MA

COVER STORY

PROCESS OF RE-STRUCTURING OF BANK LOANS

(MSME / MID-CORPORATE / CORPORATE LOANS)

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Opportunity-7

Survey Reports have shown that disruptions caused by the Covid-19 Pandemic have impacted MSMEs' earnings by 20-50%, Micro and Small Enterprises faced the maximum heat, mainly due to liquidity crunch.

Enterprises dealing in essential commodities business were better off in terms of interrupted but predictable cash flows. Some enterprises innovated their ways by shifting the focus from non-essential commodities to essential commodities like production of hand sanitizer and toiletries, PPE kits, reusable masks, etc. and are able to survive in tough times.

MSMEs in remote areas also faced lots of difficulties due to Interrupted supply chain systems and intra State lockdown provisions. Accordingly, the Six-member Monetary Policy Committee (MPC), headed by RBI Governor has decided that stressed MSME borrowers will be made eligible for 'restructuring their debts' under the existing framework, provided their accounts with the lenders are classified as standard as on March 1, 2020. This restructuring will have to be implemented by March 31, 2021.

Existing and new MSMEs clients of CMAs require professional / support services like restructuring process of the loans taken from banks / NBFCs' due to liquidity problem on account Covid-19 Pandemic. If this type of addon Service are provided by CMAs, it would not only broaden the professional services offered by CMAs but also help the MSME sector during the Covid 19 Crisis.

INTRODUCTION

A restructured or rescheduled account is practically a new loan replacing the old account. The purpose of restructuring a loan is to accommodate the borrower who is in financial difficulties and unable to repay the loan as per the agreed repayment schedule. Restructuring of loans involve modification of the terms and conditions of the loan usually with a longer period for repayment with lesser amount of instalments to avoid defaults. Among other things restructuring may involve revision of rate of interest and securities.

Normally, restructuring of loans take place when a borrower approaches the bank for support in a condition where he is unable to repay the regular instalments of loan due to cash-flow mismatch or other genuine financial issues. However, the bank considers such requests only if it is convinced about the viability of the unit after restructuring and also when the existing stress in the loan can be addressed under suitable repayment package. Here the borrower has to provide satisfactory documents supporting unit's financial ability to repay the loan to be considered for restructuring.

RE-STRUCTURING OF LOANS: THE PROCESS FOLLOWED BY BANKS

1. The following guidelines would be applicable to entities, which are viable or potentially viable .
   a) All non-corporate SMEs irrespective of the extent of dues to banks.
   b) All corporate SMEs, which are enjoying banking facilities from a single bank, irrespective of the amount of dues to the bank.
   c) All corporate SMEs, whether funded or non-funded under multiple / consortium banking arrangement. Corporate SMEs funded or non-funded will be covered under restructuring mechanism.
2. Normally, accounts involving wilful default, fraud and malfeasance will not be eligible for restructuring. In

exceptional cases, especially in old cases where the manner of classification of a borrower as a wilful defaulter was not transparent and where the bank is satisfied that the borrower is in a position to rectify the wilful default provided, he is granted an opportunity under restructuring mechanism, the bank may agree for restructuring. It should be ensured that cases involving frauds or diversion of funds with *mala fide* intent are not to be covered under the restructuring mechanism.

3. Accounts classified as "loss assets" will not be eligible for restructuring.

- While carrying out restructuring of the loans bank branches need to take into consideration the following aspects also:
  - ✓ Ascertain the reasons for the warning signals / slippage in asset quality.
  - ✓ Verify adequacy of cash flows.
  - ✓ Revalidate the assumptions made at the time of credit approval, particularly in regard to assessment of credit risk.
  - ✓ Bring to the notice of the borrower / guarantor the warning signals / slippage in asset quality to ensure regularization in a time bound manner.
  - ✓ Verify completeness and correctness of documentation – revival letters, creation of EM, registration of charges, insurance cover, rectification of deficiencies pointed out by inspectors / auditors etc.
  - ✓ Evaluate collaterals for liquidity, marketability and value – attempt to improve the security coverage.
  - ✓ Identify and examine availability / adequacy of primary / secondary sources of repayment.
  - ✓ Finalise preventive / corrective action plan for upgradation / recovery in consultation with borrowers.
- In respect of corporates / large industrial units / SMEs etc., where detailed viability study needs to be carried out, the same will have to be completed. If considered necessary reputed consultants may be engaged for carrying out necessary viability study or for preparing reports.
- Branch Controllers should examine the views of the branch and decide on the course of corrective action and convey the same to branches
- Wherever restructuring is not considered feasible, steps for calling up the advance would be initiated by bank branches immediately on receipt of necessary approvals, either by way of mutually acceptable repayment programmes or through legal action for the restructuring proposals submitted by the borrowers.

ELIGIBILITY CRITERIA FOR RESTRUCTURING OF LOANS AND ADVANCES

Bank branches may restructure the accounts classified under 'Standard', 'Sub-standard' and 'Doubtful' categories.

Banks cannot reschedule / restructure / renegotiate borrowal accounts with retrospective effect. While a restructuring proposal is under consideration, the usual asset classification norms would continue to apply. The process of re-classification of an asset should not stop merely because a restructuring proposal is under consideration. The asset classification status as on the date of approval of the restructuring package by the competent authority would be relevant to decide the asset classification status of the account after restructuring / rescheduling / renegotiation.

Normally, restructuring cannot take place unless alteration / changes in the original loan agreement are made with the formal consent / application of the debtor. However, the process of restructuring can be initiated by the banks in deserving cases subject to the customer agreeing to the terms and conditions.

No account will be taken up for restructuring by the banks unless the financial viability is established and there is a reasonable certainty of repayment from the borrower, as per the terms of restructuring package. Any restructuring done without looking into the cash flows of the borrower and assessing the viability of the projects / activity financed by banks would be treated as an attempt at ever greening a weak credit facility and would invite supervisory concern / action.

Banks should accelerate the recovery measures in respect of such accounts. The viability should be determined by the banks based on the acceptable viability benchmarks determined by them, which may be applied on a case-by-case basis, depending on the merits of each case.

Illustratively, the parameters may include the return on capital employed (ROC), debt service coverage ratio (DSCR), gap between the internal rate of return (IRR) and cost of funds etc.

BENCHMARKS FOR THE VIABILITY PARAMETERS OF PROPOSED RESTRUCTURING

a) Return on capital employed should be at least equivalent to 5-year Government security yield plus 2 per cent.

b) The *debt service coverage ratio* should be greater than 1.25 within the 5 years period in which the unit should become viable and on year-to-year basis the ratio should be above 1. The normal debt service coverage ratio for 10 years repayment period should be around 1.33.

c) The benchmark gap between internal rate of return and cost of capital should be at least 1 percent.

d) Operating and cash break even points should be worked out and they should be comparable with the industry norms.

e) Trends of the company based on historical data and future projections should be comparable with the industry. Thus, behaviour of past and future EBIDTA should be studied and compared with industry average.

f) Loan life ratio (LLR), as defined below should be 1.4, which would give a cushion of 40% to the amount of loan to be serviced.

$$LLR = \frac{\text{Present value of total available Cash Flow (ACF) During the Loan Life Period (including Interest and Principal)}}{\text{Maximum Amount of Loan}}$$

KEY CONCEPTS IN RESTRUCTURING OF LOANS

1. **Advances:** The term 'advances' will mean all kinds of credit facilities including, term loans, bills discounted / purchased, factored receivables, etc. and Investments other than those in the nature of equity.

2. **Fully Secured:** When the amounts due to a bank (present value of principal and interest receivable as per restructured loan terms) are fully covered by the value of security, duly charged in its favour in respect of those dues, the bank's dues are considered to be fully secured. While assessing the realisable value of security, primary as well as collateral securities would be reckoned, provided such securities are tangible and are not intangibles like guarantee etc., of the promoter / others. However, for this purpose the bank guarantees, State Government guarantees and Central Government guarantees will be treated on par with tangible security.

3. **Restructured Accounts:** A restructured account is one where the bank, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower, concessions that the bank would not otherwise consider. Restructuring would normally involve modification of terms of the advances / securities, which would generally include, among others, alteration of repayment period / repayable amount / the amount of instalments / rate of interest (due to reasons other than competitive reasons).

4. However, extension in repayment tenor of a floating rate loan on reset of interest rate, so as to keep the EMI unchanged provided it is applied to a class of accounts uniformly, will not render the account to be classified as 'restructured account'. In other words, extension or deferment of EMIs to individual borrowers as against an entire class, would render the accounts to be classified as 'restructured accounts'.

5. **Repeatedly Restructured Accounts:** When a bank restructures an account a second (or more) time(s), the account will be considered as a 'repeatedly restructured account'. However, if the second restructuring takes place after the period upto which the concessions were extended under the terms of the first restructuring, that account shall not be reckoned as a 'repeatedly restructured account'.

6. **Specified Period:** 'Specified period' means a period of one year from the commencement of the first payment of interest or principal, whichever is later, on the credit facility with longest period of moratorium under the terms of restructuring package.

CONCLUSION

The debt restructuring process involves a reduction in the interest rates on loans or an extension of its repayment tenure, or both. These steps improve a company's chances of paying back the dues. It is a win-win situation for both parties because the business avoids bankruptcy, and the bankers typically receive more than they would have, had the company been forced into liquidation.

This type of consultancy services i.e., provide guidance / support in restructuring process of bank loans to their existing / new clients provides an opportunity to CMAs to overcome the problem of liquidity and other financial crisis on account of lockdown for a long period due to Covid-19 Pandemic. This not only benefits the MSMEs / corporate sector and banks but also a gamut of professional services basket offered by CMAs in addition to the core profession of cost audit etc. MA

** please refer page no. 116 for Due Diligence checklist at Finger tips for Credit Proposal of Banks*

COST MANAGEMENT IN THE BANKING INDUSTRY

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Opportunity-8

Banks today face considerable challenges from every direction. The ongoing environment of low interest rates continues to create 'intense margin' pressure and barriers to growth. At the same time, increased competition by banks and FinTech companies continue to nibble away at the edges of the traditional banking business, posing a constant threat of disruption. Also, banks are bleeding with mounting NPAs. Meanwhile, consumer preferences and expectations are endlessly shifting and rising as new and Incumbent Digital Innovators redefine how Services are Presented and Delivered.

In this challenging environment 'cost management' remains a strong imperative for the entire banking industry in India (including FinTech companies).

Public sector banks are now focusing on "cost reduction" measures i.e., controllable costs at branches, administrative offices, ATM/CDM centers, central processing centers, at product design level (both liabilities & assets products), increase in alternate delivery channels (like mobile banking, internet banking, call centers etc.). Thereby a need arises to recruit Cost Accountants in the banking sector. Recently PSBs are issuing advertisements to recruit CMAs as 'Cost Accountants' in their Head Office, Circle Offices, Zonal Offices, Regional Offices etc. This is an opportunity for 'young CMAs' to join banks (those who prefer in service instead of practice). Some banks prefer to employ CMAs in their Treasury and Foreign Exchange Departments and also other Strategic Departments.

Banking is the lifeline of the economy of every country. The health of the banking sector is closely integrated with the health of the economy.

The core business of banks is to accept the deposits for the purpose of lending (fund and non-fund-based business) and making investments through treasury operations. The ancillary services of banks are providing guarantees, hiring of lockers, safe custody, issue of demand drafts etc. For the past few years banks are actively doing cross-selling business like selling of products of life insurance, general insurance, health insurance, mutual funds, credit cards, DEMAT accounts, new pension scheme and other government sponsored products (to fulfil total financial inclusion) etc.

Deposits being the main resource it carries cost (cost of deposits). Lending on the other hand constitutes assets of the banks and hence a source of income (yield on advances) and other non-interest income are from ancillary services (exchange, (remittances + forex transactions), commission (services) & discount (trade bills)). The expenditure side comprise of salaries & allowance of the employees and overheads (rent, electricity, taxes, depreciation on furniture & fixtures, stationery, computer consumables and depreciation etc.). Other than these there are provisions on NPAs and NPIs.

Since banks are 'commercial organisations it is expected that their operations are always profitable.

PERFORMANCE INDICATORS

The performance of the top eight banks in India during the financial year ending on 31.03.2020 have been presented in the following several Tables.

Table-1: Liabilities

(₹ Amount in Crores)

Sl. No.	*Name of the Bank*	*Total Liabilities*	*Deposits Growth*	*CASA Deposits*	*% of CASA Deposits*
01	State Bank of India	32,41,621	11.34%	14,33,708	44.23%
02	HDFC Bank	11,47,501	24.30%	4,84,625	42.23%

03	Bank of Baroda	9,45,984	48.11%	3,33,824	35.29%
04	ICICI Bank	7,70,969	18.08%	3,47,818	45.11%
05	AXIS Bank	6,40,105	16.71%	2,63,706	41.20%
06	Punjab National Bank	7,03,846	4.11%	3,02,475	42.97%
07	Canara Bank	6,25,351	4.39%	1,96,207	31.38%
08	Bank of India	5,55,505	6.65%	2,02,829	36.51%

Comments

The top three banks in terms of labilities (deposits) are State Bank of India, HDFC Bank and Bank of Baroda. Out of the deposits the CASA (Current Accounts and Savings Accounts) portion is highest in ICICI bank followed by State Bank of India and Punjab National Banks (top three banks). Banks are mobilizing the CASA deposits as these deposits are zero cost or low cost. For example, current account carries 0% rate of interest and savings bank account interest is in the range of 2% to 3%. Banks are getting higher spread / margin while using the low-cost deposits for lending purpose.

Table-2: Assets Growth

(₹ Amount in Crores)

Sl. No.	*Name of the Bank*	*Total Assets*	*Advances Growth Rate*	*Credit Deposit Ratio*	*Risk Weighted Assets*
01	State Bank of India	39,51,394	6.38%	71.73%	20,98,000
02	HDFC Bank	15,30,511	21.27%	86.60%	9,94,716
03	Bank of Baroda	11,57,916	47.20%	72.95%	6,08,200
04	ICICI Bank	10,98,365	10.00%	83.70%	7,59,490
05	AXIS Bank	9,15,165	15.49%	89.27%	6,10,527
06	Punjab National Bank	8,30,666	2.96%	67.04%	4,12,628
07	Canara Bank	7,23,875	1.04%	69.11%	3,60,906
08	Bank of India	6,56,995	8.18%	66.41%	2,94,189

Comments

Top three among top eight banks in assets are State Bank of India, HDFC Bank and Bank of Baroda. The growth rate of advances when compare to last financial years is high in Bank of Baroda followed by HDFC Bank and AXIS Bank. The risk weighted assets (top three) are State Bank of India, HDFC Bank and ICICI Bank. Even though Bank of Baroda is within the top three position in advances, on account of mitigation of credit risk, it is in *fifth position.*

CD Ratio is one of the important parameters in the banking sector. CD ratio means credit to deposit ratio. Out of ₹.100 deposits mobilized by the bank, how much the bank extend as loans to the borrowers. The remaining amount banks are investing in various instruments (including Government Securities etc.). Higher CD ratio means, banks are using more deposit funds for lending purpose instead of investments. As the profitability of the bank is more in lending activity than investments activity, some banks prefer lending instead of investment. For the financial year ending 31.03.2020, the CD ratio is more in AXIS Bank followed by HDFC Bank and ICICI Bank (all are private sector banks).

The top three risk weighted assets are State Bank of India, HDFC Bank and ICICI Bank. If risk assets are more, banks have to maintain capital adequacy for risk assets i.e., CAR / CRAR. At the same time, high risk assets yield rate (Interest) is also high when compared to low-risk assets.

Table-3: Gross and Net NPAs

(₹ Amount in Crores)

Sl. No.	*Name of the Bank*	*Net Advanc-es*	*Gross NPAs*	*Net NPAs*	*'Loss of Income' on Net NPAs (Yield on Advance – 10%)*
01	State Bank of India	23,25,290	1,49,092	51,871	5,187
02	HDFC Bank	9,93,703	12,650	3,542	354
03	Bank of Baroda	6,90,121	69,381	21,577	2,158
04	ICICI Bank	6,45,290	40,829	9,923	992
05	AXIS Bank	5,71,424	30,324	9,360	936
06	Punjab National Bank	4,71,828	73,479	27,219	2,722
07	Canara Bank	4,32,175	37,041	18,251	1,825
08	Bank of India	3,68,883	61,550	14,311	1,431

Comments

Top three in gross NPAs and Net NPAs are State Bank of India, Punjab National Bank and Bank of Baroda. Higher NPAs requires more provisions, thereby the bottom-line of the banks (profit) will get badly affected. Banks have to provide more capital adequacy ratio / capital to risk assets ratio, if risk assets are more in the total assets of the bank.

On account of higher NPAs, banks are losing revenue. If the account is standard, banks will get interest; if the account turns into NPA, banks system (CBS) stops to calculate the interest on NPAs. State Bank of India is losing income of ₹5,187 Crores per annum (if we take yield rate on advances as 10%) on net NPAs, followed by Punjab National Bank and Bank of Baroda by ₹2722 Crores and ₹2,158 Crores respectively.

Table-4: NPA percentages

Sl. No.	Name of the Bank	Gross NPA Ratio	Net NPA Ratio	Pro-vision Coverage Ratio	CAR Ratio
01	State Bank of India	6.15%	2.23%	83.62%	13.06%
02	HDFC Bank	1.26%	0.36%	72.00%	18.52%
03	Bank of Baroda	9.40%	3.13%	81.33%	13.30%
04	ICICI Bank	5.53%	1.41%	75.70%	16.11%
05	AXIS Bank	4.86%	1.56%	69.00%	17.53%
06	Punjab National Bank	14.21%	5.78%	77.79%	14.14%
07	Canara Bank	8.21%	4.22%	75.86%	13.65%
08	Bank of India	14.78%	3.88%	83.75%	13.10%

Comments

The top three amongst the top eight banks in terms of gross NPAs are Bank of India, Punjab National Bank and Bank of Baroda. The NPA percentage in total advances is the highest in Punjab National Bank followed by Canara Bank and Bank of India (top three). Once the NPAs are increasing, the capital adequacy ratio will fall unless additional capital is provided. The capital adequacy percentage is high in HDFC Bank followed by AXIS Bank and ICICI Bank (all are private sector banks). As per Basel-III Norms the minimum capital adequacy ratio is 11.50%. In these three banks it is much higher than the CAR stipulated by Basel-III accord.

Table-5: Net Revenue

(₹ Amount in Crores)

Sl. No.	Name of the Bank	Net Interest Income	Other Income	Net Revenue
01	State Bank of India	98,085	45,221	1,43,306
02	HDFC Bank	56,186	23,261	79,447
03	Bank of Baroda	33,267	10,317	37,769
04	ICICI Bank	27,451	16,449	49,716
05	AXIS Bank	25,206	15,537	40,743
06	Punjab National Bank	17,438	9,274	26,712
07	Canara Bank	13,124	7,813	20,937
08	Bank of India	15,257	6,713	21,970

Comments

In the top three banks among the eight top banks the net interest income is the highest in State Bank of India followed by HDFC Bank and Bank of Baroda. This is due to volume of advances. As regards other income, the highest is in State Bank of India followed by HDFC Bank and ICICI Bank. Bank of Baroda's other income is not commensurate with the volume of business handling. Even though ICICI Bank and AXIS Bank volumes are less than Bank of Baroda, their other income is more than 1½ times of Bank of Baroda's.

Table-6: Cost -Income ratio

Sl. No.	Name of the Bank	Cost to Income Ratio	Staff Cost (% of Net Revenue)	Net Profit (₹ in Crores)	Return on Assets
01	State Bank of India	52.46%	60.81%	14,488	0.38%
02	HDFC Bank	38.64%	31.03%	26,257	2.01%
03	Bank of Baroda	47.86%	48.51%	546	0.06%
04	ICICI Bank	43.48%	38.27%	7,931	0.81%
05	AXIS Bank	42.47%	30.75%	1,627	0.20%
06	Punjab National Bank	44.82%	58.14%	336	0.04%
07	Canara Bank	55.30%	61.62%	-2,236	-Ve
08	Bank of India	47.57%	58.76%	-2,957	-Ve

* Only HDFC Bank declared dividend for the financial year 2019-2020 out of the eight banks.

Comments

Cost to income ratio is the highest in Canara Bank followed by State Bank of India and Bank of Baroda. Staff cost as percentage to net revenue is the highest in Canara Bank followed by State Bank of India and Bank of India. These banks are to control the staff cost and overheads.

The net profit is highest in HDFC Bank followed by State Bank of India and ICICI Bank, whereas return on asset is highest in HDFC Bank followed by ICICI Bank and State Bank of India. The Bench Mark for ROI is 1%.

Table-7: Branches and employees

(₹ in Lakhs)

Sl. No.	Name of the Bank	No. of Branches	Number of Employees	Business Per Employee	Profit Per Employee
01	State Bank of India	22.374	2,49,448	2,105	5.79
02	HDFC Bank	5,416	1,16,971	1,749	24.00
03	Bank of Baroda	9,528	84,283	1,877	0.65
04	ICICI Bank	5,324	99,319	1,275	8.00
05	AXIS Bank	4,533	74,140	1,727	2.40
06	Punjab National Bank	7,043	68,781	1,821	0.53
07	Canara Bank	6,329	58,632	1,763	-Ve
08	Bank of India	5,107	49,767	1,940	-Ve

Comments

The number of branches are more in State Bank of India followed by Bank of Baroda and Punjab National Bank, whereas the number of employees is the highest in State Bank of India followed by HDFC Bank and ICICI Bank. In total cost of operations these two contribute more. Banks should optimise the utilisation of the branches and manpower. Loss making branches could be shifted to strategic locations and banks should resort to redeployment of manpower to profitable locations.

The business per employee is highest in State Bank of India followed by Bank of India and Bank of Baroda. Per employee business is more in HDFC Bank followed by ICICI Bank and State Bank of India.

Table-8: Alternative Delivery Channels

Sl. No.	*Name of the Bank*	*No. of ATMs*	*No. of POS Terminals*	*No. of Debit Cards (In Lakhs)*
01	State Bank of India	58,555	6,72,862	2,781.34
02	HDFC Bank	14,901	8,72,912	321.13
03	Bank of Baroda	13,193	59,959	540.45
04	ICICI Bank	15,688	4,83,538	460.63
05	AXIS Bank	17,477	5,22,523	244.88
06	Punjab National Bank	9,168	80,318	244.03
07	Canara Bank	8,850	24,881	243.70
08	Bank of India	5,750	48,361	400.63

Comments

Alternate or alternative delivery channels of banks control the cost of operations of the bank branches. Alternate delivery channels mean ATMs, CDMs, Internet Banking, Mobile Banking, Customer Service Points (Business Correspondents) and Call Centres. Once the alternate delivery channels are increasing the 'foot falls' of the customers in the bank branch premises will reduce. As alternate delivery channels are 24 x 7, customer will get non-stop services of the bank through "The Bank in your Home (Internet Banking)", "The Bank in your Hand (Mobile Banking)" and similar schemes. It gives a win-win position to both customers and banks. The toppers in alternative delivery channels like ATMs, POS and Debt Cards are State Bank of India in (ATMs and Debit Cards) followed by AXIS Bank (ATMs) and ICICI Bank (ATMs). In POS machines the highest is HDFC Bank among the eight banks. Bank of Baroda is the second highest in the issue of Debit Cards.

COST CENTRES IN THE BANKING SECTOR

Efficient use of funds and the efficiency of operations also significantly impact the profitability of the banks. Since money lending is a risky business, it is likely that some portion of loans and advances given by the banks to its constituents may become bad and doubtful of recovery (i.e., non-performing assets). Such bad and doubtful assets do not earn an income for the banks and necessitate *loan loss provision* to be made thereby causing a dent to the Profit and Profitability of the Banks.

Various cost centres in the banking industry are mentioned below. There is considerable scope to identify the 'controllable costs' in the banking industry. As the banking sector plays an important role in the economic development of the country and is also facing of challenges like increase in NPAs (year on year basis), increase in various types costs like cost of operations (fixed and variables costs), competition (reduction in spreads / margins), increase in demands of the customers etc. It is the need of hour in the banking industry to create a separate Department or Strategic Business Unit headed by *Chief / Corporate Cost Office' like* Chief Credit Officer, Chief Risk Officer, Chief Finance Officer etc. Some of the cost centres in the banking industry where attention of the top management is required are outlined in the following paragraphs.

Administrative Offices / Central Processing Centres / Branches

Optimum utilisation space and control of costs like rent through standardization of the office space through *Develop Branch Formats* i.e., space required Metro, Urban, Semi-Urban and Rural Branches and also administrative offices like Regional, Zonal, Circle and Head Offices of the Bank.

Central Processing Centres like retail segment loan processing, MSME loan processing, pension processing, clearing processing, liability accounts processing, recovery processing etc. should be linked to the branches at optimum level, so that the fixed costs of the CPCs can be minimised thereby reducing the total cost.

Wherever opening of a branch is not economically viable go for outsourcing agencies like Business Correspondents (BCs) and Customer Service Points (CSP).

Cash Replenishment in ATMs / CDMs / Bank Branches (Pick-up Excess Cash and Delivery of Cash)

Make a detailed study as to whether the above services are to be carried out in-house or to be outsourced based on distance, frequency and quantum of cash and accordingly the bank has to take call.

Selling of Third Party of Products

Determine the cost-benefit-analysis and risk factors of selling the products of associates and subsidiaries of the bank like life, general insurance products, mutual fund company products and credit card company products etc. If not viable, the Branches should focus more on up-selling (own products) instead of third-party products.

Closure of Domestic and Foreign Branches

Economic viability studies are to be made for domestic and foreign branches. If loss is persisting for years together in certain branches, cost-benefit-analysis study should be made. Based on the study unviable branches are to be either shifted to strategic locations or closed. Other-wise it will affects the bank's profitability.

Important Ratios are to be Calculated and monitored by the Controllers

The cost comparison ratios of a bank branch are:

a) Operating cost to total assets.
b) Cost to income ratio.
c) Manpower cost per unit of earning assets.
d) Other costs per unit of earning assets.
e) Net interest margin (NIM) or spread.
f) Business per Branch.
g) Return on assets.
h) Productivity: Per employee indicators
   - ✓ Deposit per employee.
   - ✓ Advances per employee.
   - ✓ Total business per employee.
   - ✓ Total cost / expenditure per employee.
   - ✓ Total income per employee.
   - ✓ Spread per employee.
   - ✓ Net profit per employee.

Expand the Alternate Delivery Channels

Alternate delivery channels are cost effective when compared to the Branch Banking. Educate the customers and increase the scope of alternate delivery channels like ATMs / CDM / Internet Banking / Mobile Banking / Call Centres etc. Increase the Functionalities of alternate delivery channels so that visits of the customers to the primary channel i.e., Branches could get reduced considerably.

Develop Technology Products:

In detail study of cost-benefit-analysis is possible during product development stage of the bank products like deposits, advances and other ancillary service products. During design stage of the products, study of the cost-benefit-analysis of each and every proposed product and its implication on cost and revenues is important. If a product is rolled out without study and later on it turns out to be not profitable to the bank, then the efforts and cost go waste. Costing at product development stage is therefore very important.

Treasury Operations – Investments and Trading

Optimum utilisation of infrastructure of the Treasury Department is very much desired . If the cost incurred for infrastructure is more, then it should be recovered through trading of investments with skilled staff by following the market risk mitigation measures. If the capital expenditure of Treasury is low and infrastructure cost is also low, it is better to increase the credit deposit ratio i.e., lending more after fulfilling SLR and CRR requirements of the Reserve Bank of India. Thereby the spread will increase to the Bank as the lending spread will be more than investment spread.

Manpower Costs

Better and optimum utilisation of manpower is a vital as manpower cost percentage in total revenue is more. Deploy more manpower in potential and profitable branches than others. Wherever skills are not required in certain bank operations, engage the outsourcing agencies for supply of manpower and it reduces the manpower cost in total operations of the bank.

Indirect Costs

Overheads like electricity, rents, taxes, advertisements, stationery, computers & service maintenance and depreciation etc. contribute more to the total cost of bank. Hence, fixation of budget, control through delegation of financial powers etc. reduces indirect costs to a large extent. Appropriation of administrative offices cost (cost centres) to the branches (profit centres) based on services provided by them to the branches gives good results in controlling the overall cost of the bank.

Income Sources

'Huge amount of technology costs are being incurred by the Indian banking industry like communication costs, hardware, software, firmware and human ware. All these costs (capital and recurring expenditure) are to be recovered by introducing new Innovative technology products / low cost of operation products, particularly payment and remittance products which are more suitable for semi-urban and rural customers where huge demand exists. Thus the technology costs can be recovered . Also it increases the 'float funds' (interest free funds). Constant endeavour for developing strategies for technology products (to increase the income sources of the bank) is the need of the hour in the banking industry.

CONCLUSION

Sustainability, competitiveness, liquidity and profitability are the most widely employed general indicators of performance of banks. Cost control in banks will be more of a strategic planning exercise, whereas, cost reduction will be both strategic and tactical. It becomes imperative for the banks to undertake a cost-benefit analysis of their activities, people, processes, products, infrastructure etc., to help determine the areas which are profitable and the areas which are less profitable or unprofitable.

Such an exercise will enable the banks to undertake a process of eliminating the wasteful costs, discontinue the loss-making business propositions and lay more focus on profitable products and services. To remain profitable, *efficient and effective cost management* of its entire operations is the need of the day for the banking sector.

While introducing cost control strategies, banks would be taking steps to identify their major cost centres, identify major types of costs within each cost centre and choose the costs to focus on the first. It would start from their business objectives, where they would establish *standard costs* for achieving the objectives, establish realistic budgeted Costs based on actual past experiences, record the actual costs and compare them with standard and budgeted costs and periodically review the entire process by the Controllers of Branches or Controllers of Administrative Offices.

Some of the common strategies in a retail bank would be vigorous cross and up-selling of bank and financial products, redeployment of staff wherever possible, focus on the process improvement, selecting innovative and cost-effective ways to deliver the services to the customers, focus more on alternate delivery channels like ATMs, mobile banking and internet banking, call centres facilities and reduce the number of brick-and-mortar branches, to name a few to cut costs in the banking industry. MA

TRADE RECEIVABLES DISCOUNT SCHEME (TReDS)

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Opportunity-9

TReDS can be suggested by Practicing CMAs to their existing MSME Clients as a 'Value addition Service'. To the new MSME clients CMAs can focus on MSME Cluster" located in their area of operation.

Thereby it is a Win-Win situation to both CMAs and MSME clients while suggesting TReDS.

For CMAs, it is an additional service (registration process of TReDS) offer to their existing clients, there by increasing their professional income.

MSMEs will get instant funds realization (T+2) on their 'trade receivables', thereby enabling quick recycling of funds leading to increase in turnover (sales). No bad debts for MSMEs. (As Financiers (Banks / NBFCs) are buying the receivable and NOT discounting the trade bills from MSMEs and Banks / NBFCs take over the credit risk from them while using TReDS by MSMEs).

Micro, small and medium enterprises (MSMEs), despite their important role in the economic fabric of the country, continue to face constraints in obtaining adequate finance, particularly in terms of their ability to convert their trade receivables into liquid funds. In order to address this pan-India issue the RBI has stepped in by setting up of an institutional mechanism for financing trade receivables namely the TReDS.

THE TReDS SCHEME

The scheme for setting up and operating the institutional mechanism for facilitating the financing of trade receivables of MSMEs from corporate buyers through multiple financiers is known as Trade Receivables Discounting System (TReDS).

The TReDS facilitates the discounting of both Invoices as well as bills of exchange. Further, as the underlying entities are the same (MSMEs and corporate buyers) the TReDS could deal with both Receivables Factoring as well as Reverse Factoring so that higher transaction volumes come into the system and facilitate in better pricing.

The transactions processed under TReDS will be "without recourse" to the MSMEs.

PARTICIPANTS

MSME Sellers, Corporate Buyers and Financiers

Both banks and non-banking institutions (NBFC factors) will be direct participants in the TReDS. The TReDS will provide the platform to bring these participants together for facilitating Uploading, Accepting, Discounting, Trading and Settlement of the invoices / bills of MSMEs. The bankers of MSMEs and corporate buyers may be provided access to the system, where necessary, for obtaining information on the portfolio of discounted invoices / bills of respective clients. The TReDS may tie-up with necessary technology providers, system integrators and entities providing dematerialisation services for providing its services.

PROCESS FLOW AND PROCEDURE

The objective of the TReDS is to facilitate financing of Invoices / bills of MSMEs drawn on corporate buyers by way of discounting by financiers. To enable this, the TReDS has to put in place a suitable mechanism whereby the invoice / bill is converted into "factoring units".

In the first phase, the TReDS would facilitate the discounting of these factoring units by the financiers resulting in flow of funds to the MSME with final payment of the factoring unit being made by the corporate buyer to the financier on due dates. In the Second phase, the TReDS would enable further discounting / re-discounting of the discounted factoring units by the financiers, thus resulting in assignment in favour of other financiers.

The process flow of the TReDS has to enable at the minimum the uploading of invoices / bills and creation of factoring units by the MSME sellers; its acceptance by the corporate buyers; discounting, rating and re-discounting of factoring units; sending of notifications at each to the relevant parties to the transaction; reporting and MIS requirements; and finally, generation and submission of settlement of obligations.

The TReDS may also introduce some random audits to ensure that there is no window dressing and that factoring units uploaded on the exchange are authentic and based on genuine transactions.

TReDS would put in place a standardized mechanism / process for on-boarding of buyers and sellers on the TReDS. This one-time on-boarding process will require the entities to submit all KYC related documents to the TReDS, along with resolutions / documents specific to authorised personnel of the corporate buyer and the MSME seller who would be provided IDs / Passwords for TReDS authorisations (multi-level). Indemnity in favour of TReDS, if required, may also be given if it is made part of the standardized on-boarding process.

The KYC documentation / process, may be simplified as it requires confirmation of the banker of the MSME seller / corporate buyer as the case may be.

There would be a one-time agreement drawn up amongst the participants in the TReDS:

a) *Master Agreement* between the financier and the TReDS, stating the terms and conditions of dealings between both the entities.

b) *Master agreement* between the corporate buyer and the TReDS, stating the terms and conditions of dealings between both the entities. This agreement should clearly capture the following aspects:

   - ✓ The buyer's obligation to pay on due date once the factoring unit is accepted online.
   - ✓ No recourse to disputes with respect to quality of goods or otherwise.
   - ✓ No set-offs to be allowed.

c) *Master agreement* between the MSME sellers and the TReDS, stating the terms and conditions of dealings between both the entities. The agreement should also contain a declaration / undertaking by the MSME seller that any finance availed through the TReDS would not be part of existing charge / hypothecation of its working capital bankers. An NOC may also be required from the working capital bankers to avoid possibility of double financing.

d) In case of financing on the basis of invoices, an *assignment agreement* would need to be executed between the MSME seller and the financier. Alternatively, this aspect may be incorporated in the agreement between the MSME seller and the financier, to the effect that any financing transaction on TReDS will tantamount to an assignment of receivables in favour of whoever is the financier.

e). The TReDS will be the custodian of all the agreements.

TReDS will also review the need for CERSAI registration for the assignments as indicated above, and put in place a suitable mechanism for the same (preferably driven automatically through the TReDS).

SETTLEMENT PROCESS

Critical to the operations of the TReDS is the mechanism that ensures timely settlement of funds between the financiers and the MSME sellers (when the factoring unit is financed) and the subsequent settlement of funds between the corporate buyers and the respective financiers on due date of the factoring unit. In order to ensure a smooth process of such payments, the TReDS would be required to:

a) *Trigger settlement between the financier and MSME for accepted bids*. In respect of all factoring units financed on a given day, the TReDS will generate the payment obligations of all financiers on T+2 basis and send the file for settlement by any of the existing payment system as agreed among the system participants. The TReDS would have a separate recourse mechanism to handle settlement failures in respective payment systems.

b) *Trigger settlement between corporate buyer and ultimate financier on due date*. The TReDS would generate the payment obligations file and send the same for settlement on due date to the relevant payment system.

The TReDS will generate the settlement files and send the same to existing payment systems for actual payment of funds. This would ensure that the inter-bank settlement (between the bankers representing MSMEs, corporate buyers and the financiers) will take place and defaults, if any, by the corporate buyers will be handled by the buyer's Bank and will not be the responsibility of the TReDS. Hence, the settlement process ensures payments to relevant recipients on due date, thus, facilitating smooth operations on the TReDS. It would not entail a guaranteed settlement by the TReDS.

The TReDS would be required to put in place adequate arbitration and grievances redressal mechanism.

REGULATORY FRAMEWORK FOR TREDS

The TReDS would be governed by the regulatory framework put in place by the Reserve Bank of India under the *Payment and Settlement Systems Act 2007*. The activities of the TReDS as well as those of the participants in the TReDS would be governed by the relevant legal and regulatory provisions. As such the processes and procedures of the TReDS should be compliant with such legal and regulatory provisions which may be issued and amended from time to time by respective authorities.

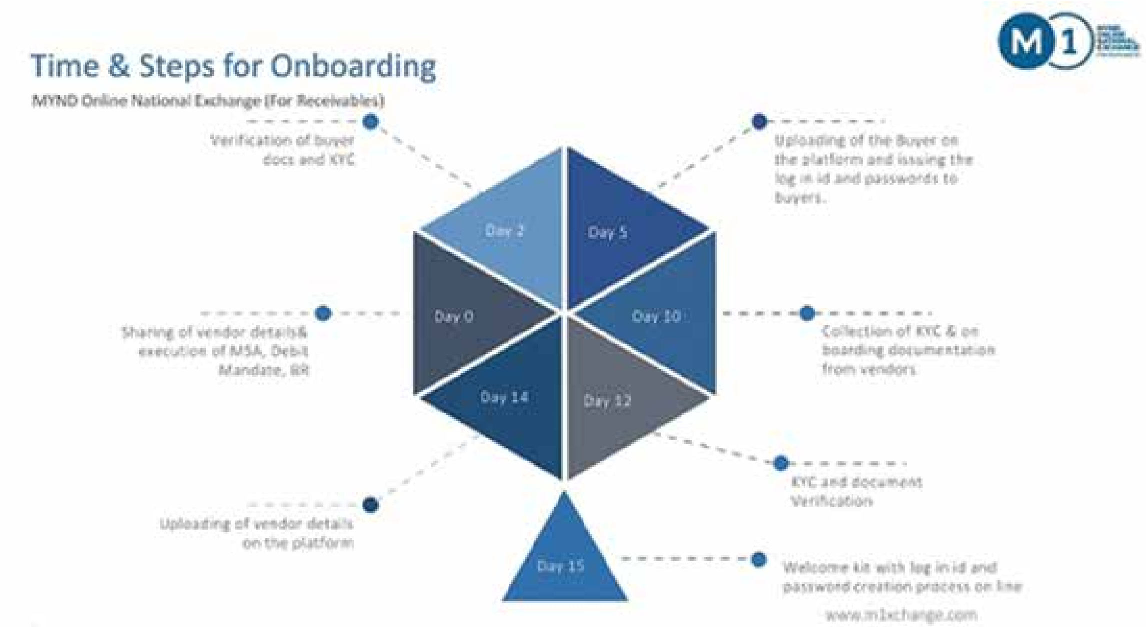
TReDS shall be able to provide an electronic platform for all the participants.

Information about bills / invoices, discounting and quotes shall be disseminated by the TReDS in real time basis, supported by a robust MIS system.

The TReDS shall have a suitable Business Continuity Plan (BCP) including a disaster recovery site.

The TReDS shall have online surveillance capability which monitors positions, prices and volumes in real time so as to check system manipulation.

PROCESS FLOW UNDER TReDS



TIME AND STEPS TO ONBOARD ON M1XCHANGE *

- The corporate buyer sends purchase order to MSME seller.
- The MSME seller delivers the goods along with an invoice. There may or may not be an accepted bill of exchange depending on the trade practice between the buyer and the seller.
- Thereafter, on the basis of either an invoice or a bill of exchange, the MSME seller creates a 'Factoring Unit' on TReDS. Subsequently, the buyer also logs on to TReDS and flags this factoring unit as 'Accepted'.
- The TReDS will standardise the time window available for corporate buyers to 'Accept' the factoring units, which may vary based on the underlying document – an invoice or bill of exchange.
- Supporting documents evidencing movement of goods etc. may also be hosted by the MSME seller on the TReDS.
- The TReDS will have separate modules for transactions with Invoices and transactions with bills of exchange.

**Source : M1xhange – One of Three Exchanges*

- Factoring units may be created in each Module as required. Each such unit will have the same sanctity and enforceability as allowed for physical instruments under the Factoring Regulation Act, 2011 or under the Negotiable Instruments Act, 1881

The standard format / features of the 'factoring unit' will be decided by the TReDS. It could be the entire bill / invoice amount or it could a pre-defined face value (say in multiples of ₹.1,000 or ₹.10,000 or ₹.1,00,000). However, each factoring unit will represent a confirmed obligation of the corporate buyer , and will carry the following relevant details :

- Details of the seller and the buyer
- Issue date (could be the date of acceptance)
- Due date
- Tenor (due date – issue date)
- Balance tenor (due date – current date)
- Amount due
- Unique Identification number generated by TReDS
- Account details of seller for financier's reference (for credit at the time of financing) Account details of buyer for financier's reference (for debit on the due

date)

- The underlying commodity (or service if enabled).

The TReDS should be able to facilitate filtering of factoring units (by financiers or respective MSMEs / corporate buyers) accordingly by any of the above parameters. In view of the expected high volumes to be processed under TReDS, this would provide the necessary flexibility of operations to the stakeholders.

The buyer's bank and account details form an integral feature of the factoring unit. The creation of a factoring unit on TReDS shall result in automatic generation of a notice / advice to the buyer's bank informing them of such units. Similarly, financing by a financier should generate another notice / advice to the buyer's bank to enable a direct debit to the buyer's account on the due date in favour of the financier (based on the settlement obligations generated by the TReDS).

These factoring units will be available for financing by any of the financiers registered on the system. The all-in-cost quoted by the financier will be available on the TReDS. This price can only be viewed by the MSME seller and not available for other financiers.

There will be a window period provided for financiers to quote their bids against factoring units. Financiers will be free to determine the time-validity of their bid price. Once accepted by the MSME Seller, there will be no option for Financiers to revise their Bids quoted online.

The MSME seller is free to accept any of the bids and the financier will receive the necessary intimation. Financiers will finance the balance tenor on the factoring unit.

Once a bid is accepted, the factoring unit will get tagged as "Financed" and funds will be credited to the seller's account by the financier on T+2 basis (T being the date of bid acceptance). The actual settlement of such funds will be as outlined under the Settlement section.

On the due date, the financier will have to receive funds from the corporate buyer. The TReDS will send due Notifications to the corporate buyers and their banks advising them of payments due. The actual settlement of such funds will be as outlined under the Settlement section.

Non-payment by the buyer on the due date to their banker would tantamount to a default by the buyer and attract penal provisions and enable the banker to proceed against the corporate buyer. Any action initiated in this regard, will be strictly be without any recourse with respect to the MSME sellers.

Once financed, these instruments will be rated by the TReDS on the basis of an external rating of the corporate buyer , the nature of the underlying instrument (invoice or bill of exchange), previous instances of delays or defaults by the corporate buyer w.r.t. transactions on TReDS etc.

The rated instruments may then be further transacted / \discounted amongst the financiers in the Secondary Segment.

Similar to the Primary Segment, any successful trade in the Secondary Segment will also automatically result in a direct debit authority being enabled by the buyer's bank in favour of the financier (based on the settlement obligations generated by the TReDS). In parallel, it will also generate a 'Notice of Assignment' intimating the buyer to make the payment to the new financier (though the payment itself will be taken care of by virtue of the direct debit authority and settlement process of TReDS).

In the event that a factoring unit remains unfinanced, the corporate buyer will pay the MSME seller outside of the TReDS.

In order to meet the requirements of various stakeholders, the TReDS should ensure to provide various types of MIS reports including intimation of total receivables position, financed and unfinanced (to MSME sellers); intimation of outstanding position, financed and unfinanced with details of beneficiaries and beneficiary accounts to be credited (for corporate buyers); total financed position for financiers; etc.

Similarly, data on unfinanced factoring units in the market should also be made available by the TReDS. The system should generate due date reminders to the relevant parties, notifications to be issued to bankers when a factoring unit is financed, notifications to be issued to buyers once a factoring unit related to their transaction is traded in the Secondary Segment, etc.

CONCLUSION

In order to ensure seamless cash flows to the micro, small and medium enterprises (MSMEs), the RBI, in 2014, allowed setting up of TReDS. Currently, the platform has three players namely RXIL (Owned by SIDBI and NSE), Axis Bank-owned Invoicemart, and M1Xchange (Promoted by Mynd Solutions).

Increasingly more players are coming into the fold as awareness and advantages of the platform play out. M1xchange has enrolled over 1,000 MSMEs / vendors, 100 corporates and 24 banks since it was launched. In step is Invoicemart which has 99 corporates and 1,331 MSMEs so far on its platform.

Under the TReDS platform, MSME vendors can raise working capital by selling their trade receivables drawn on large corporates and PSUs to financial institutions. Banks and NBFCs, which finance such invoices under a competitive bidding process, will convert them into short-term loans to the corporates payable within 180 days. In the previous fiscal, the three platforms together discounted invoices worth ₹11,200 Crores against ₹5,860 Crores during the financial year 2019.

"God Sent" for MSMEs , they can capitalise on the many benefits that such Exchanges offer. The rate of interest, for instance, can come down to 8% - 9% via the platform for an MSME as against 12-18% from traditional routes. "There is a 5% - 6% cost reduction for SMEs from the commercial model because bank is taking an exposure on a large corporate leading to a lowered interest rate. Secondly, if the large corporates do not pay or if there is a delay in payment, there is no impact on the MSMEs. The bank is buying the receivable from the MSME and takes over the risk from them. Therefore if the corporate does not pay, it is between the bank and the corporate and not the MSME. MA

IMPORT SUBSTITUTION INDUSTRIALIZATION (ISI) AND ECONOMIC GROWTH

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Opportunity-10

The Government is planning to introduce an Import Substitution Policy to replace imports and boost domestic manufacturing in the wake of the current economic scenario due to Covid-19.

Of late there have been talks about import substitution because it is equally effective as export promotion in earning and saving foreign exchange and creating Jobs. Covid-19 will certainly lead to increasing localization everywhere,"

Government is working on a scheme to promote businesses making 'import substitute products and help the country to save foreign exchange.

Such a policies if implemented will provide an opportunity to the CMAs' to render consultancy services to their clients to encourage import substitution MSME units in their areas of operation. This would not only help the country to save the foreign exchange reserves, increase in GDP, increase employment opportunities and reduce the regional imbalances but would also provide opportunities to the CMAs to spread their area of operation by providing consultancy services to the prospective promoters and start up MSME units.

To provide efficient services in this segment to their clients or prospective clients, CMAs need to update their knowledge on this subject through the following :

- ✓ ***Closely follow the Government of India Policies with regard 'Import Substitution Industrialization in India'.***
- ✓ ***Various schemes announced by Government of India through "AatmaNirbharbharat.MyGov.in"***
- ✓ ***Ministry of Commerce Web-site.***
- ✓ ***Ministry of MSMS Web-site.***
- ✓ ***Directorate General of Foreign Trade / Ministry of Commerce Web-site.***
- ✓ ***Small Industries Development Bank of India Web-site.***
- ✓ ***Khadi and Village Industries Commission Web-site.***
- ✓ ***Invest India (Your One-Stop Shop for Investing in India) – National Investment Promotion & Facilitation Agency. (https://www.investindia.gov.in/about-us).***
- ✓ ***'Make in India' concept which is an initiative by the Government of India to encourage companies to manufacture in India and incentivize dedicated investments into manufacturing. https://www.makeinindia.com/home.***
- ✓ ***Reading latest articles / books 'import substitution industrialization in India'.***

'Produce it' rather than 'importing it'. Import substitution industrialization (ISI) is a trade and economic policy which advocates replacing foreign imports with domestic production.

Import substitution industrialization is a development strategy focusing on promoting domestic production of previously imported goods to foster industrialization. A developing country should, whenever possible, produce goods domestically, rather than importing them.

There is a proverb which says "There is nothing in this

World unmixed for Blessing".

Whether it is import substitution industrialization or export oriented industrialization both have some shortfalls.

Govt. Mulling Introduction of Import Substitution Policy: Shri Nitin Gadkari

Union Minister Shri Nitin Gadkari on Tuesday said the Government is considering Introducing a Policy on Import Substitution and urged India Inc to upgrade technologically and come up with cost-effective substitutes to reduce the Country's inward shipment.

The Minister for MSME and Road Transport and Highways said a policy on import substitution is being thought of in the wake of the economic situation created by the COVID-19 Pandemic.

The Economic Times

WHAT IS 'IMPORT SUBSTITUTION' IN ECONOMICS

Import substitution industrialization is a theory of economics typically adhered to by developing countries or emerging-market nations that seek to decrease their dependence on developed countries.

The theory targets the protection and incubation of newly formed domestic industries to fully develop sectors so that the goods produced are competitive with imported goods. Under this theory, this process makes local economies and their Nations, self-sufficient.

The primary goal of the implemented substitution industrialization theory is to protect, strengthen and grow local industries using a variety of tactics, including tariffs, import quotas and subsidized Government loans. Countries implementing this theory attempt to shore up production channels for each stage of a product's development.

HISTORY

Import substitution industrialization (ISI) was pursued mainly from the 1930s through the 1960s in Latin America, particularly in Brazil, Argentina, and Mexico and in some parts of Asia and Africa. In theory, ISI was expected to incorporate three main stages:

a. Domestic production of previously imported simple non-durable consumer goods.

b. Extension of domestic production to a wider range of consumer durables and more complex manufactured products, and

c. Export of manufactured goods and continued industrial diversification.

INDIA TRADE STATISTICS

In simple words, the balance of trade is the value of a country's trade i.e., its total exports minus Imports. Balance of trade plays a crucial role in calculating the country's balance of payment. It helps economists and experts to determine the strength of a country's economy.

Table-1

India's Trade Data for the Period from 2009-10 to 2018-19 (QE)

(Value in Rs. Crores)

Sl. No.	Year	Exports	% of Growth	Imports	% Growth	Trade Balance
1	2009-2010	8,45,534	00.57	13,63,736	-00.78	-5,18,202
2	2010-2011	11,36,964	34.47	16,83,467	23.45	-5,46,503
3	2011-2012	14,65,959	28.94	23,45,463	39.32	-8,79,504
4	2012-2013	16,34,318	11.48	26,69,162	13.80	-10,34,844
5	2013-2014	19,05,011	16.56	27,15,434	01.73	-8,10,423
6	2014-2015	18,96,348	-00.45	27,37,087	00.80	-8,40,738
7	2015-2016	17,16,384	-09.49	24,90,306	-09.02	-7,73,921
8	2016-2017	18,49,434	07.75	25,77,675	03.51	-7,28,242
9	2017-2018	19,56,515	05.79	30,01,033	16.42	-10,44,519
10	2018-2019 (QE)	23,14,429	18.29	35,48,004	18.23	-12,33,575

(Source: DGCIS, Kolkata)

Analysis

Almost from the year 2009 to 2019 (QE) India's trade balance was negative and on increasing trend. The latest negative trade balance of the country is Rs.12,33,575 Crs.

Table-2

India's Trade Data for the Period from 2009-10 to 2018-19 (QE)

(Value in US$ Million)

Sl. No.	Year	Exports	% of Growth	Imports	% Growth	Trade Balance
1	2009-2010	1.78,751	-3.53	2,88,373	-5.05	-1,09,621
2	2010-2011	2,49,816	39.76	3,69,769	28.23	-1,19,954

3	2011-2012	3,05,964	22.48	4,89,319	32.33	-1,83,356
4	2012-2013	3,00,401	-1.82	4,90,737	0.29	-1,90,336
5	2013-2014	3,14,405	4.66	4,50,200	-8.26	-1,35,794
6	2014-2015	3,10,338	-1.29	4,48,033	-0.48	-1,37,695
7	2015-2016	2,62,291	-15.48	3,81,008	-14.96	-1.18,717
8	2016-2017	2,75,852	5.17	3,84,357	0.88	-1,08,505
9	2017-2018	3,03,526	10.03	4,65,581	21.13	-1,62,055
10	2018-2019 (QE)	3,31,020	9.06	5,07,436	8.99	-1,76,416

(Source: DGCIS, Kolkata)

INDIA'S TRADE PERFORMANCE

Exports

India's merchandise exports recorded a compounded annual growth rate (CAGR) of 7.09 per cent from April-March 2009-10 to April-March 2018-19 (QE). Merchandise exports reached a new peak of US$ 331.02 billion during April-March 2018-19 (QE) surpassing the earlier high of US$ 314 achieved in 2013- 14 registering a positive growth of 9.06 per cent over the previous year.

Imports

Cumulative value of import during Apr-Mar 2018-19 (QE) was US$ 507.44 billion as against US$ 465.58 billion during the corresponding period of the previous year registering a positive growth of 8.99 per cent in US$ terms. Oil imports were valued at US$ 140.47 billion during Apr-Mar 2018-19 (QE) which was 29.27 per cent higher than oil import valued at US$ 108.66 billion during the corresponding period of the previous year. Non-oil imports were valued at US$ 366.97 billion during Apr-Mar 2018- 19 (QE) which was 2.82 per cent higher than non-oil import of US$ 356.92 billion in the previous year.

Trade Balance

The Trade deficit in Apr-Mar 2018-19 (QE) was estimated at US$ 176.42 billion which was higher than the deficit of US$ 162.05 billion during the corresponding period of the previous year. Performance of exports, import and balance of trade both in Rupee and Dollar terms during 2009-10 to 2018- 19 (Apr-Mar) (QE) has been given at Table 1 & 2 mentioned above.

Table-3

Leading Exporters and Importers in World Merchandise Trade 2018

(Billion Dollars and Percentage)

Rank	Exporters	Value	Share %	Annual %	Rank	Importers	Value	Share %	Annual %
1	China	2487	12.8	10	1	USA	2614	13.2	9
2	USA	1664	8.5	8	2	China	2136	10.8	16
3	Germany	1561	8.0	8	3	Germany	1286	6.5	11
4	Japan	738	3.8	6	4	Japan	749	3.8	11
5	Netherlands	723	3.7	11	5	United Kingdom	674	3.4	5
6	Korea, Republic of	605	3.1	5	6	France	673	3.4	9
7	France	582	3.0	9	7	Netherlands	646	3.3	12
8	Hon Kong, China	569	2.9	3	8	Hong Kong, China	628	3.2	6
	Domestic Exports	13	0.1	-30	-	Retained Imports (1)	155	0.8	12
	Re-Exports	556	2.9	5	-	-	-	-	-
9	Italy	547	2.8	8	9	Korea, Republic of	535	2.7	12
10	United Kingdom	486	2.5	10	10	India	511	2.6	14

(Source: World Trade Statistical Review 2019)

Table-4

Leading Exporters and Importers in World Trade in Commercial Services, 2018

(Billion Dollars and Percentage)

Rank	Exporters	Value	Share %	Annual %	Rank	Importers	Value	Share %	Annual %
1	USA	808	14.0	4	1	USA	536	9.8	3
2	United Kingdom	373	6.5	6	2	China	521	9.5	12
3	Germany	326	5.6	7	3	Germany	350	6.4	6
4	France	291	5.0	6	4	France	257	4.7	5

5	China	265	4.6	17	5	United Kingdom	230	4.2	11
6	Netherlands	241	4.2	11	6	Netherlands	229	4.2	11
7	Ireland	205	3.6	14	7	Ireland	218	4.0	9
8	India	204	3.5	11	8	Japan	198	3.6	4
9	Japan	187	3.2	3	9	Singapore	187	3.4	3
10	Singapore	184	3.2	7	10	India	175	3.2	14

(Source: World Trade Statistical Review 2019)

As per World Trade Organization (WTO), World trade will continue to face strong headwinds in 2019 and 2020 after growing more slowly than expected in 2018 due to rising trade tensions and increased economic uncertainty. WTO economists expect merchandise trade volume growth to fall to 2.6% in 2019-down from 3.0% in 2018. Trade growth could then rebound to 3.0% in 2020; however, this is dependent on easing of trade tensions.

Analysis (Tables 3 & 4)

As per the current rankings for the year 2018, India is the 19th largest exporter (with a share of 1.7%) and 10th largest importer (with a share of 2.6%) of merchandise trade in the world. China is the top ranked exporter and United States of America (USA) is the first largest importer of merchandise trade in the world. In commercial services, India is the 8th largest exporter (with a share of 3.5%) and 10th largest importer (with a share of 3.2%). USA is the top exporter as well as the top importer of commercial services trade in the world.

Table-5

India's Imports: Region-wise (FY 2018-19 & 2019-2020)

(Value in Rs. Crores)

Sl. No.	Region	2018-19	% Share	2019-2020 (April-Jan)	% Share
1	EU Countries	4,08,26,329.37	11.36	2,98,16,044.62	10.50
2	European Free Trade Association (EFTA)	1,28,82,648.28	3.58	1,07,80,846.36	3.80
3	Other European Countries	17,16,773.53	0.48	12,87,161.16	0.45
4	Southern African Customs Union (SACU)	52,77,378.67	1.47	42,71,346.03	1.50
5	Other South African Countries	39,44,570.98	1.10	31,98,228.27	1.13
6	West Africa	1,40,30,870.10	3.90	1,04,53,695.30	3.68
7	Central Africa	3,90,247.48	0.11	2,59,371.12	0.09
8	East Africa	10,80,293.88	0.30	7,78,136.49	0.27
9	North Africa	40,02,043.58	1.11	35,06,930.82	1.23
10	North America	3,12,20,832.91	8.69	2,63,52,778.98	9.28
11	Latin America	1,43,62,576.21	4.00	98,07,782.43	3.45
12	East Asia (Oceania)	97,10,750.45	2.70	63,99,903.40	2.25
13	ASEAN	4,14,98,866.77	11.54	3,29,72,207.48	11.61
14	West Asia- GCC	5,58,04,465.70	15.52	4,78,74,245.24	16.86
15	Other West Asia	2,72,49,065.56	7.58	1,65,37,027.39	5.82
16	NE Asia	8,56,65,693.95	23.83	7,03,43,714.74	24.77
17	South Asia	30,56,356.79	0.85	22,40,403.25	0.79
18	CARs Countries	6,03,030.29	0.17	13,06,715.52	0.46
19	Other CIS Countries	59,87,287.19	1.67	56,83,314.82	2.00
20	Unspecified	1,57,379.50	0.04	1,66,006.90	0.06
	India's Total Imports	**35,94,67,461.19**	**100**	**28,40,35,860.36**	**100**

(Source: DGCIS, Kolkata)

Table-6

India's Imports from Principal Regions (FY 2018-19 & 2019-2020)

(Value in Rs. Crores)

Region	Apr-Mar 2018	Apr-Mar 2019	% Growth	% Share
Europe	4,50,624.90	5,49,989.71	22.05	15.33
Africa	2,43,654.58	2,87,363.56	17.94	8.01
America	3,60,943.16	4,53,898.11	25.75	12.65
Asia	18,02,415.01	22,29,148.64	23.68	62.18
Cis & Baltics	83,042.93	65,903.72	-20.64	1.84

Unspecified Region	60,352.83	1,380.16	-97.71	0.04

(Source: DGCIS, Kolkata)

Table-7
India's Imports - Top 5 Countries (FY 2018-19 & 2019-2020)

(Value in Rs. Crores)

Countries	Apr-Mar 2018	Apr-Mar 2019	% Growth	% Share
China	4,92,236.17	4,92,068.13	-0.03	13.70
USA	1,71,564.48	2,46,798.08	43.85	6.88
UAE	1,40,095.89	2,08,424.85	48.77	5.80
Saudi Arabia	1,42,240.74	1,99,394.90	40.18	5.55
Iraq	1.13.452.67	1,56,600.99	38.03	4.36

(Source: DGCIS, Kolkata)

Analysis (Table 6 & 7)

Asia accounted for 62.18 per cent of India's total import during the period 2018-19 (Apr-Mar), followed by Europe (15.33 per cent) and America (12.65per cent).

Among individual countries the share of China (13.70 per cent) stood highest followed by USA (6.88 per cent), UAE (5.80 per cent), Saudi Arabia (5.55 per cent) and Iraq (4.36 per cent).

OBJECTIVES & ADVANTAGES OF ISI

- ✓ Promotion of domestic industry.
- ✓ Employment generation.
- ✓ Promotion of industrialization.
- ✓ Improvement of balance of payments of the country.
- ✓ Protects Jobs in domestic market.
- ✓ Protects local culture and habits.
- ✓ Protects the economy from power and influences of MNC's.

ISI IS NEED OF THE HOUR

The case for import substitution, rests on the ground that trade had operated historically as a mechanism of international inequality to the disadvantage of under developed countries. They are, therefore, justified in adopting the strategy of industrialisation by import substitution to achieve self-sufficiency and to conserve foreign exchange.

The dangers on the foreign exchange front provide a reason for directing investments in industry towards production of commodities that are substitutes for Imports.

Import substitution is one of the methods used to overcome balance of payments difficulties. An important part of Import Policy has been the encouragement given to import substitution. The primary aim of import substitution is to conserve foreign exchange for import of more and more important goods and to achieve self-reliance in as many goods as possible. In the beginning, a country may import semi-finished materials and give final shape at home by converting or assembling the almost finished industrial imports into final products. Historical studies of some countries also show that not only the share of industrial output rises with development but also the growth of industries based on import substitution, accounts for a large proportion of the total rise in industry.

The policy of import substitution has been adopted for a continuing process in our strategy of development. In the early stages of the economy, import substitution mostly took the form of domestic production of consumer goods. At a later stage, emphasis was shifted to the replacement of the of import of capital goods. The next phase and the one which continues to-day is that of reducing the dependence on imported know-how by developing and encouraging the use of indigenous technology. In the beginning, it was natural for a country to depend upon foreign know-how for the establishment of new industries. Now, except for very sophisticated know-how, the emphasis has been shifted to research and development of domestic technology. This marks a very important development in import substitution and more importantly on industrialization.

The correct developmental strategy in an import sensitive economy should give strong preference to import substitution production in general and to the expansion of producer goods industries in particular.

To be effective, import substitution must be comprehensive. It was realised that vigorous efforts were called for to devise ways and means by which imports could be reduced. This resulted in the production of many items namely machinery, equipment's and components within the country as also substitution of import with those available indigenously. Thus, an intensive drive for import substitution has been set in motion and the result achieved so far are encouraging. With the growing emphasis on self-sufficiency, the Government of India established a number of scientific and industrial research institute in the country.

The drain on our foreign exchange resources was of a very high order and hence the Government took step to curb imports of non-essential consumer goods and made adequate provisions for the import of basic essential materials so that developmental activities might not be retarded.

In order to achieve economic development, industrialization via import substitution is of crucial importance even though it rises the import bill initially. It is an established fact that developing country like India depends upon her foreign exchange earnings for carrying on developmental projects. The only source of export earnings is to increase exports which is possible only by promoting exports through various measures and by establishing export-oriented industries. To enable it to work, there need to be some necessary conditions:

- ✓ The Government needs to adopt a policy of organizing selection of goods to produce domestically.
- ✓ Subsidies are made available to encourage domestic industries.
- ✓ Government need to implement a protectionist system with tariff barriers to keep out foreign goods.

COMPARISON BETWEEN ISI AND ESI

Export-oriented industrialization sometimes called export substitution industrialization, export led industrialization or export-led growth is a trade and economic policy aiming to speed up the industrialization process of a country by exporting goods for which the nation has a comparative advantage. Import substitution industrialization substitutes externally produced goods with locally produced ones.

Similarities:

- ✓ Increase in domestic employment.
- ✓ Reduced dependence on labour non-intensive industries.
- ✓ Generate technological progress.
- ✓ Greater capacity utilization.
- ✓ Allocation of resources through comparative advantage.
- ✓ Generates technological progress.
- ✓ Increases employment with accelerating growth of the economics.

Dissimilarities

- ✓ The IS industries are inefficient in international competitiveness.
- ✓ Worldwide increase in unemployment decreases GDP.
- ✓ Local companies are forced to select and replace technologies in use.
- ✓ Comparative advantage must be defined clearly.
- ✓ Economy should ensure conditions for enhancing the quality of development.

Are both ISI & EOI sides of the Same Coin?

- ✓ Generation of technological progress.
- ✓ Allocation of resources.
- ✓ Increased amount of employment.

Considering the above-mentioned factors for accelerating economic growth ISI & EOI is very much required.

ISI INITIATIVES OF GOVERNMENT OF INDIA UNDER PROGRESS: COVID-19

Government eyes $17 billion investment proposals to boost local manufacturing- *(Economic Times 3rd June, 2020)*.

The Indian Government is considering proposals for investment of $16-17 billion (around Rs 1.25 lakh crore) to boost domestic production of air conditioners and its components, furniture and leather footwear, while looking at options, including duty hikes, to reduce import dependence and push exports.

"To increase manufacturing, 'Make in India' and employment, priority sectors have been identified and work has started in three areas namely furniture, air conditioners, and leather & footwear. Just in case of air conditioners, we import over 30% of our demand. We need to reduce this quickly. Similarly, we have a small share in Global exports, despite being the second-largest leather producer -*(Prime Minister Shri Narendra Modi said at CII's Annual Session.) -(Prime Minister Shri Narendra Modi said at CII's Annual Session.)*

Commerce and Industry Minister Shri Piyush Goyal has held several rounds of talks with a group of CEOs, led by M&M MD Mr. Pawan Goenka, with development clusters being the key. "The overall thrust is to give a push to domestic manufacturing once Covid-19 ends" he told Time of India (TOI).

Others who have been part of the deliberations suggested development of clusters held the key, while ensuring that it doesn't turn into real estate development. "The opportunity lies in large-scale manufacturing, which you can do, given the resources and labour. The key is to set up clusters and identify agencies which can set them up," said Mr. Mohit Singla, who leads industry body Trade Promotion Council of India (TPCI).

For furniture, three-four clusters involving investment of $10-11 billion (over Rs 75,000 crore) have been discussed, while investment of around $6 billion (around Rs 45,000 crore) has been proposed to reduce the dependence on imports, which is as high as 90% in case of compressors and 80-100% for other components.

Further investment of over $1 billion has been proposed to scale up the leather footwear business to attract global investors and improve the quality and branding exercise so that Indian exports, which have a meagre 3.5% share, can compete with rivals from China, Vietnam and Indonesia, sources told TOI.

For ACs, the Government has been advised to increase customs duty on components to discourage imports from China. Steps are also being contemplated to reduce imports from Thailand. Similarly, some duty hikes for wood that goes into making furniture are also being contemplated, with the long-term solution lying in a Forestry Policy that supports ecology and the economy, something that Vietnam has done successfully.

CONCLUSION

In a country of the size and dimensions of India which is trying to develop its industrial economy, import substitution and export promotion are the two main plans which could earn foreign exchange resources so vitally essential for rapid development.

Import substitution is an urgent national need as also export promotion. The policy of import substitution alone cannot solve the problem of economic development unless it is supplemented by the policy of export promotion. Import substitution and export promotion both are equally important for India. Increasing diversification of Indian economy necessitating greater imports of capital goods and equipment's frequently. In an interdependent economy the endeavour for export promotion can hardly be isolated from that of import substitution.

To conclude, the Trade Policy of the country is concerned with *two* objectives namely promoting industrialization and coping with the uneven development of the domestic economy. For a country's ultimate development both import substitution and export oriented industrialization are equally important. MA

SBI

भारतीय स्टेट बँक
भारतीय स्टेट बैंक
STATE BANK OF INDIA

The President,
The Institute of Cost Accountants of India,
CMA Bhawan, 12,
Sudder Street,
Kolkata – 700 016.

No. CPP/RKS/20-21/ 214

Date : 18th December 2020

Madam / Dear Sir,

Request for inclusion of Cost Management Accountants for various certifications of SBI.

This has reference to your letter dated 14.09.2020 requesting the bank to issue suitable instructions for facilitating the Cost Management Accountant in applying for the assignments issued by the Bank.

2. In this connection, we advise that the Cost Accountants who are members of good standing and registered with the Institute of Cost Accountants of India (ICAI) are eligible for empanelment as an ASMs (Agencies for Specialised Monitoring) and Forensic Auditor. Currently ASMs and Forensic Auditors are being appointed by IBA. The bank has been obtaining certification of borrowal companies from Cost Accountants in line with RBI circular no. RBI/2008-2009/379 dated 10th February 2009 and the cost accountants are also eligible for empanelment as banks Stock and Receivable Auditor and can submit application for empanelment to the Bank.

3. We request you to advise your members accordingly. Further, we look forward to a mutually beneficial professional relationship with your esteemed members.

4. Assuring you of our best services,

Yours faithfully,

Sanjay Srivastava
Chief General Manager (CPPD),
State Bank of India,
4th Floor, State Bank Bhavan,
Madame Cama Road,
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PSU BANKS: THE UNSUNG HEROES OF INDIAN ECONOMY

Abstract

This paper highlights that the parameters on which performance of private sector banks and public sector banks are compared need to be realigned and need to be relooked from the prism of a welfare state. This article also highlight that how the PSU banks with their welfare driven approach play a central role in overall advancement of economy and Private banks with their profit driven approach are yet to reach at the bottom of pyramid to take a central role in the economy.

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Even after heroic Act of a Public Sector Bank (PSB) in saving a much-hyped blue-eyed private sector bank (PVB) and its depositors, the newspapers are still filled with demands of privatisation of PSBs. The experts are comparing the Public Sector Banks (PSBs) and Private Sector Banks (PVBs) on various parameters like business increments, NPA, loan book, return on equity, Returns in the stock market, their profits and provisioning etc, to justify their views.

Is the welfare driven public sector banking no more required? Is the wealth maximisation (profit) driven private banking industry ready to play a central role in the overall advancement of the economy?

The analysts, who are comparing the incremental loan disbursement and sanction over past some period and profits etc, are not considering the fact that the majority of Public sector banks (11 banks) were facing PCA (prompt corrective action) in recent years, which had restricted their capacity to lend. While the regulator took these proactive actions to protect these banks and their depositors, it took away these bank's ability to sanction new loans up to a great extent. However, many Industry observers noted that similar proactiveness was missing in the case of a private bank wherein a Public Sector Bank has to take up the responsibility of saving the private sector bank.

Apart from above most of the PSBs were under merger exercise which ensured that they were mostly busy in the rationalization of business, staff and branches.

Those who are comparing the stock market returns, for them, the current stock market position may give a clear reason why the market capitalization or stock market return should not be a parameter to ascertain the efficiency of a bank or to demean its role in the economy. The stock market and share price responds to perception. Despite India's negative economic growth outlook given by many analysts worldwide due to COVID pandemic and resultant massive loss of business and jobs in the last quarter, the stock market is still scaling new heights.

Further, the majority holding by Government ensures the limited say to investors in day to day functioning of PSU banks and its policy matter which are unlike private banks predominantly driven more by social welfare objective than sheer profit objective. This limits the participation of investor who is looking to have a pie in profits and power and this limited participation create a favourable flow of funds in favour of private banks which leads to better price discovery.

But just for sake of comparison, we again need to understand that majority of PSU banks were facing PCA and under PCA these PSU banks were facing restrictions on distributing dividends and remitting profits. Besides, these banks were stopped from expanding their branch networks and need to maintain higher provisions. Management compensation and directors fees are also capped. In this scenario, the market responded as per perception and due to merger exercise the market was in a price discovery mode.

For the enthusiast who believes in numbers, Let us compare last 4 years data, the share price of yes bank as on 1 March 2016 was Rs 143.70 and SBI was 162.05. On 17.08.2018 the stock of Yes Bank hit its all-time high at Rs 392.95 per share on 17.08.2018 and gave a return of 173.45% wherein for same period SBI gave a return of 86.42% which was less than half of Yes bank returns in percentage terms. But same Yes Bank was trading at 34.55 and SBI at Rs 303 on 28.02.2016 (a week before the formal declaration of SBI takeover of Yes Bank).

Now the returns fetched by Yes Bank since its peak to the same investors were -91.21% while SBI remained flat.

We are forgetting that the major objective of nationalisation of these Public Sector Banks (PSBs) was not to make money in the stock market for its investors (i.e. government) but to ensure the banking services to each citizen of the country irrespective of his socio-economic position. Along with providing banking service to citizens the main objectives of nationalisation were to expand the banking to rural areas, reduce regional imbalance, mobilisation of saving and direct the funds to priority sector/specific sectors like infrastructure or agricultural etc.

Now those critics, who are still under presumption that privatisation is the only way ahead and only privatisation can bring services to the needy, they need to recheck the position of Private sector banks and understand whether as a socialist country and welfare economy , are we ready for the absolute profit-driven banking sector.

Are the private banks ready to serve all the classes of the customer in the social and economic pyramid? The benefit of banking should be reached up to the last home and last citizen of the country irrespective of his social, economical or geographical position even after privatisation. However, the performance of Private Banks has been lacklustre until now to support their claim to the throne of Indian Banking.

For comparison purpose, let us take the data of Pradhan Mantri Jan-Dhan Yojana (PMJDY) scheme. Under this scheme, every citizen was targeted to bring under Financial Inclusion to ensure access to financial services, namely, a basic savings & deposit accounts with any requirement of minimum balance, remittance, direct benefit transfer, credit (OD facility up to Rs. 10,000), insurance (Up to Rs 2 lacs), pension in an affordable manner etc.

Following is the performance of the PSU and Private banks under this scheme as on 09.09.2020

Bank Name / Type	Number of Beneficiaries at rural/ semiurban centre bank branches	Number of Beneficiaries at urban metro centre bank branches	Number of Total Beneficiaries	Deposits in Accounts (In lac)	Number of Rupay Debit Cards issued to beneficiaries
Public Sector Banks (including RRBs)*	259612948	134052158	393665106	12582801	287884823
Private Sector Banks	6977902	5654895	12632797	398305.4	11462791
Grand Total	266590850	139707053	406297903	12981106	299347614

* RRBs are promoted and supported by PSU banks.

Source: https://pmjdy.gov.in/

So out of 40.63 crores beneficiaries in the country, the private sector has provided the benefits only to 1.26 crores i.e. (3.10%) of benefactors. Some may give justification that Private Banks are mostly located at urban Metro centres and hence could not serve the masses which mostly resides in villages. If we just have a cursory look at the data, we will found that PVBs have just opened 57 lacs Jan Dhan accounts out of 13.97 crores Jan Dhan accounts, till date in urban metro centres. The figure is just 4.08% of all Jan Dhan accounts in the Urban Metro centres.

There may be a perception among Private sector banks that these type of accounts will be a drag to branch profitability as it will result in high footfall in branch with low transaction value and their focus on HNI customers will be diluted. So the analysts have not been able to ask this question to the PVBs that why are they not serving rest of 97% of the needy population, who does not have money to open a zero balance account and why has this work left to only PSBs.

Now let us consider the ability to serve the poor and providing the banking facility to the last man of the social pyramid, especially during critical times like national calamity, war etc.

The lockdown was announced on 22.03.2020, during the period of 18.03.2020 to 09.09.2020 (COVID period) following is the performance of the PSU and private Banks

Bank Name / Type	**Number of Total Beneficiaries**	**Deposits in Accounts (In Crore)**	**Number of Rupay Debit Cards issued to beneficiaries**
PSB+RRB	23431162	1090738	6732377
PVB	58795	79771.43	-66098
Total	23489957	1170509	6666279

Source: https://pmjdy.gov.in/

The data suggests that since lockdown total 2.34 crores citizens have availed the benefit of basic banking facility offered by the banking industry in form of Jan Dhan accounts and out of this 2.34 crores new benefactors citizens, Private bank has just served the 0.25% (58795) of beneficiaries.

So those who are propagating for full privatisation of PSU banks may also have to answer that where this 99.75% population is going to be served during the pandemic times.

Further, if you have a closer look in the figures of PVBs during the period of 18.03.2020 to 09.09.2020 you will find that this increment growth is mainly due to J&K Bank which has opened 92778 accounts in this period. The country's largest private sector Bank with a branch network of over 5000 branches just opened 17693 new Jan Dhan account in 6 month period which means that each branch almost opened 3 accounts in 6 months in COVID period.

The situation is further grim for 2nd and 3rd largest private sector bank wherein banks like ICICI, Axis, Kotak, RBL and City Union etc have net negative growth in the number of Jan Dhan account in COVID period.

There may be some critics who would like to brush these figures by just saying that the economy came to standstill. For them I would like to produce the following data which is of last year for a similar period:

During the period of 20.03.2019 to 11.09.2019 following was the performance of the PSU and private Banks

Bank Name / Type	Number of Total Beneficiaries	Deposits in Accounts (In Crore)	Number of Rupay Debit Cards issued to beneficiaries
PSB+RRB	17678167	740969.2	13872602
PVB	255976	19880.78	336345
Total	17934143	760850	14208947

Source: https://pmjdy.gov.in/

Now if we compare the data we find that in similar period private sector banks opened 255976 Jan Dhan accounts which were 1.42 % of all Jan Dhan account opened during the period, which means that PSU banks served 98.58% population applied for Jan Dhan accounts even in good days. However, the more interesting thing to know is that this year private sector bank opened just 58795 account which is almost 77% less last year's number of accounts (255976) for a similar period.

While PSU bank opened 23431162 number of Jandhan accounts this year vis a vis 17678167 account opened last year and this accounts for almost 33% increase for a similar period.

The PSU banks maintain a delicate balance of wealth and welfare maximisation and many a time have to take calls which may not be profit-driven but welfare driven.

So one thing is for sure that privatisation is not going to help the mass population of the country as far as providing basic banking facilities are concerned and without which the economic prosperity of the country shall remain a distant dream. Needless to add that any investor would like his Bank branch to open in a profit centre and not in a remote area where it may take years to break even.

The PSU banks maintain a delicate balance of wealth and welfare maximisation and many a time have to take calls which may not be profit-driven but welfare driven. It is a fact that there may be hardly any large infrastructure projects which are not supported by a PSU bank while most of the private banks have maintained their negligible presence in comparison of PSU banks in these critical projects. For example as on 31.03.2020 The average Industry Sector Loan ticket size of PSU bank is Rs 1.01 crore while for Private Sector Bank it is just Rs 0.18 crore. Which means that on average PSU banks are financing Industry segment loans which are more than 5.6 times bigger than private banks. When it comes to pure infrastructure project with long gestation then It is also a fact that given the size of small private banks they have limited capacity to fund the large infrastructure projects.

Now the question is do we need to criticise the PSU banks for ensuring financial inclusion of most of the population of the country who does not have money in their pocket to afford banking facilities or financial securities etc or do we need to bash up them for ensuring funding to important socio-economic projects which otherwise would not have seen the light of the day or for ensuring the funding to citizens of the country as per government-mandated schemes to serve the larger goal of country and society instead of looking for profit potential only.

The country still needs PSU banks to bank upon and they remain the Unsung heroes of India's battle for achieving economic prosperity. MA

Declaration: views and opinions expressed in the article are mine and not of the Bank.

Refrence

1. *https://pmjdy.gov.in/*

VIRTUAL CURRENCY HITS THE INDIAN LEGAL TURF: A DECONSTRUCTION OF THE HON'BLE SUPREME COURT'S JUDGMENT IN THE CASE INTERNET AND MOBILE ASSOCIATION OF INDIA VS RBI

Abstract

This Article has attempted a deconstruction of the Hon'ble Supreme Court's judgment in the case of Internet and Mobile Association of India (IMAI) v. Reserve Bank of India; which dealt the legality of the RBI circular dated April 06, 2018. This impugned Circular barred the regulated entities under RBI from providing any service pertaining to virtual currencies. In spite of upholding the legality and justifiability of pre-emptive counter-measures of RBI, the impugned Circular was struck down on the ground of absence of empirical evidence of damage to RBI regulated entities due to operations of virtual currency exchanges and for failing the test proportionality. The court while recognising the potential threat posed by VCs, did not lay down any guideline either to the RBI or to the Union Government for addressing issues involving virtual currencies. The Central Government, seized of the matter, is yet to finalise action to address the issues concerning operations of VCs in India. Thus, VCs continue to operate in India in a regulatory void.

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Introduction

RBI, after issuance of a series of warnings and cautions about use of virtual currencies (hereinafter "VCs"), issued a Circular dated April 6th, 2018, prohibiting the entities regulated by RBI, to deal in/with VCs and/or offer services to anyone dealing with/in VCs. The legality of this Circular was subsequently challenged by interested parties (viz., Internet Mobile Association of India & others) and the Circular was eventually set aside by the Supreme Court. The Apex Court's pronouncement on March 4th 2020 can surely be called as India's first Bitcoin case on the legal turf. In the aftermath of this apex court judgement, a flurry of activities of VC Exchanges opening flood gates bitcoin (a VC) transactions have resumed in India.

After running down the judgment in a breath, one would visualize the judgment to be the warrior Achilles. It has acknowledged and upheld RBI's authority and power in the matter throughout but strangely in the final stages of the battle, it is Achilles himself who apparently has shot his own heel. The 180-page Judgment of the apex court has touched upon wide gamut of the issues involving VCs. Several of the issues and challenges dealt with therein could well be interesting topics for detailed in depth research and discussion of contemporary importance and interest. In this article an attempt will be made to appreciate the Apex Court's order on the expunged RBI circular *ibid* juxtaposing the contentions of the petitioners, and factoring in the stands taken by RBI on the issues involving therein. It finally concludes with authors' own view as to how the Court's pronouncement can have a far-reaching effect on the economy and ends on a suggestive note to address the issues and the existing regulatory vacuums.

Credentials of Virtual currency

Virtual Currencies are also variously referred to as crypto currencies, crypto assets, digital assets, digital Currency, virtual commodity, crypto-token, payment token, cyber currency, electronic currency, virtual asset etc., in different countries. VCs are a class of privately issued digital payment mechanism that depend predominantly on cryptography and distributed ledger technology viz., blockchain. A VC is a digital token that has market value. VCs are traded on exchanges like stock; is a digital representation of a value and it can function as a medium of exchange and/or a unit of account and/or a store of value, without having the status of a legal tender. It is used to settle transactions with finality among users' communities. VCs have some money like features. But it is liability of none and is not backed by any asset/authority, unlike sovereign currencies issued and guaranteed by the respective central banks. Its value is driven by confidence of users and is highly volatile due to its speculative nature. Besides, limited supply of VCs adds further to its volatility spikes. VCs have some characteristics of currency, commodity or other asset. Illusive features of VCs render it difficult to define it precisely. The confusion remains as to where to classify them as belonging a specific category; be it as currency, commodity, goods or stock or digital assets having exchange value.

Virtual currency (viz., bitcoin etc.,) technology paves the way for anonymous international transfer of funds. Although the original purchase of VCs may be transparent (e.g., through the banking system), all subsequent transfers thereof are not easy to trace. Therefore, VCs have attracted the attention of various criminal groups, including terrorists, as seamless means to anonymous transfer of funds needed for financing criminal and terrorist activities rendering the jobs of law enforcing authorities all over the world more arduous.[1]

Genesis of Virtual Currency

The idea of digital cash or cryptocurrency, appears to have been first introduced by David Lee Chaum, an American Computer Scientist and Cryptographer, way back in 1983, but the project ended as digi-crash. Then in 1997 a British guy named Adam Back had come up with a project called as 'hashcash' which claimed to solve the shortcomings of the 'Digicash' project. This was followed by Nick Sazbo's 'bitgold', and Wei Dai's 'b-money'. But the person (or perhaps entities/interested persons represented by a common name) who emerged successful with its cryptocurrency/VCs project 'Bitcoin' was Satoshi Nakamoto.

In the words of Adam Back a British Businessman, cryptographer; corresponded with Satoshi Nakamoto and was cited in the Bitcoin whitepaper.) The Court had taken note of the objectives of the VCs and in the words of Adam Back: "*What we want is fully anonymous, ultra low transaction cost, transferable units of exchange. If we get that going… the banks will become the obsolete dinosaurs they deserve to become*." This objective and motive which drove the pioneering projects, were to wipe-out the established banking systems/monetary systems from the world by replacing official currencies with VCs (like Bitcoin and Ethereum etc.,). Satoshi believed "*The root problem with conventional currency is all the trust that's required to make it work. The Central Bank must be trusted not to debase the currency but the history of fiat currencies is full of breaches of that trust*." 'Martti Malmi, a student at the Helsinki University of Technology, joined hands with Satoshi to improvise the project and to market it, he formulated the philosophy in the following words "*Be safe from the unfair monetary policies of the monopolistic Central Banks and the other risks of centralized power over a money supply. The limited inflation of Bitcoin system's money supply is distributed evenly (by CPU power) throughout the network, not monopolized to a banking elite*."

While Satoshi's explanation of Bitcoin still makes us think on technical lines, one should question why is there in a need for anonymity in a financial transaction. Although right to privacy is a Fundamental Right in India and needless to say that they are not absolute, but this too must pass the tests of '*reasonable restrictions*' and '*in the interests of the general public*'.

VC Pitfalls

RBI has time and again cautioned that VCs have proven to be an accepted mode of payment in dark-web transactions. Payment by VCs are on a peer to peer basis without involvement of any central authority to regulate the payments, and thus there is no established framework for recourse to customer in difficulties for redressal of grievances.[2]

The absence of information on counterparties in this peer-to-peer anonymous/pseudonymous systems could subject users to unintentional breaches of anti-money laundering laws (AML) as well as laws for combating the financing of terrorism.[3] The Bank of International Settlements (BIS) in its study, went further to warn this emergence of VCs as a combination of a bubble, a Ponzi scheme and an environmental disaster and called for policy responses[4]. The Financial Action Task Force (FATF) has similarly observed that crypto-assets are being used for money laundering and terrorist financing and suggested a globally co-ordinated approach to prevent abuses and strictly limit interconnections with regulated financial institutions.[5] The lack of KYC norms, money laundering and rampant use of VCs in terror-financing have thus left the law-enforcement authorities and central banks around the world in a fix.[6] The question which have perplexed many authorities: in the event of a dispute resolution can it effectively overcome jurisdictional hurdles? This jurisdictional question is also one of the main issues in resolving cyber-crimes.

The complex and illusive complexion of VC raise issues and concerns in the minds of regulators, central banks, governments and other institutions world over as to the: absence and inadequacies in regard to consumer and investor protection; market integrity; tax evasion; and money laundering and terrorist financing. The laws in different jurisdictions have categorized VCs into different categories viz., property, commodity, non-traditional currency, payment instrument, money, funds etc. While each of these descriptions is perhaps not incorrect in the context of the specific case in specific jurisdiction governed by its own statutes, definitely none of these individually constitutes the whole truth.

Contents of the Impugned Circular

The impugned Circular, "**RBI/2017-18/154**", dated April 6th, 2018 was addressed to "**All Commercial and Co-operative Banks/Payments Banks/Small Finance Banks/NBFCs/ Payment System Providers**". From 2013 onwards Reserve Bank has repeatedly, through its public notices, cautioned users, holders and traders of crypto currencies, including Bitcoins, regarding various risks entailed in dealing in/with such currencies.[7] The impugned Circular also directed the entities regulated by RBI, not to deal in VCs or provide services for facilitating any person or entity in dealing with or settling transactions involving VCs. While the first part of the circular was a general cautionary advice to the public at large for avoidance of entailed risk in dealing in /with VCs, the second part of the Circular had a statutory direction to its regulated entities only. The Impugned Circular, however, did not prohibit the use of or the trading in VCs. Rather, using the power conferred upon RBI by Section 36(1) (a) of the Banking Regulation Act, 1949 it directed the entities regulated by it not to provide banking services to those engaged in the trading or facilitating the trading in VCs without meddling into the activities of trading in VCs per se. The impugned Circular did not order either the freezing or the closing of any particular account of a particular customer. However, as a sequel to the impugned circular in the absence of banking service the functioning of VCEs would automatically come to a halt. Barring the activities of conversion of VCs into legal tender currency involving support of banking channels, peer to peer transactions could continue as hitherto without being hit by the impugned circular.

Averments of the Petitioner

i. The Petitioner contended that RBI has no power to prohibit the activity of trading in virtual currencies through VC exchanges since: VCs are not legal tender but tradable Commodities and they do not come within credit system of the country. RBI also has no power to prohibit access of VC exchanges to banking facilities under the garb of public interest; and VC exchanges do not come under the purview of Payment and Settlement Systems Act, 2007.

ii. The mode of power exercised by RBI should satisfy the tests of: application of mind; satisfaction and other relevant considerations before coming to a conclusion; colorable exercise of power; Malice in law; M.S Gill reasoning; and the Test of Proportionality.

iii. All other stakeholders (viz., SEBI, CBDT, Department of Economic Affairs, G.o.I) have actually recognized the positive and beneficial aspects of cryptocurrencies as digital assets and the Distributed Ledger Technology from which crypto currencies emanate and hence have recommended only a regulatory regime, but RBI has taken a contra position without any rational basis.

iv. Many of the developed and developing economies of the world, multinational and international bodies and the courts of various countries have scanned crypto currencies, but found nothing pernicious about them and even the attempt of the Government of India to bring a legislation banning crypto currencies, is yet to reach its logical end.

v. RBI should have taken into account the fact that the members of Petitioner association have taken necessary precautions including avoiding cash transactions, ensuring compliance with KYC norms, of their own accord and allowing peer-to-peer transactions only within the country.

vi. RBI has not applied its mind to the fact that not every crypto currency is anonymous. The report of the European Parliament also classified VCs into anonymous and pseudo-anonymous. Therefore, if the problem sought to be addressed is anonymity of transactions, the same could have been achieved by resorting to the least invasive option of prohibiting anonymous VCs.

vii. It is a paradox that blockchain technology is acceptable to RBI, but crypto currency is not.

viii. The benefit of the rule of judicial deference to economic policies not of the state is not available to RBI, as the impugned Circular is an exercise of power by a statutory body corporate and is neither a legislation nor an exercise of executive power. In any case, there is no deference in law to process but only to opinion emanating from the process. No study was undertaken by RBI before the impugned measure was taken and hence, the impugned decisions are not even based upon knowledge or expertise.

ix. While regulation of a trade or business through reasonable restrictions imposed under a law made in the interests of the general public is saved by Article 19(6) of the Constitution, a total prohibition, especially through a subordinate legislation such as a directive from RBI, of an activity not declared by law to be unlawful, is violative of Article 19(1)(g). Whether a directive would tantamount to "regulation" or "prohibition", depends upon the impact of the directive.

x. The immediate effect of the impugned Circular is to completely severe the ties between the virtual currency market and the formal Indian economy, without actually a legislative ban on the trading of VCs, thereby promoting cash and black-market transactions.

xi. The impugned Circular fails to take note of the difference between various VC schemes such as closed VC schemes, unidirectional flow schemes and bidirectional flow VC schemes and unreasonably differentiates between unidirectional flow schemes and bidirectional flow schemes, by targeting only bidirectional flow schemes.

xii. VCs do not qualify as money, as they do not fulfil the four characteristics of money namely medium of exchange, unit of account, store of value and constituting a final discharge of debt and since RBI has accepted this position, they have no power to regulate it.

xiii. Considering the fact that historically, money as understood in the social sense and money as understood in the legal sense, are different, the courts in different jurisdictions such as USA and Singapore have understood VCs to be akin to money or funds at times or as commodities/intangible properties at other times.

xiv. The impugned circular is manifestly arbitrary, based on non-reasonable classification and it imposes disproportionate restrictions.

xv. A decision to prohibit an article as res extra commercium is a matter of legislative policy and must arise out of an Act of legislature not by notification by an executive authority.

Observations of the Court on the Issues Raised

The Court that considered the **role historically assigned to a central bank** such as RBI, the powers and functions conferred upon and entrusted to RBI and the statutory scheme of all the below mentioned three enactments and the underlying spirits thereof and delving into identity and nature of VCs, and concluded that the RBI Act, 1934, the Banking Regulation Act, 1949 and the Payment and Settlement Systems Act, 2007 cumulatively recognize and also confer very wide powers upon RBI which , *inter alia to operate the currency and credit system of the country to its advantage, to have the sole right to make and issue bank notes that would constitute legal tender at any place in India, to function as the monetary authority of the country , regulate the financial system of the country to its advantage, to have complete control over banking companies, to regulate and supervise the payment systems.*

Delving deep into diverse definitions and perceptions persisting over the **identity and nature of VCs** and referring to various case laws, the court concluded that there persisted a good deal of confusion/divergence among various functionaries in regard to the true nature of VCs. The court felt that there is no escape from the conclusion that the users and traders of virtual currencies carry on an activity that squarely falls within the purview of the Reserve Bank of India. It was further held that if an intangible property can act under certain circumstances as money (even without faking a currency) then RBI can definitely take cognizance thereof and appropriately deal with it. Therefore, the contention of the petitioners: RBI has no statutory power over their activities was found unacceptable by the court.

VCs are hackable, prone to misuse, volatile, carry high risk without recourse, energy intensive and opaque for regulators besides the underlying technologies are not yet scalable.

In terms of **wide statutory power vested in RBI** the Apex Court opined that anything that may pose a threat to or have an impact on the financial system of the country, can be regulated or prohibited by RBI, despite the said activity not forming part of the credit system or payment system. Court rejected the *ultra vires* allegation, considering the fact that VCs are intended to undermine and scuttle the 'demonic' authorities of central banks as sole issuer of sovereign currencies and monetary authority of economies and to liberate the currency system from the surveillance and regulations and control of the Central Banks. The court felt it is therefore incongruous that access to banking services, are being demanded from the same central bank for successful operations of the VCs with the motive to render the central bank a redundant.

The contention that RBI is **empowered to regulate not prohibit** has not appealed to the Court. Referring to case laws *vide* ***Star India Pvt. ltd.* v. *Dept. of Industrial Policy and Promotion and Ors.***[8], and ***K. Ramanathan* v. *State of Tamil Nadu*** was quoted in Star India) the Hon'ble court reiterated its opinion that word "regulate" has a very broad meaning including the power to prohibit. The Hon'ble court also observed that considering the important wide ranging roles and responsibilities assigned to RBI in the monetary and economic spheres contention that the power to prohibit something is always a legislative policy and therefore the same cannot be effected through an executive fiat, is not tenable. However, the question of prohibition in the context appeared irrelevant inasmuch as the impugned circular had not prohibited the trading in VCs. The court observed that RBI instead used the extensive powers vested in it under Section 36(1) (a) of the Banking Regulation Act, 1949; it directed the regulated entities not to provide banking services to those engaged in the trading or facilitating the trading in VCs. The Hon'ble Court declined to concede that automatic closure of business of VC exchanges as a sequel to the impugned circular amounted to prohibition. The court observed that all activities of VC exchanges which does not require banking support can continue as hitherto. In this context the Apex Court succinctly brought out the inherent contradictions in the contentions of the petitioner that there is total prohibition and also that the Circular fails to attain its intended objective of curtailing the actual trading despite paralysing the workings of exchanges.

Regarding the **question of collateral damage** caused by the impugned circular the court, considering the relevant case laws as also referring to the statutory powers and authorities vested in RBI to issue such direction to entities coming under its regulatory control, found that the issue pressed may be legitimate but ultimately weak in the backdrop.

Tracing the sequence and contents of the series of RBI communications since June 2013 in public domain of its concerns in regard to the risk entailed and potential adverse systemic consequences of existence of VCs in the economy, alongside the sovereign currency based on various authentic data and opinions expressed by various multinational bodies and regulators of various countries such as FATF, BIS, etc., the court could not found substance in the contention of the petitioners that **RBI was guilty of non-application of mind in the matter**.

The court declared the allegation that issuance of the impugned circular has been a colourable exercise of power or vitiated by malice in law as misconceived, declined to assail the same, regardless of the fact that the exercise of powers vested in RBI in good faith to attain its objectives have caused incidental collateral damage only to one of the several activities of entities not coming under the regulatory purview of RBI. Further, it was held that while VCs are capable of performing some function of sovereign currency; actions taken by RBI to dispel any possible illusion in regard to legal tender status of VCs in the minds of common public, was deemed to be action in good faith. Besides, invocation of Section 35A(1) (a) of the Banking Regulation Act, 1949 in public interest, the impugned Circular was found justifiable relying on the definition of 'banking policy' provided in Section 5 of the Act.

From the foregoing, one will conclude that the Apex Court is perhaps all bent to uphold that the RBI has legitimately exercised the powers vested in it under various statutes in good faith and in true public interest, to issue the impugned circular as most of the contentions of the petitioner failed to sustain judicial scrutiny in regard to their legal admissibility. But to the contrary the court struck down the impugned circular as in its opinion it has failed to stand the test of proportionality on the bedrock of jurisprudence.

The court dealt with the contention that the impugned measure is extreme and that it will not pass the test of proportionality together with the arguments revolving around Article 19(1) (g) of the Constitution. In this regard, the court held that RBI cannot be faulted for adopting approach different from that of other stakeholders (Viz., Enforcement Directorate, SEBI, and CBDT) in their respective domains in the matter. Drawing attention to the fact that various countries have adopted stands ranging from complete ban to light touch regulation of VCs, the court opined that while testing validity of actions taken on the basis of statutory provision in force in country, what has been done in the similar matter by other country based on their views and perceptions , the provisions of respective laws in force and socioeconomic milieu, cannot reasonably be factored in. Hence, based upon what approaches other countries have taken, correctness of RBI measures could not be evaluated.

Currency management is one the important obligations of the Sovereign and allowing mutely to usurp this duty by any unregulated private entities having potential to cause destabilisation in the financial system and driving haywire the monetary policy agenda of the central bank drawn consistent with the overall economic policies of the country to the detriment of the interest of people, would be a sort of hara-kiri! Any dereliction in this duty shall be a breach of the Social Contract of the Sovereign towards her people.

While the court has left the issue whether anonymity of VCs alone could have been checked, leaving the pseudo-anonymous to be decided by the experts in the field, it may be pointed out that RBI having not banned the VCs; question as to whether RBI should have adopted different approaches towards different VCs become irrelevant in the context. But the Court found nothing irrational as contented by the petitioner in acceptance of distributed ledge technology, in use by VC, for its use elsewhere (viz., in the financial sector /governance process/ contract management) for its beneficial attributes and features while rejecting a by-product of such innovation.

The petitioner contended that access to banking being equivalent to the 'supply of oxygen in any modern economy', the denial thereof to carry on a trade not prohibited by law, was not a reasonable restriction and extremely disproportionate and violate Article 19(1) (g). The court examined this ramification, thereof taking into consideration various relevant case laws and other information and facts relied upon by the court as authentic. The Court found that RBI, having taken an overview of various factors, had perceived the trend in activities involving VCs, as a growth of a parallel economy and this step was not found to be offending Article 19(1) (g).

But nevertheless, it was held that the measure taken by RBI should pass the test of proportionality, as the consequential effect of impugned Circular has been compulsive on closure of operations of VC exchanges in the country. The impugned circular was subjected to a four-pronged test for proportionality (*vide*. summary opinion of the majority in the judgement in the case of ***Modern Dental College and Research Centre* v. *State of Madhya Pradesh***[11]) namely: (i) that the measure is designated for a proper purpose (ii) that the measures are rationally connected to the fulfilment of the purpose (iii) that there are no alternative less invasive measures and (iv) that there is a proper relation between the importance of achieving the aim and the importance of limiting the right.

In simple terms, the Court looked studied: **(i)** whether the legislative policy is sufficiently important to justify limiting a fundamental right; **(ii)** whether the measures designed to meet the legislative objective are rationally connected to it; **(iii)** whether the means used to impair the right or freedom are no more than is necessary to accomplish the objective; and **(iv)** the need to balance the interests of society with those of individuals and Groups. Examining these case laws and the governing spirit and logic of judicial pronouncements therein, the court felt that in the instant case it would be imperative to examine whether less intrusive measures if available has at least been considered as alternatives by RBI.

While exercising the power of judicial review the court did not consider it necessary in the given context to scan the RBI responses in greater detail to find out merit in the additional safeguards suggested by the petitioners. However, the court took cognizance of three important aspects namely, absence of any instance of any action/ activity/ interface of VC exchanges over past 5 years or more impacting adversely the entities regulated by RBI (viz., nationalized banks/scheduled commercial banks/cooperative banks/ NBFCs), RBI has not prohibited VCs in the country and that even the Inter-Ministerial Committee constituted on 02-11-2017, considered a ban might be an extreme tool and opined that the same objectives can be achieved through regulatory measures[12].

While testing the proportionality of measures taken by RBI in exercising its statutory powers, the court considering the fact of absence of even semblance of any damage to the regulated entities and also inability on the part Government of India to decide the appropriate course of action i.e. to regulate/control & modalities thereof to ban altogether the activities involving VCs, in light of host of recommendations/proposals put forward by committees appointed to examine the issues involved therein, expressed its inability to hold that the action taken by RBI in terms of the impugned circular is proportionate. The Court therefore set aside the impugned RBI circular dated April 06, 2018 on the ground of proportionality allowing the writ petition.

Conclusion

The journey of virtual currencies may be found in a nutshell in this Judgment itself. It would perhaps not be opportune to call the curtains at this stage, as the confusion around ramified implications of existence of VCs in diverse complexions alongside the legal tender currency, has been compounding day-by-day. The governments across the jurisdictions are still grappling with the issues and challenges posed by VCs and many are in the process of tweaking strategies to deal in /with this new invasive species in an equitable and fair manner to best sub-serve and protect the interest of major stakeholders. The response of countries and institutional agencies have ranged from total ban to lite touch regulation. The blockchain technology used by VCs has caught the fancy of many including central banks across the globe for its inherent comparative advantage in harnessing the same in making business processes nimbler and more efficient. However, revelation of incidence of criminal activities wherein VCs were used as medium of value exchange taking advantage of anonymity of underlying transaction to effect seamless international transfer of fund across jurisdictions have raised alarm for law enforcing authorities/ agencies as their anonymous nature makes them seamlessly suitable, in the absence of any coherent and consistent legal/regulatory framework across the globe, for a host of illegal activities, such as money laundering, tax evasion, terrorist financing, drug trafficking , illegal arm deals etc.

In the case under reference, the impugned circular has been considered by the Apex Court as excessively harsh on the Petitioner inasmuch as the VC exchanges as a sequel thereto had to compulsorily shut down their lawful business in India, while there have not been even any semblance of any damage to the regulated entities on account of the provision of banking services to the VC exchanges which the impugned circular barred. RBI has also not considered the availability of softer alternatives to adequately address all its concerns regarding VCs before issuing the impugned circular. RBI has submitted that it had not banned VCs. Government of India also could not take a call despite committees appointed by the Govt. to look into the issues and challenges came up with sets of proposals regarding control/regulation /ban of VCs including a draft bill known as Crypto Token and Crypto Asset (Banning, Control and Regulation) Bill, 2018. Under the circumstances the Apex Court failed the impugned circular in the test for proportionality.

The Court, however, has held that RBI is just not another statutory body. To quote from the Judgment: '*It is a creature created with a mandate to get liberated from its creator'. It is an agency of the Government with a special task of conducting the monetary and financial systems to the country's advantage. Having said this, the Court however did not dispute if RBI overstepped its contours by coming out with this Circular*.

The court was convinced that there has been proper application of mind on the part of RBI in reckoning and appropriately weighing and reckoning in all relevant factors, facts, observations and recommendations of various specialised agencies/ institutions, both national and international, in regrade to the potential risk/ threat posed by VCs to monetary/financial systemic stability of a country while issuing the impugned circular. The court was unequivocal as to the legitimacy of exercise of statutory power vested in RBI in directing its regulated entities to act in terms of the circular ibid. It has upheld RBI's power of resorting to a pre-emptive strike taking into account the totality of circumstances. But the court observed and reckoned absence of semblance of evidence as to the deleterious impact of the activities of VC exchanges on functioning of the RBI regulated entities as one of the ingredients to its test of proportionality in this case. There appears to be case of 'pre-emptive strike' vs 'lack of empirical data', and the Court apparently exhibited inclination to the later. Then, one should wonder, should RBI have waited to use a retaliatory strike approach only after some damage was done and data thereon accrued and available for submission as evidence! Having recognised the power to apply a pre-emptive strike, it would perhaps be incongruent to quantify a data contingent threshold before any such measures are undertaken. Thus, the Court on one hand accepted that RBI cannot be held guilty of non-application of mind in lieu of the measures taken since 2013, but on the other hand held that RBI had not found any empirical data which reflect any adverse impact on the workings of the regulated entities.

There are several money-market instruments and other regulatory tools used by RBI for regulating the monetary system. For instance, Section 45 U of the RBI Act, mentions "money market instruments", and include call or notice money, repo, reverse-repo, certificate of deposit, commercial bills, commercial paper and other debt instruments. It is through these money market instruments/ and other weapons that RBI regulates the circulation of money in the market. And one of the objectives for such a regulation is to stabilize the inflation rates. Now, a pertinent question which arises is, whether RBI can continue to effectively pursue its objectives to the best of the economy's advantage, while a foreign, unregulated and unauthorized financial instrument of indeterminate nature, intending to mimic legal tender currency exists in the system alongside having potential to hijack money supply to a trajectory not in tandem with monetary policy objectives of RBI? This a question which the RBI and Govt. may ponder upon.

Notably, RBI had only barred its regulated entities from dealing with VCs. Thus, the Circular appears to be carefully crafted, *qua* availability of power, by the minds in RBI. The measure to ring-fence its entities was recognized by this court and the collateral-damage-contention by the petitioners was also rejected. The question then remains how indeed, was the right of a few vs the right of the rest, weighed?

The Court referring to definition of 'currency 'in Section 2(h) of the FEMA Act (Foreign Exchange Management Act observed that the definition is pertinent as the same identify many instruments (viz. all currency notes, postal notes, postal orders, money orders, cheques, drafts, travellers' cheque, letters of credit, bills of exchange and promissory notes, credit cards or such other similar instruments as may be notified by the Reserve Bank.) other than legal tender as currency. RBI instead of being caught in the dilemma as to whether VCs are currency or not could have notified VCs under the category of "other similar instruments" indicated in Section 2(h) of the Act ibid and thereby the VC transactions could have been brought under regulation and control by RBI. It appears that RBI perhaps does not want to regulate VC exchanges and in the absence of any power to altogether ban the activities involving VCs, RBI sought to ring fence its regulated entities from the possible exposures to risk entailed in transaction involving VCs to minimise RBI's regulatory/ reputational risks!

In this back drop RBI's decision to ring fence its regulated entities from VC exposure of any sort has been pre-emptive, defensive and precautionary as responsible custodian of depositors' interest, for customer protection and stability of currency and financial system. There has been enough merit for RBI to go in for review petition. But the option has been allowed to become time barred for reasons not known to people at large.

The Hon'ble Court though took cognizance of the threats and challenges posed by VCs to the regulatory terrain of the central bank, but while striking down the impugned RBI circular, no direction has been issued or any tangent advisory, to at least explore appropriate course of action including framing law to address the issues and challenges posed by VCs. It would have been interesting had the Court adopted a blue-pencil approach to bring out the best solution out of the contentions. It is now to be seen if VCs prove to be too harsh on the economy and on regulated entities and RBI will have to keep a vigil on activities involving VCs within its jurisdictional boundaries.

Increasing ubiquity of VCs has impelled more national and regional authorities to grapple with their regulation. In several jurisdictions governments have issued notices to public about the pitfalls of investing in VC markets largely intended to educate the citizenry about the difference between actual currencies guaranteed by the state and cryptocurrencies which are not, and risk of high volatility of values of VCs and the fact that organizations facilitating VC related transactions are mostly not regulated. Most countries have cautioned their citizens that investment in VCs if made it would be at their own personal risk and consequences without any available legal recourse in the event of loss. The warnings issued by several countries also mentioned the CVs potential to facilitate illegal activities viz., money laundering and terrorism. Some of the countries (Australia, Canada, and the Isle of Man) have amended their laws on money laundering, counterterrorism, and organized crimes to include VC markets, and require banks and other financial institutions involved in facilitating VC markets to conduct all the due diligence as required under the amended laws. Some countries have restricted investments in VCs in varying degree and manner. Algeria, Bolivia, Morocco, Nepal, Pakistan, and Vietnam have banned all activities involving VCs. Qatar and Bahrain while allow citizens to engage in activities involving VCs outside their borders, ban any such activities with in their countries. Bangladesh, Iran, Thailand, Lithuania, Lesotho, and Colombia prohibit facilitation of transactions involving VCs by financial institutions within their borders without, however restricting their citizens from investing in VCs.[10] Similar indirect attempt by RBI has been foiled by the apex court of India by striking down the impugned RBI circular. It needs to be mentioned that there are some countries like Spain, Belarus, the Cayman Islands, and Luxemburg though not recognizing VCs as legal tender, have been developing VC friendly regulatory regime to leverage on the potential of the technology underlying VCs to attract investment in technology companies.

The Govt. may consider passing a law to settle the related issues once for all. However, while drafting the statute it need be ensured that the same in letter and spirit would be consistent with underlying views and stance of the Court in the case *ibid* against RBI, lest it might falter at the altar of Indian jurisprudence. Necessary and required amendments may be made to the RBI Act considering the intersection of finance and technology involving the new species, unless the Govt. intends to deal with the matters of such technical intricacy through its Departments.

The Govt. may consider either to up-root VCs completely from the Indian markets or lay down a suitable regulatory framework for VCs taking into consideration various functionalities of VC as currency, security, commodity etc. While total ban of VCs in India would incentivise black market transactions, drawing full proof regulatory framework for VCs

in harmony with the systems in place world over without incentivising regulatory arbitrage may not be easy at this stage when there persist divergent views and opinions as to the nature and complexion of VCs world over.

The work is still in progress in trying to understand the fine line of distinction and read the mind of the court. The ordinary people in India have endowed a total faith in the Sovereign in discharging their sovereign duty of managing the currency/ financial system to the Country's advantage. There is presence of a social contract, where the public can freely use the official currency because of its inherent trust and the fact that it is backed by the Sovereign. One should rather be worried if there is a parallel unauthorized currency system. Currency management is one the important obligations of the Sovereign and allowing mutely to usurp this duty by any unregulated private entities having potential to cause destabilisation in the financial system and driving haywire the monetary policy agenda of the central bank drawn consistent with the overall economic policies of the country to the detriment of the interest of people, would be a sort of hara-kiri! Any dereliction in this duty shall be a breach of the Social Contract of the Sovereign towards her people.

Apparently VCs are intended to undermine and scuttle the 'demonic' authorities', i.e the central banks, as sole issuer of sovereign currencies and monetary authority of economies and to liberate the currency system from the surveillance and regulations and control of the Central Banks. It is therefore difficult to reconcile that access to banking services are being demanded from the same central bank for successful operations of the VCs with the motive to render the central bank a redundant. Continuance of banking service (i.e., supply of virtual oxygen) required to operate the VC exchanges dangles a latent potential threat to the authorities vested in central bank!

Payments services continue to evolve at spectacular pace and observably most affected under the influence of rapid changes in customer demand, technology and arrivals of new players. The service improvements in this segment of financial service is also spectacular. Despite all-round improvements in payment space households and businesses demand safer and ever faster mobile, fully digital and near instant, payment both online and at the point of sale. People preference might shift from cash to VCs providing utilities at cheaper/ same cost and convenience as cash with no settlement risks, no clearing delays, no central registration, no intermediary to check accounts and identities. If privately issued VCs pose high risk and instability in value, people may demand issuance of legal tender by central banks in digital forms. A number of central banks have already been considering issuance of central bank digital currencies (CBDCs). CBDCs can serve both as a complementary means of payment and as a driver for continual innovation in payments, finance and commerce. According to BIS *'central bank digital currencies (CBDCs) can foster competition among private sector intermediaries, set high standards for safety and risk management, and serve as a basis for sound innovation in payments.'*[13]

Question is whether VCs now pose significant challenge to sovereign currencies and central banks? Perhaps not! VCs are hackable, prone to misuse, volatile, carry high risk without recourse, energy intensive and opaque for regulators besides the underlying technologies are not yet scalable. Christine Lagarde the erstwhile Managing Director of the International Monetary Fund, now the president of ECB, once speculated strong potential future of VCs displacing central banks, conventional banking, and challenge the monopoly of national monies. The dreams of the originators of VC have been to give legal tender currencies a virtual run for their money. The best response by central bankers would be to continue pursuing effective monetary policy, at the same time remaining open to fresh ideas and new demands, as economies evolve. MA

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A TREND ANALYSIS OF FINANCIAL PERFORMANCE OF THREE BANKS: IMPACT OF LOCKDOWN ON THEIR PROFITABILITY & LIQUIDITY AND RELATIONSHIP BETWEEN THEIR PROFITABILITY & SHARE PRICES A CASE STUDY OF HDFC BANK, KOTAK MAHINDRA BANK & RBL BANK

Abstract

There are a large number of Public Sector & Private Sector Banks operating in India under the regulatory control of the Reserve Bank Of India. Banks are the Institutions with which all of us are connected in some way or the other. In the last ten years there has been lots of changes in the banking sector including implementation of the Jan Dhan Yojana and the DBT (Direct Benefit Transfer) Scheme and the impact of monetisation. In this article a very simple and easy to understand study has been made about the comparative performance of three banks in the private sector by trend analysis of 5 years data. An effort has also been made to study the impact of lockdown during covid-19 Pandemic on the profitability and liquidity ratios of the selected banks. The relationship between the profitability and share prices of these banks has also been studied and highlighted.

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Introduction

Indian banking sector has gone through a transitory period during this decade owing to the introduction of new banks, banking channels, technology, payment systems, financial inclusion, global development in technology, fintechs, regulatory norms, legal framework and customers' expectations. At the same time the sector has also witnessed many challenges such as deteriorating asset quality, difficulty in raising fresh capital, impact of demonetization, high foreign exchange episodic volatility, frauds and wilful defaults, legal and regulatory challenges in large corporate portfolio, gradual slowdown in economic growth, etc.

In this decade, few of the Indian banks stood out on these challenges and exploited the opportunities and delivered exceptional performance. We aim to provide a case study and a snapshot of performance of three banks during last 5 financial years when NPA crisis was at its peak and the GDP growth rate was downward. We have also analysed the impact of COVID-19 crisis on the financial performance of these banks. The three banks have been chosen based on different spectrum so that a comparison can be made for analysis.

The 3 private sector banks which have been chosen for this analysis are HDFC Bank, Kotak Mahindra Bank and RBL Bank as they have been performing well during the period of our study and they vary in size. Standalone financial results have been considered for the purpose of analysis to exclude the impact of their subsidiaries on the banks' performance numbers. The following 5 parameters have been chosen for the analysis of trend and comparison of these banks.

Business Growth

I. Income
II. Efficiency
III. Profitability
IV. Liquidity
V. Capital Adequacy & Asset Quality

Business Growth

HDFC is the largest private sector bank with total business i.e. total deposits plus total advance of Rs. 21.4 lakh crore as on March 31, 2020. Kotak is mid size bank with Rs.4.8 lakh crore and RBL is a small size bank with total business of Rs.1.2 lakh crore as on March 31, 2020. In term of business during 5 years RBL has grown fastest at compounded annual growth rate (CAGR) of close to 20.5% due to the advantage of lower base followed by HDFC 16.2% and Kotak at 13.4%.

(Rs in Cr)

	HDFC	Kotak	RBL
	Total Business		
FY16	10,11,017	2,57,308	45,577
FY17	11,98,207	2,93,507	64,037
FY18	14,47,103	3,62,360	84,169
FY19	17,42,541	4,31,574	1,12,702
FY20	21,41,204	4,82,568	1,15,831
CAGR	**16.2%**	**13.4%**	**20.5%**

Income

HDFC being the largest private sector bank has highest income from its operations. RBL being the smallest of the three its total income is least compared to the other two. However, RBL's growth, during the last 5 years, has been highest among the three. The compounded annual growth rate (CAGR) of RBL's total revenue is 26% compared to 14% of HDFC and 11.2% of Kotak.

(Rs in Cr)

	HDFC	Kotak	RBL
Financial Year	Total Income		
FY16	70,973	18,996	3,234
FY17	81,602	21,176	4,468
FY18	95,461	23,800	5,575
FY19	1,16,597	28,547	7,743
FY20	1,38,073	32,301	10,424
CAGR	**14.24%**	**11.20%**	**26.37%**

Efficiency

To judge the operational efficiency of the three banks we have chosen Cost to Total Income Ratio or cost ratio. It can be observed that all of three banks have been successful in consistently reducing their cost ratio. HDFC from close to 70% in FY16 has been able to bring down the ratio to 64.7%. Similarly, Kotak and RBL have also significantly improved their cost ratio. **Amongst the three banks HDFC is most efficient primarily due its large size thereby achieving economies of scale**. Kotak being a mid size bank is placed in between the two. However, Kotak has been able to improve the ratio by almost by 10% - the most among the three. RBL Bank has also reduced the ratio from 83.2% in FY16 to 73.6% in FY20.

	HDFC	Kotak	RBL
Financial Year	Cost to Total Income Ratio		
FY16	69.9%	78.7%	83.2%
FY17	68.5%	71.7%	79.4%
FY18	65.8%	69.9%	76.1%
FY19	65.9%	70.8%	74.9%
FY20	64.7%	69.0%	73.6%

Profitability

In terms of profitability HDFC is the best performing bank as it has high NIM (Net Interest Margin) as well as RoA (Return On Assets). However, Kotak's profitability growth (CAGR of ~23%) over the last 5 years has been faster than the other two. HDFC's profit volume is highest owing to its business size. RBL, despite being smallest, has been able to improve its NIM from 3.1% in FY16 to 4.6% in FY20 which is close to Kotak and HDFC. However, due to higher non-interest operating expenditures its RoA is the lowest. We can see a dip in profit for RBL during FY20 compared to FY19 due to advance provisioning made by the bank to withstand any slippages in asset quality on account of negative impact of COVID coupled with ongoing NPA crisis in banking system.

	HDFC	Kotak	RBL	HDFC	Kotak	RBL	HDFC	Kotak	RBL
	Net Profit			Net Interest Margin			Return on Assets		
FY16	12,296	2,090	292	4.2%	4.3%	3.1%	1.9%	1.2%	1.0%
FY17	14,549	3,412	446	4.3%	4.5%	3.3%	1.9%	1.7%	1.1%
FY18	17,486	4,084	635	4.3%	4.3%	3.8%	1.9%	1.7%	1.2%
FY19	21,078	4,865	867	4.3%	4.3%	4.1%	1.9%	1.7%	1.3%
FY20	26,257	5,947	506	4.3%	4.6%	4.6%	2.0%	1.9%	0.6%
CAGR	**16.38%**	**23.26%**	**11.62%**						

Liquidity

RBI stipulates banks to maintain sufficient liquidity in the form of high quality liquid assets to enable banks to honour their expected net cash outflow for the next 30 days. This requirement is captured in terms of Liquidity Coverage Ratio (LCR). The LCR stipulated by RBI is 100%. However, it was not always 100% during our period of study. The LCR requirements have changed by RBI over the last 5 years. The LCR milestones were as follows.

	Jan 1, 2015	Jan 1, 2016	Jan 1, 2017	Jan 1, 2018	Jan 1, 2019
Minimum LCR	60%	70%	80%	90%	100%

Since excess liquidity in normal economic scenario is value diminutive, comparison of LCRs of banks is not useful if the minimum threshold LCR is maintained by the banks. All three banks in this study have maintained the minimum LCR in hence average LCR has been above the minimum threshold. Therefore, all three banks have been healthy in terms of liquidity during last 5 years.

Capital Adequacy & Asset Quality

HDFC Bank has the best capital adequacy at 18.5% of Capital to Risk Assets Ratio (CRAR) followed by Kotak at about 18% and RBL at 16.4%. All three banks are adequately capitalized and maintain CRAR way above the RBI stipulated minimum threshold of 9% and desirable threshold of 10.875% (includes capital conservation buffer). RBL Bank raised Rs. 1,566 crore of fresh capital in Q3FY21 that is likely to improve its CRAR close to the other two banks.

HDFC scores the best in terms of Asset Quality as well. It has consistently maintained Net NPA ratio below 0.5% during last 5 years which is impressive considering large scale NPA being generated in the Indian Banking system during the last 5 years. Kotak's asset quality is also impressive though not as good as HDFC. Except for FY17 it has been successful in keeping its Net NPA <1%. RBL also had similar NPA performance till FY19. However, there was slippage in FY20 and its Net NPA went up to 2.1%. Overall all three banks so far have been managing its NPAs well during the last 5 years.

	HDFC	Kotak	RBL	HDFC	Kotak	RBL	HDFC	Kotak	RBL
	CRAR			Gross NPA			Net NPA		
FY16	15.5%	16.3%	12.9%	0.9%	2.4%	1.0%	0.3%	1.1%	0.6%
FY17	14.6%	16.8%	13.7%	1.1%	2.6%	1.2%	0.3%	1.3%	0.6%
FY18	14.8%	18.2%	15.3%	1.3%	2.2%	1.4%	0.4%	1.0%	0.8%
FY19	17.1%	17.3%	13.5%	1.4%	2.1%	1.4%	0.4%	0.8%	0.7%
FY20	18.5%	17.9%	16.4%	1.3%	2.3%	3.6%	0.4%	0.7%	2.1%

Now for examination of the relationship between share price and profitability of the three banks:

1. Annual high, low and the average price has been taken to indicate the overall trend of the stock price movement. (in Rs)
2. The stock price has been adjusted to normalise the effect of stock splits for maintaining consistency of the data. (in Rs)
3. Earnings per share has been used as the parameter for profitability.(in Rs)

HDFC				
	High	Low	Average[1]	EPS[1]
FY16	1111	973	1055	50.85
FY17	1442	1133	1256	59.95
FY18	2006	1542	1792	71.73
FY19	2317	1912	2089	83.33
FY20	2446	1724	2348	49.84

[1]Correlation Coefficient: 0.3

Kotak				
	High	Low	Average[1]	EPS[1]
FY16	719	630	679.1	18.91
FY17	872	716	776.2	26.89
FY18	1110	902	1008.3	32.70
FY20	1342	1118	1252.8	37.78
FY19	1691	1296	1538.1	44.73

[1]Correlation Coefficient: 0.9

RBL				
	High	Low	Average[1]	EPS[1]
FY16	0	0		
FY17[2]	494	291	379.8	12.61
FY18	565	477	516.9	15.7
FY19	681	512	565.7	20.25
FY20	686	136	403.0	11.04

[1]Correlation Coefficient: 0.9; [2]IPO happened during FY17

A bird's eye view of the data gives a general upward trend indicating that all the three banks during the five years experienced growth in terms of profitability as well as share price. However, after calculating the correlation co-efficient of the average share data with the EPS, it has been found that HDFCs share price movement is not very well correlated with the EPS (Since correlation Coefficient is 0.30). On the contrary Kotak and RBL has very high positive correlation co-efficient (nearly close to 1 i.e. 0.98 & 0.93 respectively)

COVID-19 Impact

(Rs in Cr)

	HDFC			Kotak			RBL		
	Mar-20	**H1FY20**	**H1FY21**	**Mar-20**	**H1FY20**	**H1FY21**	**Mar-20**	**H1FY20**	**H1FY21**
Total Income	1,38,073	70,522	66,116	32,301	15,973	15,930	10,424	5,101	5,071
Net Profit	26,257	14,171	11,913	5,947	3428	3084	506	285	321
Deposits	11,47,502	10,21,614	12,29,310	2,62,820	2,33,071	2,61,563	57,812	62,829	64,506
Borrowings	1,44,628	92,236	1,32,580	37,993	26,664	41,789	17,006	13,953	13,255
Liabilities & Prov.	67,394	55,457	61,425	10,419	11,239	11,485	3,575	3,096	4,712
Loans & Advances	9,93,702	8,96,983	10,38,335	2,19,748	2,13,299	2,04,844	58,019	58,476	56,162
Investments	3,91,826	3,07,147	4,13,965	75,051	74,330	1,16,723	18,149	19,777	21,276
Key Ratios									
LCR	132%	140%	153%	117%	121%	170%	126%	136%	171%
NIM	4.3%	4.3%	4.1%	4.6%	4.6%	4.6%	4.6%	4.4%	4.3%
RoA	2.0%	2.0%	1.8%	1.9%	2.3%	2.2%	0.6%	0.3%	0.6%
NNPA	0.4%	0.4%	0.4%	0.7%	0.9%	0.6%	2.1%	1.6%	1.4%

Lock down due to Covid-19 and its impact on the performance of the three banks have been interesting. HDFC Bank experienced about 17% drop in profitability during Q1FY21 compared to Q1FY20, ie the period when there was total lockdown throughout the country. There was a sharp reduction in the Banks businesses both in terms of deposits and advances. Although at the end of Q2 FY21 it recovered from the dip in Q1FY21, it was way below the FY20 closing figures. Overall profitability in H1FY21 was down by 15.5% compared to H1FY20. Lower profitability is not attributable to excess provisioning for bad assets rather it is a case of reduction in NIM which was down from the usual level of 4.3% maintained by HDFC during the four years to 4.1%.

Kotak also experienced reduction in business. Deposit de-growth was about 8% in H1FY21 compared to H1 of the previous year, however it was better than HDFC. Advance de-growth was mere 4%. Kotak was relatively less adversely affected compared to HDFC in profitability as well. It registered 12% lower profit in H1 compared to H1 of previous year. Both the Banks were extremely resilient in terms of Asset quality and withstood their impressive asset performance standards.

RBL interestingly grew its deposit business by 3% during H1FY21 and witnessed marginal reduction in advances compared to H1 figures of previous years. Contrary to the profitability performance posted by the two other banks, RBL posted a positive growth in profitability by about 12%. This could be attributable to the fact that the bank made accelerated provisions in Q2FY20 to deal with stress in assets of few large corporate accounts. However, asset quality remains at similar level in H1FY21 compared H1FY20.

Impact of COVID-19 on the asset quality of these banks may not be truly evaluated due to RBI's regulatory measures to deal with COVID situation by the way of moratorium in payment of instalments of terms loans, relaxation in working capital loans terms and asset classification by banks.

The common trend to all the three banks is very high LCR during the period. All of them had LCR above 150%. This could be attributable to the Banks hoarding liquidity to withstand any untoward or unexpected demand for withdrawal from its depositors. It could also be due to all these banks are unwilling to lend due to heightened credit risk on account of the pandemic and resultant economic slowdown. Another factor could be non-availability of lendable loan proposals to suit the risk behaviour of the Banks.

Conclusion

The study has shown that all the three banks have exhibited high growth and profitability, strong operational performance and maintained good asset quality despite the NPA crisis and slowdown in economic growth. Their strong character and internal strength also withstood the impact of pandemic so far and maintained strong performance despite adverse business environment. MA

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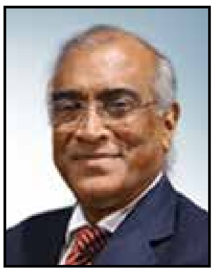
DIGITAL TRANSFORMATION - EMERGENCE OF CENTRAL BANK DIGITAL CURRENCY FROM THE PHOENIX OF CRYPTOCURRENCY



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Brief History of Coins and Currency

India is one of the few claimant nations for earliest introduction and usage of coins, made from stone and metals as store and media for exchange of values. These most probably had ringed bells for stoppage of barter system. Researchers have observed that use of coins in India dates to period from the first millennium before the common era (BCE) to the 6th century BCE. Before such metal coins *'Cowrie Shells'* and beads used to be exchanged as money for buying of goods and services.

Historians could trace coin minting activities in India during the period of several ancient rulers of kingdoms, viz., *Magadha, Ghandhara, Shakya, Surasena, Panchala*, etc. They launched such coins for use as legal tenders by their subjects. Those coins were known as *Pana* or *Karshapanas*. Historians could also find that Chinese and Lydian rulers of middle east region were two of the earliest introducers of coins. Mughal emperor Sher Shah Suri minted the first gold coin, called *Mohur* in India, during his rule between 1540 to 1545. Storylines indicate that the modern version of the name of Indian currency 'Rupee' owes its historical lineage from the silver coin called '*Rupiya* minted by Sher Shah Suri. It is pertinent to note that Indian word for silver is 'Rupa'

Fiat Currency and Bank Money

This tradition of metallic coins continued till the advent of British era in India around which time paper currency notes started replacing metal coins with high intrinsic values. However, centuries old tradition of using metal coins continues even today albeit on a reducing trend. The colonial rulers of India started blocking village level Indigenous bankers, who used to operate with metal coins, at the onset of their rule. Organised banks, sponsored by both private owners and government, started operating on a regional basis.

The General Bank of Bengal and Bihar, a state sponsored bank, was one of the first few issuers of paper currencies during 1773 to 1775. Since then both private and government sponsored banks used to issue paper currencies which were used by people in regional markets. According to a publication of Reserve Bank of India[1], *"The paper currency Act of 1861 divested these banks of the right to note issue; the Presidency Banks were, however, given the free use of Government balances and were initially given the right to manage the note issues of Government of India."* This Act heralded the control of the Indian central bank on fiat currency and money circulation in India.

Presently there are three types of money in the financial ecosystem of any sovereign country, viz.,

- **Fiat Cash or Currency**: It is issued and controlled by its central bank and not backed by any commodity like gold. Fiat currency provides greater control to the central bank on the country's economy.
- **Central Bank Money**: This money is created out of reserves of a country's central bank and is used by commercial banks for settlement of transactions by and between themselves. Total magnitude of this form of money is not considered as a part of money supply to the economy as it is not meant for any purpose beyond the close circuit of country's banking ecosystem.
- **Commercial Bank Money**: This money is created by government and private commercial banks by lending to retail, and corporate customers from out of various short-term and long-term deposits received from retail and institutional customers. This huge bulk of money is stored in the computerised accounting systems of banks and circulates through innumerable day-to-day transactions conducted by banks' customers.

It is, therefore, evident that all the above three forms of money are, for all practical purposes, under direct monitoring and control of the central bank of any country, because the commercial banks are also under regulatory control and close supervisions of the central bank.

Birth of the Cryptographed Digital Currency

Digital currency originated from the disgruntled mindset and anguish of common people that banks have failed to provide security and safety of their deposits, not to speak of reasonable return in real terms net of inflationary effect. A section of people wanted to become the controller of their own destiny due to heightened anguish caused by global financial crisis post subprime loan meltdown in September 2008. In India, the matter has assumed critical dimensions due to recent failures of a couple of banks to meet commitments to retail customers primarily caused by persistent huge quantum of non-performing assets, i. e., long overdue loans and interests thereon.

Readers may be aware that the first idea of digital currency can be traced in 1998 when an IT engineer called Wei Dai[2] published a paper on digital currency called 'B-Money'. His idea was to enable a group of unnoticeable 'Digital Pseudonyms' to transfer values within a network. In the same year Nick Szabo[2], ideated another decentralised digital currency called Bit Gold. This lawyer turned professional cryptographer was one of the pioneers of blockchain technology. Szabo claimed that his idea was provoked by inadequacies in the traditional banking systems. However, both these were never launched in public domain.

The world witnessed birth of the first cryptocurrency 'Bitcoin' in 2009 through the widely read article "Bitcoin: A Peer-to-Peer Electronic Cash System", published by Satoshi Nakamoto[3]. Predominant objectives of Bitcoin were to liberate liquid assets of common people from the clutch of central bank of a country, so that people can control their own destiny. World debated whether Wei Dai, Nick Szabo and Satoshi Naka are one and the same person with three different names. The most debated issue that remains to be concluded is, whether privately issued cryptocurrencies have really so far served the originally ideated objectives.

The author is not aware whether the mystery around the name Satoshi Nakamoto has yet been demystified, and whether the person has physically been traced anywhere under the sun. However, one school of thought is that the name represents a group of IT professionals who ideated virtual currency. The quoted article of Satoshi Nakamoto claimed the following:

"A purely peer-to-peer version of electronic cash would allow online payments to be sent directly from one party to another without going through a financial institution. Digital signatures provide part of the solution, but the main benefits are lost if a trusted third party is still required to prevent double-spending. We propose a solution to the double-spending problem using a peer-to-peer network. The network timestamps transactions by hashing them into an ongoing chain of hash-based proof-of-work, forming a record that cannot be changed without redoing the proof-of-work….."

Satoshi Nakamoto created a digital platform for steering transactions by participants in a peer-to-peer network for Bitcoin using Blockchain Technology which is synonymously known as 'Distributed Ledger Technology' (DLT).' The underlying basis and controlling tool is an embedded smart contract entered by and between transacting parties, as opposed to any central bank's regulations. The author in some of his previous articles in this series on 'Digital Transformation' has explained Blockchain technology in detail, and hence are not being repeated here. Those articles are available at his personal website *http://www.innoventionians.com/category/knowledge-inputs/.*

Cryptocurrency Transactions without Intermediation

The decentralised and distributed authority structure between participants of a Blockchain platform enabled a digital currency to remain beyond the realms of regulations and control of any central authority. The peer-to-peer network facilitates direct online remittance payments by and between participants without the intermediation of any common agency like a bank.

The word crypto draws allegiance from the fact that every transaction in a blockchain platform is cryptographed on an end-to-end basis with complex algorithms. Such applications of cryptography are also for ensuring controlled addition of new digital currency units; authenticate, monitor, and record transactions; and to create a risk-enabled safety net to prevent frauds and infringement by cyber criminals. Applications of algorithms for encryption render such a digital currency near impossible to be counterfeit or double-spend. That is why any digital currency transacted through a blockchain platform is also called 'Cryptocurrency'.

A cryptocurrency is synonymously known, and also being used in this article, as Digital Cash, Digital Asset, Digital Currency, Digital Token, Virtual Currency, etc. It is touted to function as an alternate medium of exchange to secure financial transactions and verify transfers through a secured and integrated DLT platform. Investopedia[4] summarises that *"Cryptocurrencies face criticism for a number of reasons, including their use for illegal activities, exchange rate volatility, and vulnerabilities of the infrastructure underlying them. However, they also have been praised for their portability, divisibility, inflation resistance, and transparency."* Since 2009 the world has seen launch of many cryptocurrencies. The following is a pictorial illustration of some of those:

Source: https://www.rarealtcoin.com/worlds-top-3-scrypt-algorithm-altcoins-long-term/

Despite all hypes around bitcoin and its price breaking through the summit of USD 20,000, cryptocurrency is yet to be a familiar word to a common man and meant for her / his daily use like internet or an application like WhatsApp. Most of high-net-worth individuals around world have yet not accepted cryptocurrencies, including Bitcoin a safe haven to invest.

Albeit all these, threat to fiat currencies and bank money under any central bank's control is continuing. Readers are aware that mighty facebook is expected to launch a cryptocurrency called Libra. Many resistances forced it to initially launch Libra at a lower scale around April 2021. Because of gargantuan mass appeal of facebook even to the lowest strata of society across all countries and its worldwide network, Libra is expected to be popular within no time. It is likely to pose tangible threats to fiat currencies and commercial banks' money regulated by any country's central bank.

Industry 4.0 and Fintech for Digital Payment

Digital transformation of industrial operations and service deliveries by entities in banking, insurance, and other financial services (BFSI) started from around the later part of 1990s. But even before that came physical media for cashless payments through Debit Cards and Credit Cards issued by commercial banks. According to a report in Marketplace[5] Kansas City Federal Reserve, a bank in the USA, started the first Debit Card in 1966. It reported that *"Robert Manning, the author of Credit Card Nation, said debit card usage picked up in the '80s and '90s as more and more ATMs started cropping up across the country. In 1990, debit cards were used in about 300 million transactions. In 2009, prepaid and debit cards were used in 37.6 billion transactions"*

With further advancement of technologies digitally enabled cash-less payment started gaining momentum and reached today's version of digital wallets and payment interfaces. Specific computing applications enabled individuals to make payments without use of Debit and Credit Cards, or any other form of intermediation by banking system. Usage of such debit and credit cards also came up with advanced applications like PIN less / touch less payment confirmations. Even before onset of Covid-19 Pandemic many startups developed digital solutions for contactless payment systems with applications of technologies like radio frequency identification (RFID) and near field communication (NFC). World witnessed emergence of eWallets and digital payment platforms of PayPal, paytm, ApplePay GooglePay, SamsungPay and so on. The case in point for an eWallet is the one used by car hailing service providers like Ola.

The following chart of a research-based report by Worldpay, published in a report of IBM[6] use of hard physical feat currency will decline from about 32% in 2018 to about 17% in 2022. Use of eWallets will increase from around 16% in 2018 to about 29% by 2022.

Source: https://www.mfif.org/wp-content/uploads/2019/11/Retail-CBDCs-The-next-payments-frontier.pdf

Multiple Opinions on Cryptocurrencies

Readers should not be surprised to note that regulators around the world are divided in their opinions about the exact nature of a cryptocurrency as an asset and store of value. Many have even regarded it as a commodity and advised their respective sovereign government to impose value added tax on related transactions.

Four major regulators of the world's largest economy had initially expressed three different views on digital currency, Bitcoin to be precise. The author through his research observed that in a panel discussion session of a Blockchain Summit at the New York City Bar Association in June 2018 those four Regulators deliberated on various related issues. They represented the Securities Exchange Commission (SEC), the Commodities Future Trading Commission (CFTC), the Financial Crime and Enforcement Centre and the Internal Revenue Services (IRS). The Moderator of the session pointed out how different regulators do not even use the same language to define digital tokens or cryptocurrency: Those regulators considered digital tokens as:

- SEC - Securities
- CFTC - Properties

- FinCen - Currency
- IRS - Properties

The said Moderator was not sure whether concerns about regulations are likely to dissipate anytime soon. His question was if the layers of regulation could lead to new financial technology being developed in other countries instead of the USA. However, clarity of thought amongst regulators and multilateral agencies is an essential necessity for the fourth type of asset to come up in this era of Industry 4.0 for successful and all-pervasive digital transformation.

The author would prefer to add the following to clear misgivings in minds of common people, who are of the view that failure of Blockchain technology is responsible for several reported frauds related to crypto currency transactions. Many have concluded that Blockchain, like any other technology, cannot prevent frauds. Let this be clearly understood that the meteoric rise and volatilities in prices of Bitcoin and other cryptocurrencies are not due to the fault of Blockchain as a technology. Instead, those are mainly due to interplay of factors, viz., demand, supply, dogma of a new capital asset, human gluttony and other common factors influencing business and financial ecosystem of any country. The author is of the view that:

- Those are not the frauds committed by infiltrating into the concerned Blockchain platform. Human gluttony and ulterior motives have played forceful roles like in any other case of economic offences.
- The reported frauds had occurred in course of cryptocurrencies being traded in exchanges operated by separate entities. Most of the buyers and sellers do not directly access the Blockchain platform from their respective Nodes. Their brokers in those exchanges do, unscrupulous activities by whom can never be ruled out and ignored.

Having observed differences in opinions of the US Regulators, research scholars Stephen J. *et al,* in their article[7] published by Harvard Business Review in July 2018, had suggested the following in the context of the USA for resolving issues surrounding cryptocurrencies:

- Encourage formation of a self-regulatory body to promote and enforce standards among the crypto community.
- Convene an inter-agency working group, including representatives from the crypto community, to harmonize existing regulatory practices and develop a formal policy on cryptocurrencies.
- Provide public notice of a proposed rule governing cryptocurrencies and gather comments.
- Officially recognize that the extent of decentralization is an important factor in determining whether a cryptocurrency is a security.
- Go beyond the appointment of a crypto czar. Let SEC follow the lead of the Commodities Future Trading Commission, USA which created LabCFTC, an initiative for promoting innovation in fintech. Cues from that would give SEC opportunities to directly engage with industry to address questions about enforcement of securities related laws to blockchain technologies before launch.

They were of the view that these steps will help to promote order, consistency, and accountability within the cryptocurrency market without imposing undue burdens. Such steps would help the United States emerge as a wise leader for regulating introduction and use of cryptocurrency. This will in turn spur entrepreneurship and innovation in this country. According to them *"Wisdom - more than ignorance - is a truer form of bliss"*.

Readers might have by now guessed that importance of bank as an intermediator, particularly for country's payment and financial settlement ecosystem, is reducing day by day. Besides payments, applications of blockchain platforms have started being used for end-to-end handling of both domestic and cross border trade finance transactions, management of bonds, peer to peer lending loan management by microfinance organisations and many more. However, digital transformation involving interoperability of Blockchain platforms for transactional applications are being impeded due to non-availability of a commonly accepted digital currency. Industry sectors like financial services, healthcare, eCommerce, supply chain management, aggrotech, etc., and even governmental services too are the most affected segments.

Emergence of CBDC

IBM in its publication titled 'Retail ÇBDCs - The next payment frontier'[6] of 2019 has aptly reflected the concerns of both common people and central banks. It stated that, *"Advances in financial technology are impelling central banks to react to emergent challenges from the private sector and address weaknesses in payments systems. Policy makers are concerned about the potential loss of monetary control, and there is momentum in their institutions to examine the potential effects of introducing retail CBDCs"*. Since the global financial crisis of 2008 all stakeholders of monetary and banking systems around the world have squarely been influenced by the following three major developments:

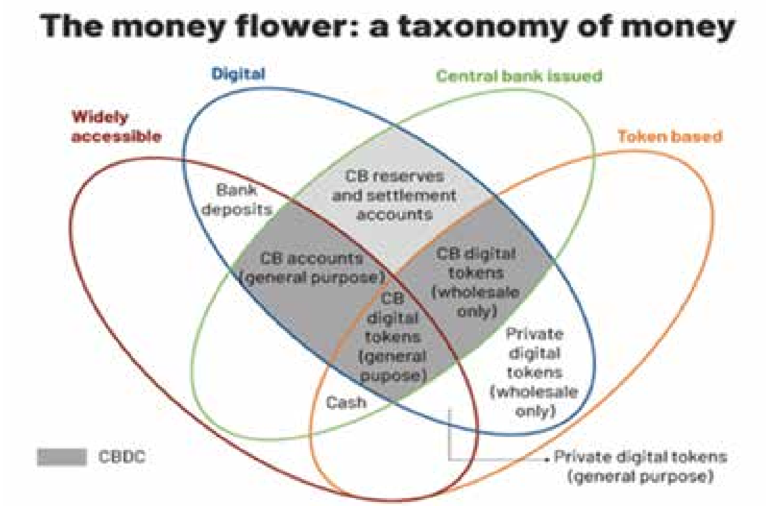
- A dramatic multiplication of a sense of trust deficiency in behaviour and functioning of regulators, banks, and financial institutions.
- Efficacies of policies and systems of central banks related to oversight of banks and financial institutions befitting the fast-changing and country / region specific dynamic environment of industry trade and commerce.
- Continuous fall in usage of cash due to innovative digital solutions offered by startups for payments and remittance management with improved speed, quality, reliability, and cost effectiveness.

In such a given dynamic financial environment and crisis of trust cryptocurrencies are slowly and steadily becoming global. Such an escalated trend of cryptocurrencies is leading to more and more acceptance and use cases. Major corporate houses around the world are showing higher degree of interest in blockchain and cryptocurrencies by investing more for those. All these will speed up the process of expanding markets for digital currencies. Time is here and now for central banks of sovereign nations to also roll out their respective cryptocurrencies called Central Bank Digital Currency (CBDC).

It would be worthwhile to understand now the definition of CBDC. The Committee on Payments and Market Infrastructure (CPMI)[8], appointed by the Bank of International Settlement (BIS), explained nuances of CBDC in the following lines.

"CBDC is potentially a new form of digital central bank money that can be distinguished from reserves or settlement balances held by commercial banks at central banks. There are various design choices for a CBDC, including: access (widely vs restricted); degree of anonymity (ranging from complete to none); operational availability (ranging from current opening hours to 24 hours a day and seven days a week); and interest-bearing characteristics (yes or no). ... Many forms of CBDC are possible, with different implications for payment systems, monetary policy transmission as well as the structure and stability of the financial system. Two main CBDC variants are .... a wholesale and a general purpose one. The wholesale variant would limit access to a predefined group of users, while the general purpose one would be widely accessible"

The following graphics aptly summarises the features of CBDC by combining more than one Venn Diagrams and naming their cross sections. This combined iconic expression is called 'The Money Flower' developed by way of Taxonomy for CBDC in 2017 by Morten Bech and Rodney Garratt for BIS.



Source:https://www.researchgate.net/figure/The-Money-Flower-A-taxonomy-of-money-Bank-for-international-Settlements-4_fig1_338792619

Not much of narratives are required to explain the above diagram as most of the features of a digital currency and CBDC have been explained in the aforesaid discourse. Attention of readers is drawn to the shaded portions which depicts the distinguishing features of four possible types of Customers' Accounts for usage of CBDC, viz., Reserves and Settlement, General Purpose usage of CBDC by Retail Customers, Digital Tokens for General Retail Customers and Digital Tokens for Wholesale Customers. This diagram has also featured Cash (fiat currency notes / bills) and General Purpose Digital Tokens issued by private entities.

Initiatives of Major Central Banks for CBDC

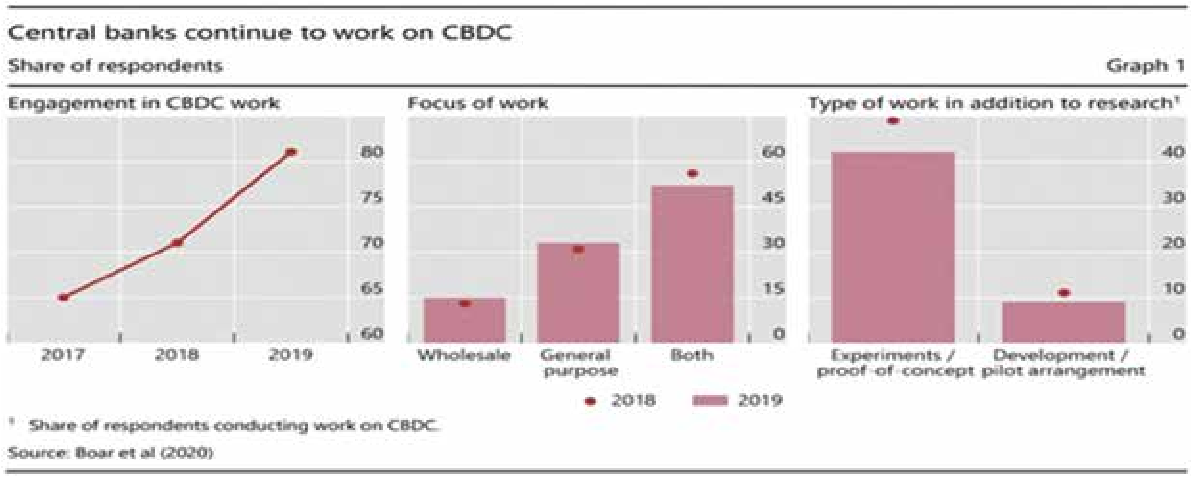
A report[9] published in 2020 by seven of the world's largest central banks jointly with the Bank of International Settlement defined CBDC as *".... a digital payment instrument, denominated in the national unit of account, that is a direct liability of the central bank."* The report highlighted the following:

- Coexistence with cash and other types of money in a flexible and innovative payment system.
- Any introduction should support wider policy objectives and do no harm to monetary and financial stability.
- Features of a CBDC should promote innovation and efficiency.

The group had promised to continue to work together on CBDCs, "*without prejudging any decision on whether or not to introduce CBDCs in their jurisdictions."* More reading of the above report reveals the following features of a CBDC:

- A digital asset issued by a central bank.
- Objective is to facilitate payment and settlement.
- Usable for retail transactions by all common man as a digital extension of cash at no additional cost
- Usable for settlement of wholesale transactions to be conducted and settled by permissioned corporate entities in an interbank market.

The report assured people in general by stating that *"Arguments for and against issuing a CBDC and the design choices being considered are driven by domestic circumstances. There will be no "one size fits all" CBDC. Yet domestic CBDCs would still have international implications. Cooperation and coordination are essential to prevent negative international spill overs and simultaneously ensure that much needed improvements to cross-border payments are not overlooked."*. The following chart, included in the said joint report, brings out the present state of affairs in matters of initiatives by central banks of various countries for introducing CBDC.



Source: https://www.bis.org/publ/othp33.pdf

One can make out that more than eighty central banks of different countries have engaged themselves in preparatory work for introducing CBDC. About fifty of them have focussed on both Wholesale and General Purpose CBDC. And about fifty of those central banks are in varying stages of experimentation with proof of concept and pilot arrangements. Wim Boonstra. Senior Vice President, Special Economic Advisor and Economist at RaboResearch Global Economics & Markets, in his article of December 2020[10] has indicated that, "*People's Bank of China (PBoC) has developed the Digital Currency for Electronic Payment (DCEP)*". The summary of his report runs as under. All these have, however, not further been researched and confirmed by the author of the present article:

- *China may be the first major country to launch a central bank digital currency or CBDC*
- *The Chinese CBDC, named DCEP, will strengthen the position of the central bank and help to further modernize the Chinese economy*
- *The DCEP will probably also be available for China's trade partners, to begin with Africa*
- *The DCEP may strengthen the international position of the renminbi to the detriment of the euro*
- *The arrival of the DCEP should be a strong wake-up call for Western, especially European, policymakers.*

The important point to be noted here is that DCEP, the CBDC of China may be a digital currency that will be accepted as a medium of financial transactions in certain African countries who are China's trade Partners.

Tanjeel Akhtar in her article[11] of December 2020 wrote about a digital currency which has been issued on a limited scale within a city area. The Spanish City Council of Lebrija has created the virtual currency Elio to support economic activity during the COVID-19 pandemic. One Elio is equivalent to one euro and almost 600 families will receive between €20 (US$24.50) and €200 ($244.96), which can only be spent in local businesses using an app. The deadline to use the Elio was Dec. 31, 2020, but has been extended till March 31, 2021.

IMF's Working Paper and Anxieties on CBDC

IMF published its Working Paper[12] titled, 'Legal Aspects of Central Bank Digital Currency: Central Bank and Monetary Law Considerations' as late as on November 20, 2020. It would be useful to quote verbatim the summary for better understanding of readers:

"This paper analyzes the legal foundations of central bank digital currency (CBDC) under central bank and monetary law. Absent strong legal foundations, the issuance of CBDC poses legal, financial, and reputational risks for central banks. While the appropriate design of the legal framework will up to a degree depend on the design features of the CBDC, some general conclusions can be made. First, most central bank laws do not currently authorize the issuance of CBDC to the general public. Second, from a monetary law perspective, it is not evident that "currency" status can be attributed to CBDC. While the central bank law issue can be solved through rather straight forward law reform, the monetary law issue poses fundamental legal policy challenges." Readers will get a feeling that the Authors of the Working paper are admittedly:

- Not clear about certain legal aspects and implications of CBDC on the functioning of commercial banks and central bank of respective countries.
- Not sure whether central banks of a country need to be legally authorised for issuing CBDC to public in general.
- Apprehensive about the fact that absence of legal foundations CBDC may cause legal, financial, and reputational risks for central banks.

In addition to the above concerns of IMF the author's more research work reveals that economists and finance professionals have expressed anxieties on the following issues which extend far beyond the issues related to payment systems, legislative amendments, and collaboration with private technology providers for running the blockchain based platforms:

- CBDC permitted by a Central Bank for issuing to common people may result in higher volatility and insecurity in deposit funding of commercial banks.
- A general purpose CBDC can be a self-competitive item vis-à-vis the existing term of deposits related

services provided by commercial banks with pre-declared assured rates of interests. This may also pose challenges for funding and financing structure of banks.

- In an assumed condition that CBDC is only legalised for payment and settlement purposes, commercial banks and central banks of a country may have to encounter grievous challenges, and then successfully handle the same in periods of stress when a flight towards the central bank may occur on a fast and large scale.
- Institutionalisation of CBDC with legislative permission will result in wide-spread and more than existing presence of central banks in a financial ecosystem of a country, which may not be desirable.
- Introduction of CBDC would bring in its wake a much wider role for central banks in distributing financial resources. It may cause directional changes in roles and responsibilities of central banks into uncharted territories which may result in high degree of political interferences and eventual financial losses for central banks.
- Setting principles, policies, and standards to be complied with for the technology to be applied and digital platform to be maintained for operations with CBDC would be a challenging additional burden for central banks besides ensuring privacy, safety, and security of information.

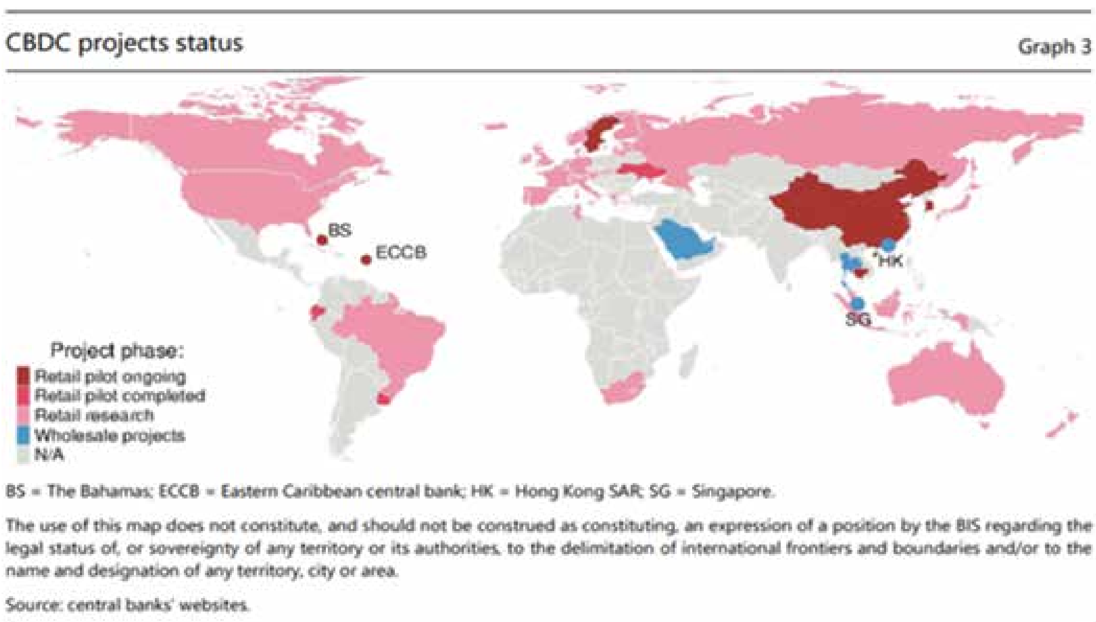
Carlos *et al* in their seminal work[13] titled 'The Future of Money and the Central Bank Digital Currency Dilemma' identified the following risks in the context of cryptocurrency and CBDC:

- Risks of a cashless society,
- Risks of structural bank disintermediation,
- Risks of systemic bank runs,
- Risks of currency substitution, and
- Risks of economic and financial bubbles.

Readers may refer their paper describing *'Three-Pillar Monetary-Financial Framework'*. They have claimed that their proposed framework will guide the assessment of CBDCs which are considered as the next step in monetary evolution.

Global Status of CBDC

Working Paper No. 880[14] of Bank of International Settlement, published in August 2020 has presented the status of implementation of CBDC around world till July 2020 through the following graphical expression of world map:



Source: https://www.bis.org/publ/work880.pdf

It is evident that most of the developed countries of North America and Europe, Australia, New Zealand, South Africa, north-eastern countries of South America have completed pilot study for Retail CBDC. In China the same is under progress. Projects for Wholesale CBDC is under progress in Gulf countries, Hong Kong and a few countries of East Asia.

BIS has further explained in the said report that, "*As of mid-July 2020, at least 36 central banks have published retail or wholesale CBDC work (Graph 3). At least three countries (Ecuador, Ukraine and Uruguay) have completed a retail CBDC pilot. Six retail CBDC pilots are ongoing: in the Bahamas, Cambodia (Bomakara (2019)), China, the Eastern Caribbean Currency Union.*"

Readers may be amazed to note the progress in countries which are smaller than India. With this pace of progress, it may not be wrong to visualise that by around 2025-27 the world will see worldwide initiation of CBDC even for settlement of cross border transactions, which will eventually render decades old usage of SWIFT redundant.

Present Status of CBDC in India

The National Institute of Smart Governance of India published the 'National Strategy for Blockchain'[15] in December 2019. In this document the concept of 'Central Bank Digital INR' (CBDR) was mentioned. The stated objective is to facilitate the process of innovation in areas of digital transformation. It suggested that CBDR can be operated through a 'National Permissioned Blockchain' platform that can run decentralised operations. The document suggested that, *"Permissioned blockchain applications can also account for regulatory oversight through participatory nodes by corresponding regulators and leverage the National Public Blockchain platform as a trust anchor."*

The Indian newspaper Mint[16] reported on December 5, 2019 that RBI Governor Saktikanta Das has ruled out the possibility of granting permissions for privately-issued digital currency. He has been quoted to have said that it was a little early to talk of Indian Central Bank issuing CBDC, albeit RBI had internally examined it and discussions being on. According to the Governor the related technology has not fully evolved.

Big Questions for Deliberations

A situation of chaos may arise if individual nations frame their own rules and regulations for introduction and management of CBDC from the narrow perspectives of meeting their respective country's dynamics and serving their own interest only. This may hinder progress of cross border trading and settlement of transactional dues. The process involving 4Cs, viz., consultation, consensus, cooperation, and collaboration should be followed. Multilateral agencies like IMF, World Bank, OECD, etc should propagate directional guidelines, policies and procedures for digital solution designing, introduction, management, and monitoring of CBDC at individual national levels.

This should be done after consensus is reached based on views obtained on a working paper. Objective should be to derive maximum benefits out of innovative solutions being provided by digital scientists for safe, cost effective and speedier management of transactions for financing, trading, settlement of liabilities, remittances, etc, both at domestic and multinational levels. The ultimate goal should be to reach benefits to all human beings across all societal hierarchies of all nations.

One of the intrigued questions to be examined, and addressed by such multilateral agencies is, whether the central bank of any country should allow one or more cryptocurrencies issued by private entities like Bitcoin, Ethereum, Ripple, Libra, etc, to parallelly operate with CBDC. The issues that should also come for intense debate are the complexities and clash of interests which would arise due to such privately issued cryptocurrencies participating in transactions with decentralised authorities transcending sovereign boundaries. Some more complex issues to be resolved are:

- Whether the underlying economic foundation and the superstructure of financial ecosystem of a country will be shattered by such parallel applications of CBDC and privately issued cryptocurrencies?
- Whether at all there can there be peaceful co-existence of CBDC of individual nations and cryptocurrencies of private organisations?
- Whether any nation should allow their own CBDC to be used by another or more other nations which are financially helped and supported by them, as opposed to the present convention of every nation having their own currencies, and exchange rates being determined by market forces.

Conclusion

The author is of the view that CBDC is no longer a matter of option and choice for the government and central bank of any sovereign nation. It is an imperative and has become an essential necessity, CBDC with all its variants will soon emerge as the only option for keeping pace with digital transformation of industry, trade, and commerce, and particularly FinTech segment of BFSI sector.

Government of India and RBI should not and cannot opt to remain a quiescent spectator while common people increasingly embrace smart technologies for cashless / touchless payments, digital wallets and Banks in India face fierce competition from time efficient and cost effectively FinTech players. Discourse in this article has indicated the speed at which most of the developed countries are progressing with pilot runs of CBDC. It will prove to be expensive with retarding effects if actions are not initiated without any further delay. One should not continue to be under the impression that technology is still evolving. If need be technology has to be 'innovented'. The author is aggressively optimistic about pervasive success of CBDC all around the world much before the end of the ensuing decade.

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MATERIAL LEDGER & ACTUAL COSTING CAPABILITIES OF SAP S/4HANA FOR VALUATION OF MATERIALS

Abstract

To manage Material prices in multiple currencies, Multiple Valuations (Legal Valuation, Group Valuation and Profit Center Valuation) and Actual Costing, SAP S/4HANA's Material Ledger / Actual Costing Capabilities help SAP Customers. This capability of S/4HANA may be interesting for Manufacturing companies that have high inventory levels to analyze their inventory and consumption cost variances more closely. This functionality will help companies to make decisions such as "Produce or Procure". It also helps to compare different sources of supply.

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Introduction

Material Ledger is subledger for Materials. It is a tool to collect data for Materials in SAP S/4HANA. Material Ledger forms the basis for "Actual Costing" and enables inventory valuation to carry up to three currencies and / or valuation methods. In SAP S/4HANA, Material Ledger is a prerequisite for using "Multiple Valuation Approaches". Without Material Ledger stock values are stored in only one currency i.e in Local Currency (Company Code Currency). Material Ledger store material stock values in two additional currencies in SAP system. So, all the goods movements in Material Ledger will be updated in up to Three Currencies / Valuations. The exchange rate conversion form other foreign currencies will be handled by the system automatically using historical exchange rate. In countries where inflation rate is high, it is important to valuate material with actual cost. In such countries they required to maintain inventory values in more than local currencies as local currency is not stable, they maintain the inventory in more stable currency like USD. SAP Support this functionality with Material Ledger and Actual Costing component.

Let us review two Business Examples;

1. Valuation of Materials using only Material Ledger and without using Actual Costing
2. Valuation of Materials with Material Ledger & Actual Costing in SAP S/4HANA

1. Valuation of Materials using only Material Ledger and without using Actual Costing functionality in SAP S/4HANA.

In the Accounting view of the Material Master data has the field "Price determination indicator". This filed determines whether price determination is Transaction-based or Single-level / multilevel. If we use Price determination Indicator "2". Only Material Ledger active, Actual Costing is not active in SAP S/4HANA system. With this we have two methods of price controls.

Standard price (S) & Moving average price (V)

Price Determination Indicator 3 supports Actual costing Functionality and we do not have an option of choosing moving average (V) Functionality in SAP S/4HANA.

Combinations of Price Control and Price Determination indicator determines functionality

Price Determination Indicator	Price Control Indicator S	Price Control Indicator V
2	Standard price	Moving average price
3	Standard price	No Option to choose V. if we have chosen Indicator 3

Let us take a Business Case 2 with V (Moving Average Price) first:

With this configuration set up in the SAP System, a new Price is calculated after every receipt. The price is an average value calculated from the total inventory value and the total stock quantity.

If the valuation of goods movement with combination of 2 and S, this is standard price and this price is constant for at least one accounting period. The S price is the result of standard Costing Run for that material.

The main difference between V price and S price is, V Price is current delivered price and S price is based on planned values and Price differences are not set to Material stock but collected in different account, "Price difference Account".

An Example for V price (Moving Average Price)

	Qty	Price	Value	Balance Qty	Value	Price
Beginning Inventory	100	4	400			
Goods Receipt	100	6	600	200 Qty	1000 Value	5 Per Unit
Invoice Receipt	100	8	1200	200	1200	6 Per Unit
Goods issued	150	6	900	50	300	6

Accounting Entries during Goods Receipt:

Inventory Account Debit	600
To GR/IR Account	600

(Being Valuated with PO Value)

At the time of Invoice, the closing stock exists 200 Qty

GR/IR Debit	600
Stock Account Debit	200
To Vendor Account	800

As stock exists at the time of Invoice receipt, the Price Difference Post to Stock Account.

In certain cases, the Moving average price V, can also lead to Price differences account

Example: Invoice receipt is delayed and Goods issue 150 Qty happened before we receive Invoice.

	Qty	Price per unit	Value	Balance Qty	Value	Price
Beginning Inventory	100	4	400			
Goods Receipt	100	6	600	200 Qty	1000 Value	5 Per Unit

Goods issued	150	5	750	50	250	5
Invoice Receipt	100	8		50	350	7

In this case, the invoice posted after material issue. As stock exist only 50 Qty, the price difference of 100 posted to stock by debiting to Inventory and the rest will flow to price difference account.

GR/IR Account Debit	600
Stock Account Debit	100
PRD Account Debit	100
To Vendor Account	800

Moving Average Price (V) can lead to unrealistic Material Prices in case of Multi-level production or delayed multiple invoices as they don't appear immediately

Advantage of MAP (V) Price:

Material price reflects average procurement cost of Material.

The disadvantage of MAP (V) price :

Depends on Time of goods issue. If invoice receipt happens after Goods Issue, the V price does not reflect correct value.

An Example for S price with Price determination Indicator 2

If Material Master has Standard Price (S), all goods movements will be valuated with the standard price (S). The price differences are posted to Price Difference Account. All goods movements will be valuated with the same price.

Example: Material Master has S price as 4.00 INR

Good Receipt Posted with 4.80 INR

The difference post .80 posts to PRD Account. It will not post to stock Account.

The disadvantage with setting "Price determination indicator 2 and Price Control S" is, the variances or Price differences cannot be allocated to subsequent levels of production, that means, we cannot proportionately allocate to ending inventory (Asset) or Consumption (Period Expense).

2. Valuation of Materials with Material Ledger & Actual Costing in SAP S/4HANA

For Actual Costing functionality, we must maintain material with price determination Indictor 3 with S. in this case, all valuation-relevant transactions are first valuated with S price. During period, Material Ledger collects data for all activities that relate to the valuation of Materials. The preliminary valuation price (Standard Price) will be remain same during period. For Example, Standard Price for period September is 100 INR . All Activities in period September will be recorded with a preliminary valuation price 100 INR per Unit. During the period various price differences were entered resulted to a cumulative difference of 500 INR for all receipts. Materials with Price control 3-S will be included in calculation of Actual Costing and calculation of the actual cost component split. The collected differences will be assigned to inventory if stock exists or consumption if goods issued or proportionately to both, during periodic Actual Costing run. These price differences will be rolled up to the Semi-Finished goods and then to the final products. These prices reflect actual cost incurred for the production for that period. As an option, we can also revaluate our raw materials and final products with these actual prices.

With Material ledger, SAP Customers can use transfer pricing functionality to valuate material inventories in a group or profit center view in addition to the "legal" view by configuring currency and valuation profile.

Work in Process (WIP)

If materials consumption posted or activity confirmation happen for production order that has partially delivered or not delivered, this is assigned to WIP. The variances for Materials or on activities will be assigned to WIP during actual costing run. So they debit to WIP (WIP Revaluation). This shows actual cost of WIP. During Final Delivery of the production order, the variances are allocated to Products.

The SAP S/4HANA's "Actual costing" functionality is works closely with material ledger though it is a standalone component, as it works with the same currencies and valuations that are configured in material ledger component. However, Actual Costing has its own new database tables in SAP S/4HANA. It has been significantly simplified and its performance optimized when compare with SAP ECC systems.

This Actual Costing helps to determine the actual cost of goods manufactured. It allows SAP customers to evaluate all materials managed in inventory, work in process & cost of goods sold at actual costs.

Actual costing periodically calculates periodic unit price (Actual Price) of each material and valuation type that includes all actual costs for that period. It is prerequisite for determining the actual cost of goods manufactured according to different accounting principles by taking different depreciation rules etc.

It is a prerequisite for the controlling of global supply chains for which unrealized interim intercompany, profits will be determined and displayed in a transparent manner.

SAP S/4HANA's Actual costing functionality closely integrated with, Inventory Management, Invoice Verification. Order Settlement, Material Costing. Price Changes, Debit/Credit Material.

The differences will be posted as follow

Price differences

Debit "Inventory"

credit "Price Differences"

Exchange rate differences

Debit "Inventory"

credit "Exchange Rate Differences"

Differences from revaluations

Debit "Inventory"

credit "Revaluations"

How data transfers from the Actual Costing to Financial Accounting

Price differences & exchange rate differences are updated in Financial Accounting in PRD (price difference accounts) and exchange rate difference accounts. Single-level material price determination distributes these differences from the price difference account to the material ledger categories consumption and ending inventory. Only when the closing Journal entry is made in the case of revaluation are differences of the ending inventory posted to the B/S account in Financial Accounting.

What are the other Business Benefits of SAP S/4HANA's Material Ledger and Actual Costing Functionalities?

- We can use report "Material Price Analysis". This shows all the valuated transactions of a material for a specific plant for any given period. It also shows Price and exchange rate differences in price determination structure. We can analyze by process type or by procurement alternatives. It shows Beginning Inventory, Cumulative inventory, Consumption and ending inventory along with Price Changes. We can also navigate to Bill of Materials, Materials master data. You can navigate to Price display. You can see report in multiple reports, we can compare plan and actuals. The price history can be seen. Documents associated with procurement can be displayed.
- A Report for Activity Consumption Analysis is available (CKM3A). We can use this report for analyzing the activity type in the Material Ledger. This shows consumption values for production. During period, activities are valuated at plan cost and revaluated at actual activity cost at period end. The difference will be rolled up to the Finished goods or to Work in process
- We can manage values for materials in up to three currencies by using Material Ledger functionality in SAP S/4HANA. It is fully integrated with General Ledger Currencies. So Material master data shows value of the Material in three currencies. We can also use the parallel valuation functions. legal valuation, group valuation, and profit center valuation.
- With Material ledger, SAP Customers can use transfer pricing functionality to valuate material inventories in a group or profit center view in addition to the "legal" view by configuring currency and valuation profile.

Some of the reports frequently used in S/4HANA Material Ledger Functionality

- Report "Prices and Inventory Values" provide an overview of the prices & inventory values of materials for the selected materials or valuated sales order or project stocks in a period.
- Using Report "Materials by Period Status ", we can see an overview of the respective period status of the listed materials.
- Report "Materials with Largest Moving Price Difference" shows difference in the periodic unit price or moving average price between the present period and the previous period.
- An overview of the distribution of differences in the material ledger will be shown In the report "Value Flow Monitor"
- Using Transaction code "CKMACD" Activity Types Value Flow can be displayed.
- Transaction code "CKMREDWIP" is for Value Flow Display for Reduction WIP
- Report "Material Prices and Inventory Values Over Several Periods "shows material ledger data for multiple periods. The report will be used to analyze the change in a material's price and inventory over a given period of time.
- The report "Cost Components for Price" Shows the cost component split for the price according to cost components across all levels of production.
- Report "Transaction History for Material" shows business transactions for a material over a period of time. This report gives good analysis of all business transactions that could be responsible for price changes within the Material Ledger. we can analyze the causes of the price changes and take the appropriate corrective measures
- Report "Monitor for Price Difference Account Balances" can be used to display non-distributed price differences. It runs significantly faster. MA

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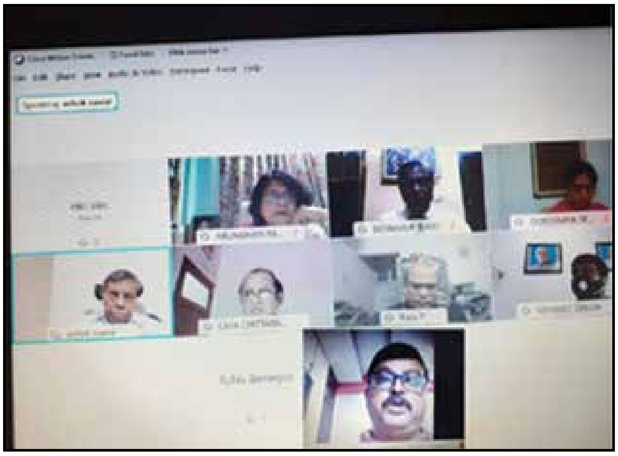
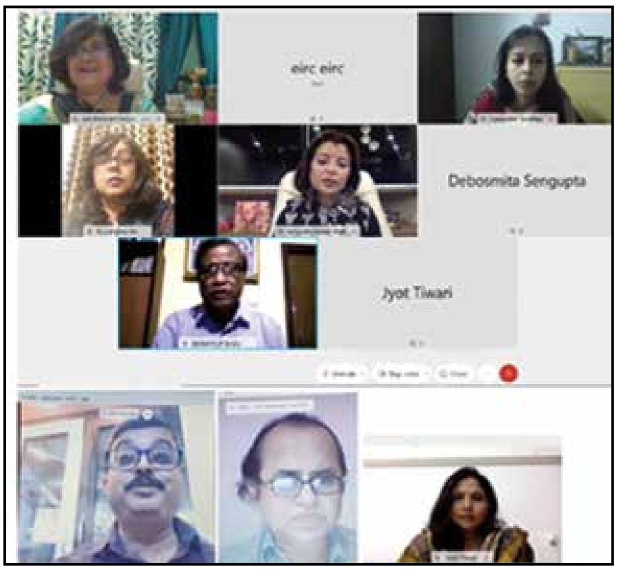
EASTERN INDIA REGIONAL COUNCIL

EIRC under the aegis of Seminar & Workshop Committee organized a Virtual programme on "The Insight of GST Audit – GST Departmental Audit u/s 65 & Special Audit u/s 66 of CGST Act 2017"on 1st November, 2020. CMA Biswarup Basu, President, ICAI, was the Special Guest of Honor, CMA P. Raju Iyer, Vice President, ICAI, and CMA Chittaranjan Chattopadhyay were the Guest of Honor on the occasion. CMA Ashok Nawal, Founder, Bizsolindia Services Pvt. Ltd. was the Guest Speaker. CMA Arundhati Basu, Vice Chairperson, EIRC and Chairperson, Seminar & Workshop Committee welcomed the members. CMA Ashis Banerjee, Chairman also addressed the participants. There was an overwhelming response and also all the participants had highly appreciated the programme. EIRC under the aegis of Seminar & Workshop Committee organized a Virtual programme on "Direct Tax - The Recent Changes in 26AS, New ITR Forms & TDS related issues" on 12th November, 2020. Shaikh Shamsher Alam, IRS, Additional Commissioner, Income Tax Department, Govt. of India was the Hon'ble Chief Guest on the occasion. CMA Biswarup Basu, President, ICAI, was the Special Guest of Honor and CMA P. Raju Iyer, Vice President, ICAI, was the Guest of Honour on the occasion. CMA Shymalendu Bhattacharya, Addl Assistant Director (Trg) (Retd), Direct Taxes Regional Training Institute was the Guest Speaker on the occasion. CMA Arundhati Basu, Vice Chairperson, EIRC and Chairperson, Seminar & Workshop Committee welcomed the members. CMA Ashis Banerjee, Chairman also addressed the participants. EIRC under the aegis of Student Facilities & Training Committee conducted a Virtual Career Awareness Programme on 19th November 2020 for the students of Scottish Church College. CMA Debosmita Sengupta, Sr Officer (Accounts, PD & Placements), EIRC introduced about the Institute. CMA Arundhati Basu, Vice Chairperson, EIRC and Chairperson – Student Facilities & Training Committee welcomed the participants and addressed on the prospects and opportunities available to CMAs. CMA D.P.Nandy, Sr Director (Studies), ICAI addressed the students and highlighted on the CMA Course. EIRC under the aegis of Seminar & Workshop Committee organized a Virtual programme on "FTP – Export Documentation & Export Refund and GST on Export of Goods & Services" on 23rd November 2020. CMA Arundhati Basu, Vice Chairperson, EIRC and Chairperson, Seminar & Workshop Committee welcomed the members. CMA T.B.Chatterjee, Mentor & Partner, TCN Global & Economic Advisory Services, LLP and CMA Ranajit Ghosh, Practising Cost Accountant were the Guest Speakers. EIRC under the aegis of Seminar & Workshop Committee organized a Virtual programme on "Observation of Constitution Day" on 26th November 2020. CMA P.V.S Jagan Mohan Rao Former President of SAFA, Former President of ICSI & Former CCM of the Institute was the Guest Speaker. A Faculty Meet was organized on 26th November 2020 through virtual mode. CMA Ashis Banerjee, Chairman EIRC, CMA Arundhati Basu Vice- Chairperson EIRC and Chairperson, Student Facilities & Training Committee and CMA Pallab Bhattacharya, Immediate Past Chairman EIRC had also graced the occasion and addressed the Faculty Members. EIRC under the aegis of Women Empowerment Committee organized a Virtual programme on "Start, Run, & Grow your Business" on 28th November 2020. CMA Arundhati Basu, Vice Chairperson, EIRC and Chairperson, Women Empowerment Committee welcomed the participants and guests. CMA Ashis Banerjee, Chairman, EIRC also addressed in the session. Ms. Sangeeta Ketan Shah, Managing Director,Simplex Castings Ltd was the Hon'ble Chief Guest, CMA Biswarup Basu, President, ICAI was the Special Guest of Honour and CMA Chittaranjan Chattopadhyay, CCM,ICAI was the Guest of Honour. CS Rupanjana De, Practising Company Secretary & Former Secretary - ICSI-EIRC, Ms Jyoti Mani Tiwari, Founder & CEO Ingeniousworks, CMA Sanjuckta Tarafdar Basu, Secretary-Serampore Chapter of Cost Accountants were the Guest Speakers. A Student Meet was organized on 18th November 2020 by ICAI – EIRC by the initiative of Student Facilities & Training Committee of EIRC where CMA Biswarup Basu, President, ICAI, CMA P Raju Iyer, Vice President, ICAI were present. CMA Arundhati Basu, Vice- Chairperson EIRC and Chairperson, Student Facilities & Training Committee, & CMA (Dr.) D.P.Nandy, Senior Director of Studies Department of HQ had also graced the occasion and addressed the students. A Faculty Meet was organized by the Student Facilities & Training Committee of EIRC on 19th October 2020. CMA Ashis Banerjee, Chairman EIRC, CMA Arundhati Basu Vice-Chairperson EIRC and Chairperson, Student Facilities & Training Committee, CMA Pallab Bhattacharya, Immediate Past Chairman EIRC & CMA Nishant Kr. Singh Secretary EIRC had also graced the occasion and addressed the Faculty Members. There was a discussion at length on various fronts regarding imparting knowledge to the students of the Oral Coaching Students of EIRC. EIRC had organized a Virtual CEP on "GST- Annual Return GSTR 9C & TCS on Sale of Goods" by the initiative of Seminar & Workshop Committee on 18th October, 2020 through CISCO Platform. CMA Biswarup Basu, President was the Chief Guest on the occasion, CMA P.Raju Iyer Vice-President was the Special Guest of Honour & CMA Chittaranjan Chattopadhyay, CCM was the Guest of Honor. CMA Ashis Banerjee, Chairman EIRC, CMA Arundhati Basu Vice- Chairperson EIRC and Chairperson, Seminar & Workshop Committee, CMA Nishant Kr. Singh Secretary EIRC & CMA Abhishek Kumar Singh,Treasurer EIRC also were present during the Programme. CMA Ashok Nawal, Founder, Bizsolindia Services Pvt. Ltd. was the Hon'ble Speaker. There was an overwhelming response and also all the participants had highly appreciated the programme. A Student Meet was organized on 28th October 2020 by EIRC by the initiative of Student Facilities & Training Committee of ICAI-EIRC where CMA Balwinder Singh, Immediate Past President had graced the occasion as Hon'ble Chief Guest. He gave an insight of the Online December 2020 Examination and apprised the students in depth about the online mode. CMA Ashis Banerjee, Chairman EIRC, CMA Arundhati Basu Vice- Chairperson EIRC and Chairperson, Student Facilities & Training Committee, CMA Pallab Bhattacharya, Immediate Past Chairman EIRC & CMA (Dr.)D.P.Nandy, Senior Director of Studies Department of HQ had also graced the occasion and addressed the students.



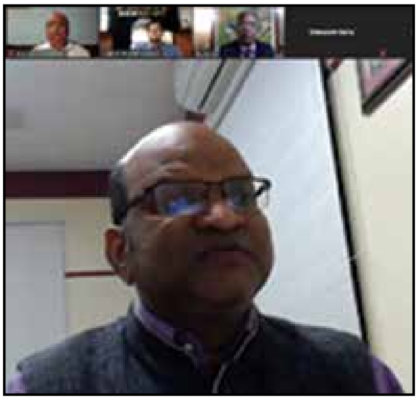


On 23rd November 2020, CMA Ashis Banerjee, Chairman, EIRC, met CMA Dr Rajesh Kumar, IPS, Member Secretary, West Bengal Pollution Control Board, Govt. of West Bengal to discuss on different professional matters and felicitated him. On 24th November 2020, CMA Ashis Banerjee, Chairman, EIRC, met Shri Tapas Ray, Minister-Of-State, Independent Charge Department of Planning & Statistics, Government of West Bengal and felicitated him and also met Dr Arup Roy Choudhury, Principal Advisor (Infrastructure), Government of West Bengal and felicitated him.

On 4th December 2020, CMA Ashis Banerjee, Chairman, EIRC and CMA Arundhati Basu,Vice Chairperson, EIRC met and felicitated Shri Subrata Mukherjee, Hon'ble Minister -in-Charge, Department of Panchayats & Rural Development & Non-Conventional and Renewable Energy Sources, Govt. of West Bengal. On 11th December 2020, CMA Ashis Banerjee, Chairman, EIRC, CMA Arundhati Basu,Vice Chairperson, EIRC and CMA Biswarup Basu, President, ICAI met and felicitated Dr Biman Banerjee, Hon'ble Speaker, West Bengal Legislative Assembly, Govt. of West Bengal to discuss on different professional matters. On 22nd December 2020, CMA Ashis Banerjee, Chairman, EIRC and CMA Arundhati Basu, Vice Chairperson, EIRC met & felicitated Shri Swapan Debnath, Hon'ble Minister, Animal Resources Development and Micro, Small & Medium Enterprises & Textiles, Govt. of West Bengal.

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA BHUBANESWAR CHAPTER

The Chapter has organized and hosted in association with Department of GST, Central Excise and Customs, Bhubaneswar Zone a WEBINT on "GST Audit & e-Invoicing – Issues and Challenges" on 28th November, 2020. Shri R Manga Babu, IRS, Chief Commissioner (GST, Central Excise and Customs), Bhubaneswar Zone, Odisha was "Chief Guest", Shri Bijoy Kumar Kar, IRS, Principal Commissioner (GST, Central Excise and Customs), Bhubaneswar Zone was "Guest of Honour", CMA Anil Sharma, Practicing Cost Accountant, Chandigarh and Immediate Past Chairman, ICAI-NIRC delivered on "GST Audit: Issue and Challenges" as "Resource Person". CMA Saktidhar Singh, Chairman, Professional Development Committee delivered welcome address and introduced Guests. CMA Mukesh Chaubey, Chairman of the Chapter delivered Keynote address and CMA Ajay Kumar Samal, Secretary of the Chapter extended formal vote of thanks. CMA Saktidhar Singh, Chairman, Professional Development Committee and CMA Mukesh Chaubey, Chairman of the Chapter met to Shri R Manga Babu, IRS, Chief Commissioner, CGST (Customs & Central Excise), Bhubaneswar Zone and Shri Asit Kumar Mohapatra, IRS, Commissioner , Income Tax (TDS & Appeals), Bhubaneswar Zone on 03.12.2020 in his Office, discussed various professional development issues and presented a memento. CMA Mukesh Chaubey, Chairman of the Chapter met to Shri Bijoy Kumar Kar, IRS, Principal Commissioner, CGST (Customs & Central Excise), Bhubaneswar Zone on 03.12.2020 in his Office, discussed various professional development issues and presented a memento. The Chapter has organized and hosted in association with All other Chapters at Odisha a WEBINT in the theme "Changing Dimensions of Internal Audit" on 5th December, 2020. CMA CS Dr. S K Gupta, Managing Director, RVO, The Institute of Cost Accountants of India and CMA Ajay Deep Wadhwa, Past Chairman, ICAI-EIRC have graced and addressed on the occasion as "Resource Person". CMA Saktidhar Singh, Chairman, Professional Development Committee delivered welcome address and introduced Guests. CMA Mukesh Chaubey, Chairman of the Chapter delivered Keynote address and CMA Ajay Kumar Samal, Secretary of the Chapter extended formal vote of thanks. The Chapter has organized first e-Career Counselling Programme through Seminar held in association with S P Commerce Hub Pvt Ltd., Bhubaneswar on 18th December 2020. Topic of the WEBINT was **"Accounts of non Corporate Entity".** CMA Debadatta Swain, Teaching Member of the Chapter was the Resource Person on the Occasion. The Chapter has organised and hosted a WEBINT in Association with All Other Chapters at Odisha on 19th December 2020 in the theme " Ind-AS- 24- Related Party and Ind-AS-110- Consolidated Financial Statement" .CMA CS CA Rammohan Bhave, Valuation/Ind AS Consultant , Mumbai graced and delivered on the topic as "Resource Person". CMA Saktidhar Singh, Chairman, Professional Development Committee delivered welcome address and introduced Guest. CMA Mukesh Chaubey, Chairman of the Chapter delivered Keynote address and CMA Ajay Kumar Samal, Secretary of the Chapter extended formal vote of thanks. The Chapter has organised and hosted a WEBINT in Association with All Other Chapters at Odisha on 20th December 2020 in the theme "Ind-AS- 115 – Revenue from Contract, Ind-AS-12- A/c for Deferred Tax and Ind-AS-36- Impairment of Assets". CMA Mrityunjay Acharjee, Sr V.P (Accounts, Audit and Taxation), M/s Balmer Lawrie and Co Ltd., Kolkata graced and delivered on the topic as "Resource Person". CMA Saktidhar Singh, Chairman, Professional Development Committee introduced the guests and extended formal vote of thanks. CMA Mukesh Chaubey, Chairman, Bhubaneswar Chapter and CMA Lalit Kumar Mishra also addressed on the occasion.



NORTHERN INDIA REGIONAL COUNCIL

The Region conducted the webinar on Stock Audit -Globally Sustainable Approach on 20th Oct.2020 through virtual mode. The chief guest of the webinar was CMA Biswarup Basu; President of the Institute, Guest of Honor was CMA Balwinder Singh, Immediate Past President & CMA Chittranjan Chattopadhyay, CCM & Chairman - Banking, Financial Services & Insurance committee of the Institute. The Keynote speaker was CMA (Dr.) Rajkumar S. Adukia, Global Life and Business Transformation Guru & Shri Rajeev Chopra Prominent Author- Stock Audit. A webinar on Project Funding & Risk Management Analysis & Interactive Session with Members on Banking and Financing Activities was organised on 8th November, 2020 from 4.00p.m. onward through online at CISCO Meeting ID1760617137. The Chief Guest of the Webinar CMA Biswarup Basu, President of the Institute, The Guest of Honor CMA P.Raju Iyer, Vice President of the Institute and CMA Rakesh Singh, Former President of the Institute. The Key note Speaker was the CMA S.K.Bhatt, Former Chairman of the NIRC- CMA. CMA Harkesh Tara, Chairman-NIRC welcome the Chief Guest, Guest of Honor and all participants and discussed about the topic / theme of the webinar. The Region conducted the webinar on Forensic audit in the Digital Era on 29th Nov 2020 from 11am through virtual mode at CISCO meeting ID 1761355023. The chief Guest of the webinar was CMA D.C.Bajaj, former President of the Institute and the key note speaker was CMA Neeraj Aarora, Cyber Law &Forensic Expert.

CMA Harkesh Tara, Chairman, NIRC of ICAI – CMA met CMA Anil Kumar Chaudhary, CMD - Sail on 09.10.2020 along with CMA Manish Kandpal, Secretary & CMA Santosh Pant, Treasurer NIRC of ICAI-CMA.

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA JAIPUR CHAPTER

The Chapter organised Webinar on 7th November 2020 on the Topic "Tax Audit - Key Aspects". CMA Tanuj Agrawal, Chairman, Professional Development Committee of the Chapter gave opening remarks. CMA Swapnil Bhandari, Chairman of the Chapter welcomed the Key Speaker and participants. Key Speaker of the Webinar was CA Vijay Kumar Agrawal, Leading Tax Practitioner. He explained in detail the Key Aspects of Tax Audit and also recent developments in Tax Audit. At the end of the program CMA Sudarshan Nahar, Secretary of the Chapter thanked all he participants. The program was conducted by CMA Tanuj Agrawal.

SOUTHERN INDIA REGIONAL COUNCIL

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA TRIVANDRUM CHAPTER

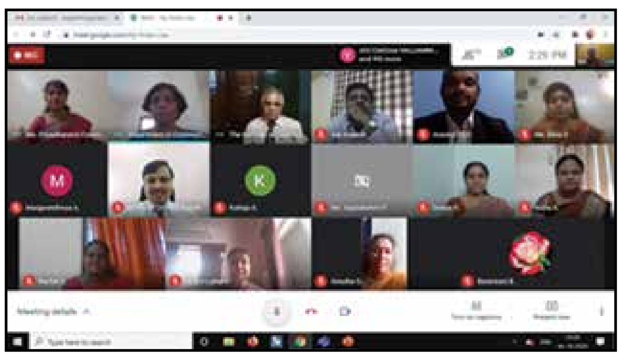
The Chapter in association with Department of General Education - Higher Secondary wing, Career Guidance & Adolescent Counseling Cell, Thiruvananthapuram District have conducted a 25 days mega Career Counseling Programme on CMA Course for +1 & +2 students through online mode in ZOOM platform. The progamme was inaugurated by Sri Jeevan Babu K, IAS, Director General of Education, Kerala and Presidential Address by CMA H Padmanabhan, Central Council member and CMA Pramode Chandran PG, Chairman, ICAI-Trivandrum Chapter and CMA Raman Pushpakumar , CAT Committee Chairman, Trivandrum Chapter etc attended the Inaugural Function. CMA Pramode Chandran, PG has been the Anchor of the Career Counseling sessions on all days and CMA Manoharan Nair G S, CMA Raman Pushpakumar, CMA Sanal S, CMA Thanu S S , CMA Pranav jayan, CMA Shibu K, CMA M S Prakash , CMA Prasanth S, CMA Nisha Habi and CMA Hima R.S Nair participated in the ensuing doubt clearing session. The Chapter conducted a series of PD Programme relating to Cost Audit and Direct Taxation through online mode in Microsoft team platform on October and November 2020. The subject of the Programme on Cost Audit (3 session- 3 days) was handled by CMA T R Balachandran, Practicing Cost Accountant. Direct Taxation programme was handled by CMA Abey M Thomas, Practicing Cost Accountant on various dates of October 2020. The programme was inaugurated by CMA H Padmanabhan, Central Council member on October 3, 2020.

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA COIMBATORE CHAPTER

The Chapter Chairman conducted various online career counselling programs to the students at various Colleges between 21st November 2020 to 16th December 2020. On 16th December, 2020 the Chapter entered into an MoU with Master Educational and Charitable Trust, Coimbatore for Foundation Course Satellite Centre. The MoU was signed by our Chapter Chairman and Dr.Kannan Natarajan, Founder & Managing Trustee and Mrs. Dhatchayni Dhamodharan, Trustee of the Trust.

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA MADURAI CHAPTER

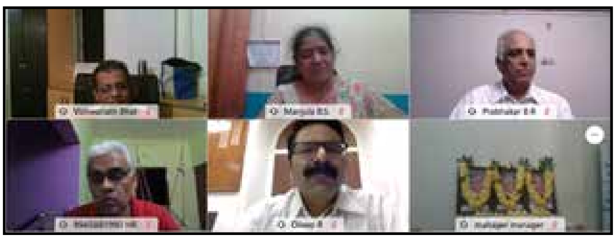
An orientation program on professional courses was conducted in association with the department of Commerce, Lady Doak College (autonomous), a leading Women's college in Madurai City. The event was held on 6th October 2020.The mode of meeting was on 'online'. The meeting was presided over by Madam Rosy Godwin, the HOD of the Department. Mr. S Kumararajan, Chairman of the Chapter participated in the event and addressed the student about CMA and CAT courses. The other participants were from The Institute of Chartered Accountants of India, The Institute of Company Secretaries of India and Indian representatives of ACCA.



THE INSTITUTE OF COST ACCOUNTANTS OF INDIA BENGALURU CHAPTER

The Chapter organized A professional development programme on 21st November 2020 on "India's 5 Tn $ Challenge - The Key Role of Finance Professionals" through webinar. The speaker was Mr. Ramkumarr Seshu, Founder & Author of M/s. Born to Win Learning Services Pvt. Ltd. In the programme CMA Manjula B.S. Chairperson BCCA, CMA Sreepada H.R. Chairman PD Committee and CMA Kumar H N Vice Chairman BCCA was also present.

In Memory of Late Past Presidents "CMA M. Sreenivasa Rao & Dr. H.R. Subramanya" the chapter organised Memorial Lecture on "Economic Offences" on 5th December 2020. Speaker was Shri. R. Dileep, IPS Deputy Inspector General of Police Economic Offences & Vigilance, CID, Bengaluru. CMA Manjula B.S. Chairperson BCCA, CMA Kumar H N Vice Chairman BCCA and CMA Sreepada H.R.Chairman PD Committee were also present.



THE INSTITUTE OF COST ACCOUNTANTS OF INDIA HYDERABAD CHAPTER

The Chapter organized a programme on Importance & Practical Aspects of CRA -1 on 1st November 2020. Sri Divakar, Managing Director and Promoter of Dynamic Informatics graced this virtual meeting with his presence as a chief guest. Our senior member CMA N. Krishnan explained about CRA - 1 Form in which Cost Records shall be maintained. On 8th November 2020 a programme on Changes in ITR Forms 3 and 5 for AY 2020-2021 was organised. Sri Nageswara Rao, Partner, JVN & Associates was invited as a speaker for this programme. He clearly explained his agenda points like persons eligible, Types of Income, Verification modes, ITR 4 Vs ITR 3,Changes in Form ITR - & 5 for Assessment Year 2020-21, Frequently asked questions and Validation checks etc. A career awareness programme was conducted on 12th November 2020. CMA Khaja Jalal Uddin, Vice-chairman of the Chapter and Sri A. Santosh, Superintendent of Hyderabad chapter met with Sri Josekutty V.E, Registrar of Companies and Sri M.P. Shah, Regional Director as a gesture of Courtesy on 13th November 2020. A programme on E-Invoicing – The Game Changer was conducted on 22nd November 2020. CMA B. Mallikharjuna Gupta, Chief Taxologist Logo Infosoft in his presentation on E- Invoicing –The Game Changer', Mr Gupta explained the points elaborately on why e invoicing , what is e-invoice, benefits of e-invoice, legal provisions, technical aspects, QR Codes data elements, technical aspects APIs, technical aspects – IRN, implementation methods –API, SFTP, implementation steps etc. CMA Balwinder Singh, immediate Past President & CCM has addressed students on 29th November 2020 regarding online examination December 2020 and clarified doubts of Student's about online examination. This programme was well attended by the students. CMA Dr. K. Ch. A. V. S. N Murthy, CCM, CMA H. Padmanabhan, CCM also participated in this virtual session and addressed the students.

WESTERN INDIA REGIONAL COUNCIL

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA PIMPRI CHINCHWAD AKURDI CHAPTER

The Chapter conducted a webinar on 'TCS U/S 206C (1H) & Faceless Assessment Scheme' on 1st November, 2020 through Google Digital platform. CMA Sagar Malpure, P D Committee Member of the Chapter welcomed all the members present for the webinar. He has introduced the speaker CMA Santosh Korade, Dy Manager, Maharashtra State Electricity Distribution Company Ltd., Pune. CMA Santosh Korade in his speech briefly explained on the difference between TDS and TCS. He said that the TDS is deducted on expenses where as the TCS is collected on income. He focussed on the cases of applicability of TCS. The Chapter conducted a webinar on 'Business Valuation' on 7th November, 2020 through Google Digital platform. CMA Jayant Hampiholi, Chairman of the Chapter welcomed all the members and introduced the speaker CMA Vinod Shete, CFO Service. CMA Vinod Shete in his speech started with the line "Price is what you pay, Value is what you get" written by the famous economist Mr. Warren Buffett. He briefly explained about - What is Value, Its Qualities, characteristics or ideas about which we feel strongly. CMA Sagar Malpure – P D Committee member of the Chapter gave the vote of thanks. The Chapter conducted a webinar on 'Ethical Finance: What it is and why it is growing?' on 21st November, 2020 through Google Digital platform. CMA Dhananjay Kumar Vatsyayan, Vice-Chairman of the Chapter welcomed all the members present for the webinar. He has introduced the speaker CMA Dr. S K Gupta, CEO of Insolvency Professional Agency of the Institute. CMA Dr. S K Gupta in his speech discussed about the broad characteristics dimension and situation of business world today across the globe. He briefly focused on changing paradigms of business and Understanding Ethical Finance. CMA Sagar Malpure, P D Committee Member – PCA Chapter gave the vote of thanks. The Chapter conducted a webinar on 'Faceless Assessment Scheme' on 22nd November, 2020 through Google Digital platform. CMA Ashish Inamdar, Member of the Chapter welcomed all the members present for the webinar. He introduced the speaker CMA Santosh Korade, Dy Manager, Maharashtra State Electricity Distribution Company Ltd., Pune. He briefly focused on Faceless Assessment Scheme. The program ended with vote of thanks.

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA AHMEDABAD CHAPTER

The Chapter had organized CE Program on Value Based management on 24th December 2020 for the Members on google meet. The welcome speech given by CMA Dakshesh Choksi, Chairman of PD Committee with introduction of speaker CMA P D Modh. CMA Haren Bhatt Chairman of Chapter proposed vote of thanks. Another CE Program on Recent Amendments in GST was organised by the chapter on 25th December 2020 for the Members on google meet. CMA Dakshesh Choksi, Chairman of PD Committee welcomed speaker and participants. Speaker CMA Vandit Trivedi gave detailed presentation on the subject. The program was well appreciated by the participants. Vote of thanks proposed by CMA Malhar Dalwadi, Secretary of Chapter.

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA NAVI MUMBAI CHAPTER

The Chapter conducted a Webinar CEP programme on "Insight on Practical Approach for Conducting Internal Audit" on 20th December, 2020 via Google Meet app. The speaker for this event was CMA Anil Kumar Mishra Ex- Chief Manager Internal Audit at ACC and currently practicing as Cost Accountant from ASMM & Co. CMA Vivek Bhalerao PD Chairman of the Chapter welcomed the audience and speaker and Chairman Sirish Vasant Mohite introduced the speaker and spoke on the importance of the topic for Practicing Cost Accountants. The lucid presentation & the interactive workshop came to an end with a nice summarisation of the session by a senior practicing Cost Accountant Shyamal Bhattacharya and later the speaker was felicitated by CMA Vivek Bhalerao, PD Committee Chairman of the Chapter and the vote of thanks being proposed by Chairman CMA Vaidyanathan Iyer Vice Chairman of the Chapter. The Chapter also organized a Webinar CEP on "Efficient & Effective Use of MS Excel" on 22nd November 2020. The speaker for this event was CMA Akanksha Khare, Cost Accountant and PG Diploma in Financial Market & Portfolio Management. CMA Sirish Mohite, Chairman of the Chapter introduced the speaker to the audience and highlighted its importance in today's business environment. The programme commenced with the speaker examining the widespread use of Microsoft Excel in the industry. The interactive workshop came to an end with the vote of thanks being proposed by CMA Vaidyanathan Iyer, Vice Chairman of the Chapter.

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Due Diligence checklist at Finger tips for Credit Proposal of Banks

Sl. No.	PURPOSE	CLICK THE LINK AND REACH THERE
1.	CIC's DEFAULTERS LIST WILFUL DEFAULTERS LIST	https://suit.cibil.com/
2.	CRILC DATABASE	https://secweb.rbi.org.in/orfsxbrl/
3.	GSTIN VERIFICATION	https://services.gst.gov.in/services/searchtp
4.	EMPLOYEE PROVIDENT FUND ORGANISATION	http://www.epfindia.gov.in/site_en/index.php
5.	ECGC CAUTION LIST	https://www.ecgcltd.in/ecgcportal/
6.	LIST OF DISQUALIFIED DIRECTORS	http://www.mca.gov.in/
7.	AADHAAR VERIFICATION	https://resident.uidai.gov.in/verify
8.	PAN VERIFICATION	https://www1.incometaxindiaefiling.gov.in/e-FilingGS/Services/VerifyYourPanDeatils.html?lang=eng
9.	VOTER ID CARD VERIFICATION	https://electoralsearch.in/
10.	DRIVING LICENSE VERIFICATION	https://parivahan.gov.in/rcdlstatus/?pur_cd=101
11.	VEHICLE REGISTRATION VERIFICATION	https://vahan.nic.in/nrservices/faces/user/searchstatus.xhtml
12.	GSTIN VERIFICATION -PAN NO.	https://services.gst.gov.in/services/searchtpbypan
13.	GSTIN VERIFICATION	https://services.gst.gov.in/services/searchtp
14.	CERSAI VERIFICATION	https://www.cersai.org.in/CERSAI/
15.	UDHYOG AADHAR VERIFICTION	https://udyogaadhaar.gov.in/UA/UAM_Registration.aspx
16.	ITR FILING STATUS	https://www1.incometaxindiaefiling.gov.in/e- FilingGS/Services/ITRStatusLink.html?lang=eng
17.	FORM 16 VERIFICATION	https://www.tdscpc.gov.in/app/tapn/tdstcscredit.xhtml
18.	TAN VERIFICATION	https://www1.incometaxindiaefiling.gov.in/e- FilingGS/Services/KnowYourTanLink.html?lang=eng
19.	TAX PAID CHALAN VERIFICATION	https://tin.tin.nsdl.com/oltas/servlet/QueryTaxpayerAjax#
20.	COMPANY DETAILS (FIND CIN NO.)	http://www.mca.gov.in/mcafoportal/findCIN.do
21.	DIN VERIFICATION	http://www.mca.gov.in/mcafoportal/showVerifyDIN.do
22.	COMPANY/LLP MASTER DATA (ROC SEARCH)	http://www.mca.gov.in/mcafoportal/viewCompanyMasterData.do
23.	COMPANY INDEX OF CHARGES	http://www.mca.gov.in/mcafoportal/showIndexOfCharges.do
24.	COMPANY DIRECTOR MASTER DATA	http://www.mca.gov.in/mcafoportal/viewDirectorMasterData.do
25.	BANNED LIST OF PROMOTERS	https://www.sebi.gov.in/sebiweb/home/HomeAction.do?doListingAll=yes&search=Promoters
26.	SEARCH LEGAL ENTITY IDENTIFIER REFERENCE DATA	https://www.ccilindia-lei.co.in/USR_SEARCH_ANONYMOUS.aspx
27.	CENTRAL FRAUD REGISTRY SEARCH	https://dbie.rbi.org.in/CFR/

DIRECT & INDIRECT TAX UPDATES - DECEMBER 2020

DIRECT TAXES

- **Circular No. 20/2020 dated 3rd Dec 2020**: Income Tax deduction from salaries during the Financial Year 2020-21 under section 192 of Income Tax Act 1961.
- **Circular No. 21/2020 dated 4th Dec 2020**: Clarifications on provisions of the Direct Tax Vivad se Vishwas Act, 2020. The provisions of Vivad se Vishwas were amended by the Taxation and Other Laws (Relaxation and Amendment of Certain Provisions) Act, 2020 to provide certain relaxations in view of the COVID-19 pandemic and also to empower the Central Government to notify certain dates. Towards this end, vide notification dated 27'" October, 2020 the date for payment without additional amount under Vivad se Vishwas was extended from 31" December, 2020 to 31st March, 2021. The last date for filing declaration under Vivad se Vishwas was also notified as 31st December, 2020. Subsequently, the Central Board of Direct Taxes issued a circular no. 18/2020 dated 28th October, 2020 relaxing the time limit of 15 days prescribed in section 5(1) of Vivad se Vishwas for making payment of amount payable, as determined in a certificate issued by the Designated Authority.
- **Notification No. 90/2020 dated 15th Dec 2020:** 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 Secretary, Citizen Resources Information Department, Government of Haryana, for the purposes of the said clause in connection with sharing of information regarding income-tax assessees for identifying the eligible beneficiaries for transfer of financial assistance through Direct Benefit Transfer Scheme.
- **Notification No. 91/2020 dated 24th Dec 2020:** 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, 'Yamuna Expressway Industrial Development Authority', (PAN AAALT0341D), an authority constituted by the State Government of Uttar Pradesh, in respect of the following specified income arising to that Authority, namely:-

  (a) Grants received from the State Government;

  (b) Moneys received from the disposal of land, building and other properties, movable and immovable;

  (c) Moneys received by the way of rent & fees or any other charges from the disposal of land, building and other properties, movable and immovable;

  (d) The amount of interest earned on the funds deposited in the banks; and

  (e) The amount of interest/penalties received on the deferred payment received from the Allottees of various movable or immovable properties.

  This notification shall be deemed to have been applied for the assessment years 2014-2015, 2015-2016, 2016-2017, 2017-2018 and 2018-2019.

INDIRECT TAXES

CUSTOMS

- **Notification No. 44/2020-Customs Dated 18th Dec 2020**: Seeks to confirm the provisional Bilateral Safeguard measure on imports of Phthalic Anhydride originating in Korea RP under the India-Korea Comprehensive Economic Partnership Agreement, and to further amend notification no. 152/2009 dated 31.12.2009 to modify the rate of duty of customs on said imports, on recommendation of final findings of Directorate General of Trade Remedies under the India-Korea Comprehensive Economic Partnership Agreement (Bilateral Safeguard Measures) Rules, 2017. The Authority in its final findings in the Bilateral Safeguard investigation issued vide F.No.22/8/2019-DGTR, dated the 28th September, 2020, published in the Gazette of India, Extraordinary dated the 28th September, 2020, has concluded that:

  (i) imports of the product from Korea have increased and constitute "increased imports" within the meaning of the Rules and India-Korea Comprehensive Economic Partnership Agreement;

  (ii) the increased imports have caused serious injury and threatened to caused serious injury to the domestic industry;

  (iii) there exists a causal link exists between the increased imports of the originating goods due to the reduction or elimination of custom duty under the India-Korea Comprehensive Economic Partnership Agreement and serious injury and threat of serious injury to the domestic industry,

  and has confirmed its preliminary findings issued vide notification No. 22/8/2019-DGTR dated the 11th May, 2020 and recommended imposition of bilateral safeguard measure of increasing the rate of customs duty on subject goods originating in Korea RP and imported into India as specified in the aforesaid final findings, from the date of issue of the notification of imposition of provisional measure by the Central Government vide notification No.29/2020-Customs dated 6th July, 2020.

  In exercise of the powers conferred by sub-section (1) of section 25 of the Customs Act, 1962 (52 of 1962) read with rule 11 and sub-rule (2) of rule 12 of the said rules, the Central Government confirms the provisional bilateral safeguard measure imposed with effect from 6th July, 2020 and hereby makes the following further amendments in the notification of the Government of India in the Ministry of Finance (Department of Revenue), No.152/2009-Customs, dated the 31st December, 2009.

  In the said notification- (i) in the Table, after serial number 230B and the entries relating thereto, the following serial numbers and entries shall be inserted, namely:

(1)	(2)	(3)	(4)
230C	2917 35 00	All goods	5.63"

  (ii) For the first proviso, the following proviso shall be substituted, namely:- "Provided that, to give effect to the bilateral safeguard measure, as recommended by the Director General of Trade Remedies,

  a) nothing contained in serial number 230A and entries relating thereto in the said Table shall have effect up to and inclusive of the 5th day of July, 2022, and (b) nothing contained in serial number 230C and entries relating thereto in the said Table shall have effect up to and inclusive of the 5th day of July, 2021;

  unless revoked, superseded or amended earlier.

- **Notification No. 45/2020-Customs Dated 30th Dec 2020:** Seeks to give effect to the 12th tranche of Tariff Concessions under the trade in Goods Agreement between India and ASEAN. This notification shall come into force with effect from 1st January 2021.
- **Circular No 53/2020 Customs dated 8th Dec 2020:** Third Party Invoicing in case of Preferential Certificates of Origin issued in terms of DFTP for "wholly obtained goods. Certificates of origin (COO) issued in terms of customs notification no 29/2015 cus (N.T.) dt 10.03.2015 and with third party invoicing were earlier being accepted by the proper officer but that same has been discontinued after implementation of CAROTAR 2020. The notification is silent upon provisions for third party invoicing i.e. commercial invoice for goods originating in the LDC is issued in the third country and not by the consignor in the exporting country. With regard to notification no. 29/2015 read with notification no 96/2008 dt 13.08.2008 which offers unilateral tariff concessions to LDC the Board is of the view that where value of goods does not have impact on the originating status i.e. the originating criteria is wholly obtained, COO issued in terms of Duty Free Tariff Preference Scheme for Least Developed Countries with third party commercial invoice may be accepted.
- **Circular No 54/2020 Customs dated 15th Dec 2020:** Special measures to facilitate MSME for AEO T1& T2 accreditation.
- **Circular No 55/2020 Customs dated 15th Dec 2020:** Faceless Assessment- Clarifications on the Issues raised by Stakeholders.
- **Circular No 56/2020 Customs dated 30th Dec 2020:** Import and Export of vaccines in relation to COVID-19 through courier.
- **Circular No 57/2020 Customs dated 30th Dec 2020:** Implementation of PGA eSANCHIT– Paperless Processing under SWIFT-Uploading of Licenses/Permits/Certificates/ Other Authorizations (LPCOs) by PGAs.

GST

- **Notification No. 90/2020 – Central Tax dated 1st Dec 2020:** Seeks to make amendment to Notification no. 12/2017-Central Tax dated 28.06.2017.
- **Notification No. 91/2020 – Central Tax dated 14th Dec 2020:** Seeks to extend the due dates for compliances and actions in respect of anti-profiteering measures under GST till 31.03.2021. In exercise of the powers conferred by section 168A of the Central Goods and Services Tax Act, 2017 (12 of 2017), read with section 20 of the Integrated Goods and Services Tax Act, 2017 (13 of 2017), and section 21 of the Union Territory Goods and Services Tax Act, 2017 (14 of 2017), the Government, on the recommendations of the Council, hereby makes the following further amendment in the notification of the Government of India in the Ministry of Finance (Department of Revenue), No. 35/2020-Central Tax, dated the 3rd April, 2020.

  In the said notification, in the first paragraph, in the proviso to clause (i),

  (i) for the words, figures and letters "29th day of November, 2020", the words, figures and letters "30th day of March, 2021" shall be substituted.

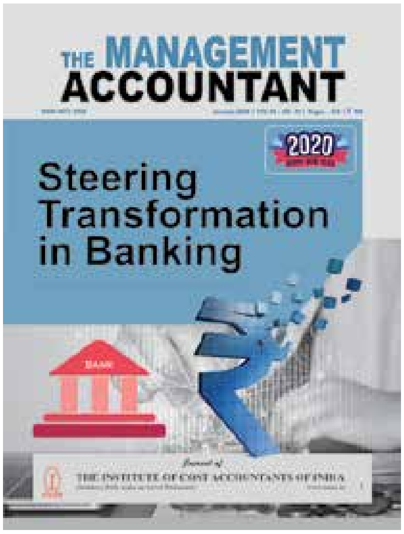
  (ii) for the words, figures and letters "30th day of November, 2020", the words, figures and letters "31st day of March, 2021" shall be substituted

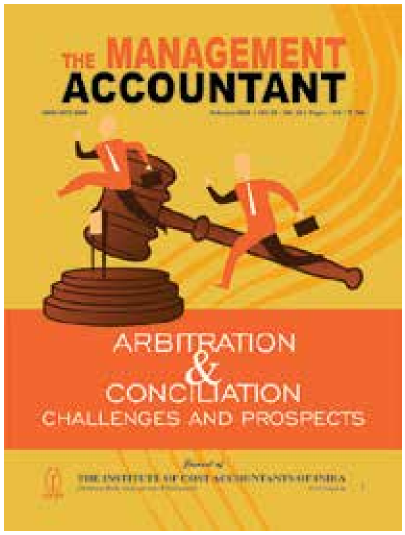
  This notification shall be deemed to have come into force with effect from 1st day of December, 2020.
- **Notification No. 92/2020 – Central Tax dated 22nd Dec 2020:** In exercise of the powers conferred by sub-section (2) of section 1 of the Finance Act, 2020 (12 of 2020) (hereinafter referred to as the said Act), the Central Government hereby appoints the 1st day of January, 2021, as the date on which the provisions of sections 119, 120, 121, 122, 123, 124, 126, 127 and 131 of the said Act shall come into force.
- **Notification No. 93/2020 – Central Tax dated 22nd Dec 2020:** In exercise of the powers conferred by section 128 of the Central Goods and Services Tax Act, 2017 (12 of 2017) (hereafter in this notification referred to as the said Act), read with section 148 of the said Act, the Government, on the recommendations of the Council, hereby makes the following further amendments in the notification of the Government of India in the Ministry of Finance (Department of Revenue), No. 73/2017– Central Tax, dated the 29th December, 2017.

  In the said notification, after the third proviso, the following proviso shall be inserted, namely: "Provided also that the late fee payable for delay in furnishing of FORM GSTR-4 for the Financial Year 2019-20 under section 47 of the said Act, from the 1st day of November, 2020 till the 31st day of December, 2020 shall stand waived for the registered person whose principal place of business is in the Union Territory of Ladakh.".
- **Notification No. 94/2020 – Central Tax dated 22nd Dec 2020:** Seeks to make the Fourteenth amendment (2020) to the CGST Rules.2017. In the notification of the Government of India, Ministry of Finance, Department of Revenue, No. 94/2020-Central Tax, dated 22nd December,2020.

  at page 8, in line 31, for the words "for the proviso" read "for the provisos"

  at page 12, in line 12, for the words "seven working days" read "thirty days"
- **Notification No. 95/2020 – Central Tax dated 30th Dec 2020:** In exercise of the powers conferred by sub-section (1) of section 44 of the Central Goods and Services Tax Act, 2017 (12 of 2017) (hereafter in this notification referred to as the said Act), read with rule 80 of the Central Goods and Services Tax Rules, 2017 (hereafter in this notification referred to as the said rules), the Commissioner, on the recommendations of the Council, hereby extends the time limit for furnishing of the annual return specified under section 44 of the said Act read with rule 80 of the said rules, electronically through the common portal, for the financial year 2019-20 till 28.02.2021.
- **Circular No.144/14/2020-GST dated 15th Dec 2020:** Vide Circular No.63/37/2018-GST dated 14th September, 2018 & corrigendum to the said circular dated 6th September 2019, waiver from recording of UIN on the invoices issued by retailers/other suppliers were given to UIN entities till March,2020. It has been bought to the notice of the Board that the issue of non-recording of UINs has continued even after 31st March,2020. Therefore, it has been decided to give waiver from recording of UIN on the invoices issued by the retailers/suppliers, pertaining to the refund claims from April 2020 to March 2021, subject to the condition that the copies of such invoices are attested by the authorized representative of the UIN entity and the same is submitted to the jurisdictional officer.





January - Steering Transformation in Banking

The Indian banking industry has recently witnessed the roll out of innovative banking models like payments and small finance banks. Exactly three years since it was legislated, the Insolvency and Bankruptcy Code (IBC) 2016 has made material progress in addressing the logjams it was supposed to -- which is faster recovery of stressed assets and quicker resolution timelines. RBI's new measures may go a long way in helping the restructuring of the domestic banking industry. The digital payments system in India has evolved the most among 25 countries with India's Immediate Payment Service (IMPS) being the only system at level 5 in the Faster Payments Innovation Index (FPII). Again this year, the government unveiled Mega Bank Mergers drive where 10 public sector banks (PSBs) were merged into four, reducing the number of state-owned banks from 18 to 12, in a bid to create "nextgeneration" financial institutions with stronger balance sheets and bigger risk appetite and consequently moving towards achieving the target of $5-trillion economy. However, the success of these mergers depends upon how efficiently the human resources of amalgamated PSBs function and work. The banks should try to obtain higher business and also to achieve economies in the costs of operations. Otherwise, the very purpose of mergers will be defeated.

February - Arbitration and Conciliation: Challenges and Prospects

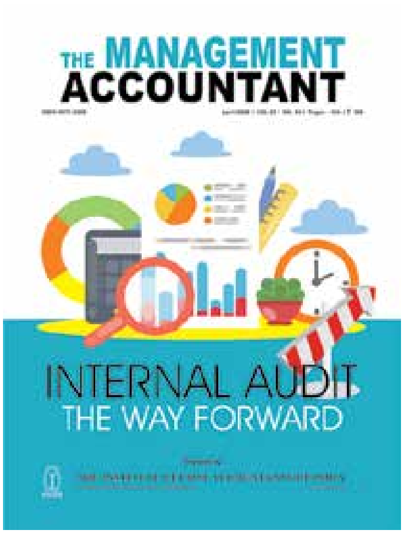
With the introduction of the recent amendment of 2019 to the arbitration laws in India, the regime of 'Arbitration' has taken a sharp turn and has made the future prospects look bright for Arbitration profession in India. It is an attempt to make India a hub of domestic and international arbitration by bringing in changes in law for faster resolution of commercial disputes. The Arbitration & Conciliation (Amendment) Act, 2019 seeks to establish the Arbitration Council of India (ACI), which would exercise powers such as grading arbitral institutions, recognising professional institutes that provide accreditation to arbitrators, issuing recommendations and guidelines for arbitral institutions, and taking steps to make India a centre of domestic and international arbitrations. Further, it amends the Arbitration and Conciliation (Amendment) Act 2015 by providing the Supreme Court and the High Court with the ability to designate the arbitral institutions which have been accredited by the ACI with the power to appoint arbitrators. The Amendment Act 2019 imposes time limits on the filing of pleadings, issuing of arbitral awards and the granting of extensions of time. Significantly, the 2019 act also clarifies the scope of applicability of the Indian Arbitration and Conciliation (Amendment) Act 2015 and states that it is applicable only to arbitral proceedings which commenced on or after 23 October 2015 and to such court proceedings which emanate from such arbitral proceedings.

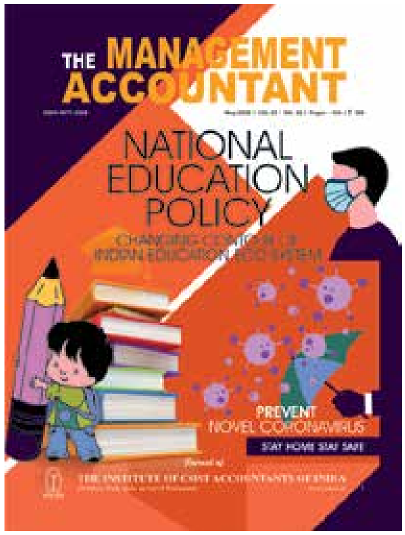
March - The Next Gen Women: Equal Rights, Opportunities and Participation

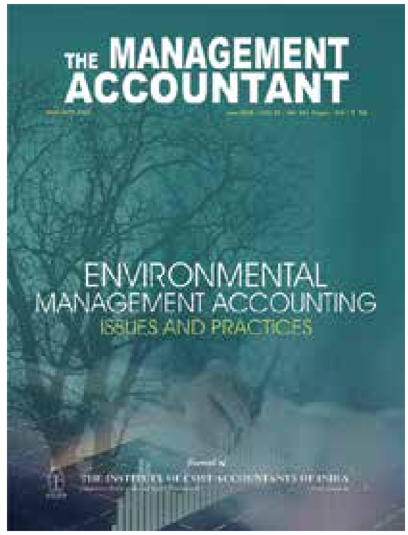
While the world has achieved progress towards gender equality and women's empowerment under the Millennium Development Goals (including equal access to primary education between girls and boys), women and girls continue to suffer discrimination and violence in every part of the world. Gender equality is not only a fundamental human right, but a necessary foundation for a peaceful, prosperous and sustainable world. Providing women and girls with equal access to education, health care, decent work, and representation in political and economic decision-making processes will fuel sustainable economies and benefit societies and humanity at large. Here are a few schemes that are breaking new ground and improving the lives of women in India - Beti Bachao Beti Padhao Yojana; Mahila-E-Haat, a bilingual online marketing platform that leverages technology to help aspiring women entrepreneurs; Mahila Shakti Kendra; Sahki or One Stop Centre Scheme to provide shelter, police desk, legal, medical and counseling services to the victims of violence and Support to Training and Employment Programme for Women (STEP) scheme to provide skills to women so that they can take up gainful employment. As India progresses further, a lot of opportunities have opened up for women to embrace them. The Union Budget 2020 recommended a provision of Rs 35,500 crore for the nutritional programme in 2021, while a total of Rs 28,600 crore have been allocated for women-specific schemes in the Budget for 20-21. There has been an increase of 21.4 percent in the budget allotted for women with respect to FY 19. Women through these schemes will be benefitted in a lot of ways and will be able to stand out.

April - Internal Audit: The way forward

Over the past decade, the scope of







Internal Audit has widened to cover operational audit and management audit. The Companies Act, 2013 has mandated appointment of internal auditor in listed and certain other classes of companies. According to The Institute of Internal Auditors (IIA) "Internal auditing is an independent, objective assurance and consulting activity designed to add value to and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes." Internal audit is usually done in order to assess a company's corporate governance and accounting processes comprising internal control. Such internal audits safeguard the compliances with 'laws and regulations'. Internal audits equip the management with essential tools in order to reach the required operational efficiency. They help to maintain data collection with well-timed and accurate financial reporting.

May - National Education Policy (NEP) – Changing Contour of Indian Education Eco-System

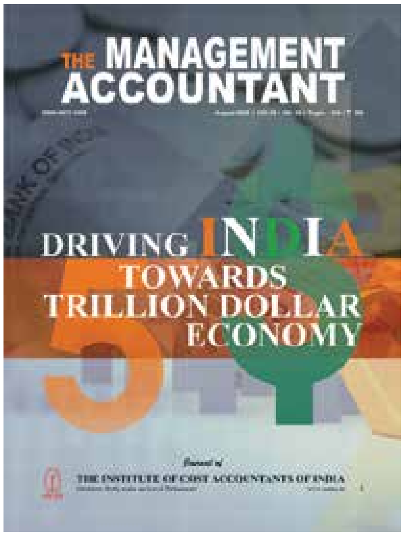
National Education Policy (NEP) 2019 can play a pivotal role in the transformation of the Indian education system. It is expected to help India in reaping its demographic dividend. The policy aims to universalize pre-primary education by 2025 and provide foundational literacy. It proposes new Curricular and Pedagogical Structure covering the children in the age group 3-18 years. It aims at equitable and inclusive education for every child in the country, with a special focus on under-represented groups (URGs). NEP proposes to create a new independent State School Regulatory Authority (SSRA) and also aims to consolidate 800 universities and 40,000 colleges into around 15,000 large, multidisciplinary institutions. Further, it aims to provide autonomy to all higher education institutions HEIs to be governed by Independent Boards with complete academic and administrative autonomy. An autonomous body called the National Research Foundation (NRF) is to be set up through an Act of Parliament. Rashtriya Shiksha Aayog or the National Education Commission, an apex body is to be constituted and MHRD to be re-designated as the Ministry of Education (MoE). This draft policy is founded on the guiding goals of Access, Equity, Quality, Affordability and Accountability. To achieve those goals in real time, spreading and propagating online education across the society at a faster track is the only way out. The necessity and adoption of online education has become inevitable globally due to the sudden outbreak of COVID – 19 and subsequent lockdown. To make the May issue more informative and contemporary a good number of Special Articles have been included related to COVID-19, which was declared a pandemic by the WHO and has collapsed the building blocks of economic, social and political systems of various nations around the world.

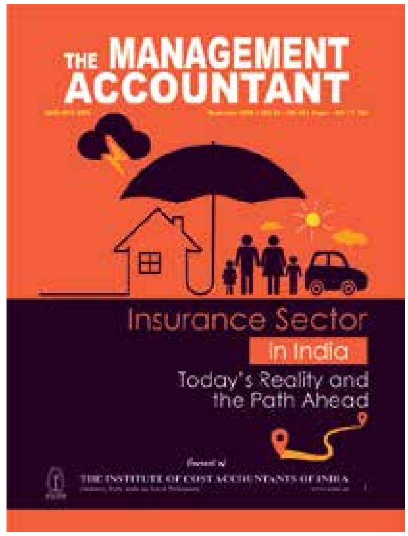
June - Environmental Management Accounting: Issues and Practices

Environmental management accounting approach is required to improve the environmental performance of a company, proper implementation of the system can assure transparency for the company to report the environmental costs clearly and help them in accessing their corporate social responsibility initiatives as well. All this, in turn, enhances the image of the company in the media as well as amongst its shareholders. Nowadays, owing to rising pollution levels and climate change, the environment has been suffering in a major way. This, in turn, is now forcing nations across the world to adopt an inclusive approach towards economic development and ensure that industrial development is sustainable and in tune with the interests of the environment. At this outset, India must introduce a recharged and revamped system of environmental management accounting that takes a comprehensive view of how a nation can progress without paying huge environmental penalties. This new accounting system must be an end to end solution so that it encapsulates the common man on one side and the Gross Domestic Product on the other. In between, it should be able to link and audit natural resources ensuring that the methodology of their use reduces wastage. This, if done efficiently, can script a turnaround in how natural resources are used and promote accountability in their usage as well.

July - Goods & Services Tax (GST): Recent Changes and Emerging Issues

The introduction of GST is a game-changer for the Indian economy as it has replaced multilayered, complex indirect tax structure with a simple, transparent and technology-driven tax regime. It has integrated India into a single, common market by breaking barriers to inter-State trade and commerce. GST aims to eliminate the cascading effect of taxes and reduce transaction costs. In the year





2019, GST has gone through various reforms; as new GST returns announced, an extension of filing of Annual Return of the first year due to lack of preparedness of the portal, e-invoicing, and so on. E-Invoice messaging is a key factor in ensuring the seamless transmission of invoice information in the standard schema notified, in a secured way. In the present global health crisis caused due to pandemic COVID-19 disease, the Indian Government is providing statutory relief in tax compliances. The GoI has adopted a collective approach, including on taxation front by easing the procedural framework. Extension of statutory deadlines relating to GST annual returns/audit certification to 30 September 2020 and postponement of new GST returns system and e-invoicing to 1st October 2020 is a welcome move and has been well acknowledged, however, next is to address the situation of cash crunch; though the penal provisions on delayed payment of taxes and filing of GST returns have been liberalized. In the forthcoming days, revisiting the law can make the necessary changes and will further ease the process of tax filing by removing the unnecessary flaws, improve the country's GDP growth, ease of doing business, expansion of trade, and industry in the country making India a significant economic power.

August - Driving India towards 5 Trillion Dollar Economy

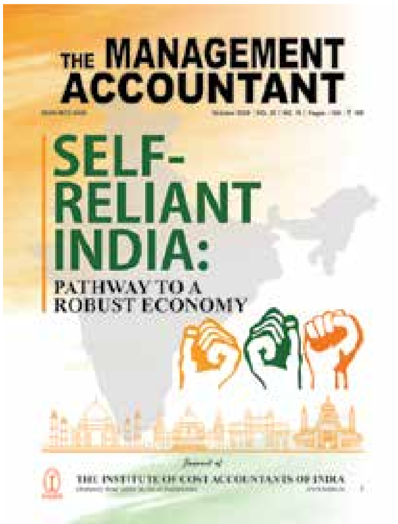
Hon'ble Prime Minister of India had set a GDP target of 'USD 5 trillion Economy' in the next five years. To meet this challenge, we have to be globally competitive and would need growth of 15% per annum. While it is a tall order in the current Covid-19 struck economic situation, we can take this as an opportunity and reassess and revisit the way we function. Rebooting the economy can be done in two ways—through structural reforms and fiscal stimulus or a combination of both. Structural reform proposals in the 'Atmanirbhar' package are many and far-reaching, covering agriculture, MSME, industry, mining, infrastructure, defence production, etc. The epicentre of Covid-19 disruption being the real sector, the government has to widen its structural reforms to several areas, besides continuing with ongoing reforms. This may invigorate the economy in the medium-term if implemented in a time-bound manner. Timely investments and committed businesses will spur growth. A stronger financial market (debt markets especially) and the push to raise the standards of corporate governance would give confidence to the investors.

September - Insurance Sector in India: Today's reality and the path ahead

The Insurance industry of India has witnessed major growth in the past few decades. With the introduction of new products and plans, it has not only helped consumers by providing financial protection but also contributed to the nation's economy. A well-developed insurance sector acts as the backbone of a nation as it supports the citizens even in unforeseen events. Government's policy of insuring the uninsured has gradually pushed insurance penetration in the country and proliferation of insurance schemes. The Insurance Regulatory and Development Authority (IRDA), the regulator of the country's insurance sector, undertook decisive measures through the formation of two committees to promote e-commerce and financial inclusion. Initiatives, such as e-insurance account and accidental insurance cover for train passengers have had a positive impact towards the growth of the sector. Currently, insurtech is creating buzz and transforming the insurance industry, reducing costs for consumers and insurance companies, improving efficiency, and enhancing customer satisfaction. The pandemic has pushed businesses across sectors to change the way they operate and the insurance industry is no exception. From selling new policies to settling claims, the extended lockdown in the wake of covid-19 has pushed insurance companies to depend heavily on their digital architecture. Again, with remote working in place due to the COVID-19 crisis, there has also been an unprecedented hike in cybercrime cases. The risk of falling a victim to such fraudulent activities necessitated the need to have cybercrime insurance. ICICI Lombard General Insurance, Bajaj Allianz General Insurance and HDFC ERGO are some of the prominent players who are offering cybercrime insurance in India, with specialised products.

October - Self-Reliant India: Pathway to a Robust Economy

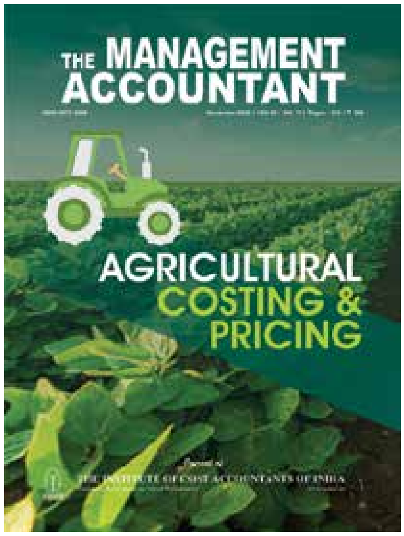
Hon'ble Prime Minister of India on May 12 in his speech to the nation announced 'Rs 20 lakh crore package', which would be equivalent to 10% of the country's GDP, as a part of COVID-19 relief measure. Named 'Atmanirbhar Bharat Abhiyaan', which translates to "Self Reliant India Campaign", and said this package would emphasize on Land, Labor, Liquidity, and Laws. Atmanirbhar Bharat Abhiyaan would encompass cottage industries, home industries, small scale industries and MSMEs whilst also lending a shoulder to labourers, farmers, middle class and also for Indian industries. In his speech, he also said that the upcoming reforms would have a broadened impact. These reforms will be for, rational tax system, simple and clear rules of-law, good infrastructure, capable and competent human resources, and building a strong financial system to encourage business, attract investment and



strengthen the 'Make in India' programme. There are five pillars to becoming self-reliant: economy, infrastructure, system, demography, and demand that will bring a quantum jump in the Indian economy. Infrastructure should become the identity of India; System should be based on 21st-century technology-driven arrangements; Vibrant Demography is our source of energy for a self-reliant India; and Demand, whereby the strength of our demand and supply chain should be utilized to full capacity. The pandemic has taught us the importance of local manufacturing, market, and supply chains. All our demands during the crisis were met locally. Now, it is time to be vocal about local products and help them become global.

November - Agricultural Costing & Pricing

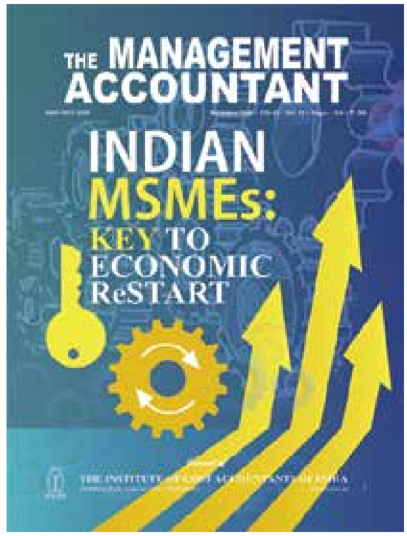
Indian Agricultural industry, with its allied sectors, is undeniably the largest livelihood provider in India, more so in the vast rural areas. It also contributes a noteworthy figure to the Gross Domestic Product (GDP). The high proportions of agricultural land, diverse-agro climatic conditions for cultivating different crops are some of the factors favouring agriculture in the country. The government has passed few ordinances in the recent past- Farmers' Produce Trade and Commerce (Promotion and Facilitation) Bill, 2020 and The Farmers (Empowerment and Protection) Agreement of Price Assurance and Farm Services Bill, 2020 to liberate farmers from the restrictive marketing regime that has managed the marketing of agriculture produce for decades. This sweeping stroke promises to bring the entire world



of farming technology, post-harvest management and marketing channels at the doorstep of the farmer. The national vision of the farm sector is to double the income of farmers by 2022. This move is revolutionary since income is intrinsically linked to how the markets of the harvested produce function. Thus, Agricultural Costing along with techniques and approaches from Management Accounting can be of immense use to agriculture and agribusinesses. It shall contribute to the sustainability of agriculture with reference to environment, challenges of climate change, ever increasing pressure on scarce natural resources and socio-political-cultural dynamics within the ecosystem while also meeting the aspirations and expectations of the stakeholders associated with the agri value chains.

December - Indian MSMEs: Key to Economic Restart

Micro, small and medium Enterprises (MSMEs) are the growth accelerators of the Indian economy, contributing about 30% of the country's gross domestic product (GDP). In terms of exports, they are an integral part of the supply chain and contribute about 48% of the overall exports. MSMEs also play an important role in employment generation, as they employ about 110 million people across the country. Interestingly, MSMEs are intertwined with the rural economy as well, as more than half of the MSMEs operate in rural India. Number of MSMEs in the domestic defence production sector till Q2 FY20 had increased 21 per cent from the entire FY19; the increase in MSMEs share in India's defence manufacturing space is gaining significance amid the Government's focus on leveraging small



businesses and start-ups in the defence sector. To ensure that MSMEs continue to lead the country towards economic growth, the Government of India has from time to time announced various schemes to support the development of this sector. Very recently, the Government has announced that 'The Emergency Credit Line Guarantee Scheme (ECLGS)' for MSMEs will be extended till March 31, 2021. The scheme provides for 20% of outstanding loan amount collateral-free fully guaranteed loan by the government. Rs.2.05 lakh crore has already been sanctioned and Rs.1.4 lakh crore disbursed to 61 lakh borrowers under this scheme as of November 12, 2020. The new package also includes an announcement that Rs.3,000 crore will be given to EXIM Bank for promotion of project exports through Lines of Credit under IDEAS Scheme.

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