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Vol. : 02 / 2018-19 • February, 2019

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House Journal

ACAE

ASSOCIATION OF CORPORATE ADVISERS & EXECUTIVES

Work is Worship

SPECIAL ISSUE ON

CAPITAL MARKET CONCLAVE

Rationality in Volatility

Technical Partner : anmi Association of National Exchanges Members of India

Highlights

150 YEARS OF CELEBRATING THE MAHATMA

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House Journal

ACAE

VOL. : 02 / 2018-19 • FEBRUARY, 2019

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Editorial

Dear Member,

It is my proud privilege to present to you the Second Edition of our House Journal for the Year 2018-19, as a Special Issue on Capital Market. The House Journal is being released by our Chief Guest at the Capital Market Conclave being held at The Park, Kolkata, on Feb 23, 2019.

The House Journal has contributions from learned members and professionals of our fraternity including capital market. I am obliged to our Technical Partner of the Capital Market Conclave – ANMI, for richly contributing to this House Journal. The Journal has articles written by professionals on various subjects related to Capital Markets. Important case laws and recent amendments to the various laws related to Direct Tax, GST, IBC and Companies Act and a Compliance Calendar, are also covered in this Journal. We have also covered an article on the Women's Day which will be celebrated internationally on March 8. The Journal covers quotes and an article on Mahatma Gandhi, whose 150th year birth anniversary is being celebrated this year. Contributions from our members in the form of comments, achievements and ACAE in Press are also covered in this Issue.

I call upon all our participants of the Conclave and members of ACAE, to kindly provide their comments and suggestions on how we can further enrich the House Journal. Your contribution will motivate us further to enrich the Journal. I hope all the readers will find this Journal useful which can be used to update their knowledge.

With best regards

CA. Tarun Kr. Gupta
***Chairman** – House Journal Sub Committee*

Dear Members,

We have planned to release the second edition of our House Journal for the year 2018-19 in the Capital Market Conclave being held on 23rd Febuary 2019, at Park Hotel. This special issue is related to capital markets and the event shall be graced by Mr. S.V.Muralidhar Rao, Executive Director, SEBI, as Chief Guest.

Our association is recognised as a leading professionals' organisation, dedicated towards the study of all comtemporary issues related to fiscal and monetary policies i.e. Direct Tax, GST or any other related legislation e.g . Banking, NBFCs, Capital Market, Corporate Laws and IBC.

In wake of the pace at which the sensitive index is capricious, we are sure that this event will generate unprecedented eagerness among the delegates.

Several reasons are cited for the current volatility in equity market. The major ones include US ripple effect, fluctuating crude prices, risk of fiscal slippage, market correction etc.

At a time when the Indian economy is being hailed as "bright spot" in global landscape, the time now is ripe to continue to expect inflow of capital in the Indian bourses, both from within the country and abroad. This conclave, we hope, will exemplify the fast paced changes in the Indian Capital Market.

Learned speakers from across the country shall share their valuable experience to find rationale in turbulent times so as to achieve one's financial and investment goals.

Contemporary issues such as Angel Tax on on startup capital, balancing debt and equity, using technology to maximise gains and developing investment strategies for 2019, will be demystified for the benefit of delegates.

By listening to the experts, develop your own principles and take advantage of the volatility in capital market.

Moreover Our associations have lined up several events in the upcoming months including outstation trips, seminar and lectures meetings on topics like Bank audit, IBC(Insolvency and Bankruptcy Code amongst others.

Looking forward to your active participation in large numbers.

With warm regards,

CA Vasudeo Agarwal
President

President Speaks

CAPITAL MARKET CONCLAVE on *Rationality in Volatility!* held at The Park, Kolkata on Saturday, the 23rd February, 2019

INAUGURAL SESSION : Chief Guest Mr. S V Muralidhar Rao, Executive Director-SEBI, Mumbai accompanied by CA Madhav Sureka, Chairman-Capital Market Conclave, CA Vasudeo Agarwal, President-ACAE and Mr. Anil Changoiwala, Chairman-ANMI (EIRC) in the lighting of the inaugural lamp.

INAUGURAL SESSION : Release of ACAE House Journal - Special Issue on Capital Market Conclave - *Rationality in Volatility!* (L-R) CA Tarun Kr Gupta, Chairman-House Journal Sub-Committee, CA Vasudeo Agarwal, President-ACAE, Chief Guest Mr. S V Muralidhar Rao, Executive Director-SEBI, Mumbai and Mr. Anil Changoiwala, Chairman-ANMI (EIRC).

THEME SESSION : (L-R) CA Madhav Sureka, Chairman-Capital Market Conclave, Guest of Honour Mr. Ravi Varanasi, Chief Business Development Officer, NSE-Mumbai, CA Vasudeo Agarwal, President-ACAE, Guest of Honour Mr. Prashant Vagal, Senior Vice-President, NSDL-Mumbai and Mr. Anil Changoiwala, Chairman-ANMI (EIRC).

FIRST TECHNICAL SESSION : Convenor ACAE CA Study Circle-EIRC giving vote of thanks. On the dais, Guest Speakers Mr. Chethan Shenoy, Director and Head-Product & Advisory, Anand Rathi Private Wealth Management, Mumbai, Mr. Nipun Mehta, Founder & CEO, BlueOcean Capital Advisors, Mumbai, CA Vasudeo Agarwal, President-ACAE, and Guest Speaker, Mr. Prakash Diwan, Director, Altamount Capital Management Pvt. Ltd., Mumbai.

SECOND TECHNICAL SESSION : (L-R) CA Vivek Agarwal, Joint Secretary-ACAE, Guest Speaker Ms. Lakshmi Iyer, Chief Investment Officer, Debt & Head Products, Kotak Mahindra Asset Management Co. Ltd., Mumbai, CA Jitendra Lohia, Vice President-ACAE and Guest Speaker Ms. Radhika Gupta, Chief Executive Officer, Edelweiss Mutual Fund, Mumbai.

PANEL DISCUSSION : Panelist CA Rakesh Somani, Director, Eureka Stock & Share Broking Services Ltd., Kolkata, sharing his thoughts and views on **Investment Strategies In 2019.** On the dais, Panelist Mr. Nipun Mehta, Moderator Mr. Basav Bhattacharya, Financial Journalist, Panelists Mr. Prakash Diwan and CA Deepak Jain, Head-Retail Sales, Edelweiss Mutual Fund, Mumbai.

Goods & Services Tax (GST) Conclave on GST Annual Return, Reconciliation and Audit held at Williamson Magor Hall, The Bengal Chamber of Commerce & Industry (BCCI) on Friday, the 30th November, 2018

President CA Vasudeo Agarwal welcoming Chief Guest Mr. D Nagvenkar, IRS, Commissioner, CGST & CX, Kolkata North Commissionerate.

Q&A Session (L-R) CA Tarun Kr Gupta,Chairman-GST/Indirect Tax Committee, Speaker & Panelist Mr. Sarthak Saxena, IRS,GSTN, New Delhi, Moderator & Chairman of GST Conclave, CA Arun Kr Agarwal, Speaker & Panelist CA Jatin Harjai, Jaipur and Joint Secretary CA Vivek Agarwal.

Talk & Interactive Session, a joint programme with Calcutta Chamber of Commerce, on Present Focus of Government on Unearthing of Black Money held at Hotel Hindusthan International, Kolkata on Thursday, the 6th December, 2018

Chief Guest Mr. Pranab Kr Das, IRS, Director General of Income Tax (Investigation) East giving his deliberations. On dais, CA Madhav Sureka, Sr. Vice President, CCC and also PP of ACAE, Mr. Ashish Verma, IRS, Principal Director of Income Tax (Investigation), Kolkata, Mr. Om Prakash Agarwal, President-CCC, CA Vasudeo Agarwal, President-ACAE, Mr. Arvind Kumar, IRS, Principal Commissoner of Income Tax-4, Kolkata and Speaker CA Jinesh S Vanzara.

Interactive Session on GST Reconciliation and Audit held at Emami C onference Hall (ACAE) on Monday, the 10th December, 2018

Guest Speaker CA Shrenik Mehta, Manager PwC, CA Tarun Kr Gupta, Chairman-GST/ Indirect Tax Committee, Speaker CA Pulak Kr Saha, Partner PwC and Treasuer CA Anup Kr Banka

Lecture Meeting cum Interactive Session on (1) Conversion of stock in Trade to Investment and vice-versa including distinguishing lines between Investment Portfolio and Stock in Trade Portfolio : Issues under Income-Tax Act, 1961, (2) Section 56(2)(x) under the Income-Tax Act, 1961 held at Emami Conference Hall (ACAE) on Friday, the 14th December, 2018

Guest Speakers CA Kapil Basu, Director PwC and CA Saurabh Kedia, Director PwC

Conclave Chairman

Dear Friends,

I have pleasure in welcoming you to this day long Capital Market Conclave christened Rationality in Volatality! organised by ACAE with ANMI as our technical partner.

The Indian economy has shown unprecedented growth in the last few decades post liberalisation. A robust capital market supplemented by technological advancement and a strengthened legal framework has played a major role in driving the growth thus far. With the global economy still in and out of turbulent times, the Indian capital markets never fail to disappoint and often emerge as one of the most stable and sustainable of all emerging markets and are often crowned as a safe investment destination. Volatility in Capital Markets, can however cannot be discounted as an important factor. Several reasons are cited for the current volatility in equity market. The major ones include US ripple effect, fluctuating crude prices, risk of fiscal slippage, market correction etc.

In the wake of the pace at which the sensitive index is capricious, we are sure that this event will generate unprecedented eagerness among the delegates.Learned speakers from across the country are here to share their valuable experience to find rationale in turbulent times so as to achieve one's financial and investment goals.

Contemporary issues such as Angel Tax on startup capital, balancing debt and equity, using technology to maximise gains and developing investment strategies for 2019, will be demystified for the benefit of delegates.Issues that have generated wide interest amongst the investing community and professionals w.r.t income tax, SEBI regulations and others will also be covered by the professionals during the Conclave. We have also invited Learned Speakers from SEBI, NSE and NSDL to share their views as a regulator, stock exchange and depositary.

I am sure, by listening to the experts, you will develop your own principles and take advantage of the volatility in capital market. A Special Issue of the Journal is also being released on the occasion of this Conclave. I am sure, you will find it useful.

We look forward to your active participation in the Conclave.

CA Madhav Sureka
Chairman - *Capital Market Conclave*

We acknowledge with gratitude :

Our Chief Guest

Our Guests of Honour

Our Chairman

Our Guest Speakers

Our Panelists

Our Authors

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And

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Association of National Exchanges Members of India

Association of National Exchanges Members of India (ANMI) is a pan India body comprising of the trading members across country of National Stock Exchange of India Limited (NSEIL), Bombay Stock Exchange (BSE) and other exchanges having national presence.

ANMI is the only Indian Capital Market Forum recognized all over the world. It is a member of ICSA, the Asian Securities Forum (ASF) and Asia Forum for Investors Education. The ANMI was the chair of AFIE during 2012-2013 and is spearheading the movement of Investor Education. The President of ANMI and other office bearers regularly attend international platforms like the International Organization of Securities Commissions (IOSCO), the International Capital Market Association (ICMA), and the International Council of Securities Associations (ICSA) amongst others. ANMI represents the Indian Capital Market at these forums. ANMI has established links with many foreign organizations engaged in similar activities as that of ANMI, like Korean Securities Dealers Association (KSDA, Now KOFIA), Japan Securities Dealers Association (JSDA), Thailand etc. and has regular interaction by participating in Seminars, Conferences and Training programs. Recently, ANMI has signed a Memorandum of Understanding (MoU) with ICMA and Taiwan Securities Association for mutual exchange of skill, rules & regulations, policy and procedures followed in Capital Markets across the Globe.

The association organizes an International Convention every year wherein National and International Faculties are invited for active participation. This much awaited event is graced by Hon’ble Minister of Finance, India, Chairman SEBI CEO of exchanges and other market infrastructure Institutions. Last year, (2012-13) ANMI was host of ASF and AFIE Annual General Meeting which were held for the first time in India.

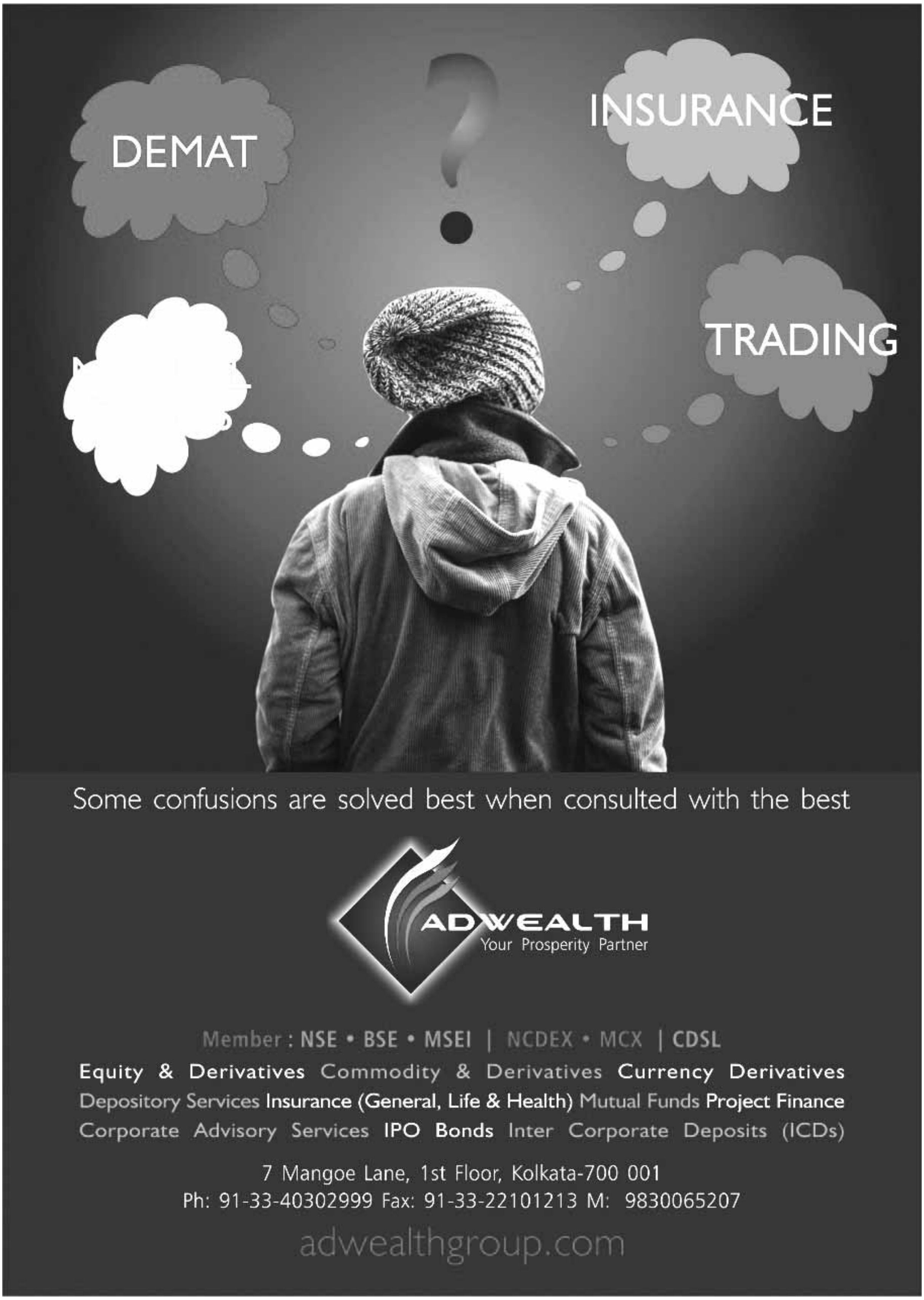
The basic objective of the Association is to work for the growth of the Capital Market, economic development of the country and the overall interest of investors and its members at large by becoming a bridge and channel between regulator exchanges and participants.

ANMI provides a healthy platform to its members to regularly interact with each other, aids them to identify and understand the problems/difficulties/issues being faced by them/investors/financial fraternity from time to time. It provides an opportunity to its members to voice their opinion on various procedures, policies, rules & regulations pertaining to operations of broking business.

ANMI provides professional assistance, guidance and special services for enhancement of the skill levels of the employees of its members to function ethically according to the standard principle and practices laid down by the Government, the Regulator and the Stock Exchanges.

It regularly conducts Educational / Training / Awareness Seminars / Workshops and programs for the benefit of its members / investors / Financial fraternity / Intermediaries all over the country.

The National President of ANMI is Mr. Rajesh Baheti. EIRC Executive Committee Members for the year 2018-2019 are Mr. Anil Changoiwala, Chairman, Vedika Securities Pvt. Ltd., Mr. Atmaram Mathran, Vice Chairman, Mathran Securities Private Ltd. and Mr. Sanjay Agarwal, Secretary & Treasurer, Ortem Securities Ltd.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CAPITAL MARKET CONCLAVE
Rationality in Volatility!

Saturday, the 23rd February, 2019 at The Park, Kolkata

6 CPE HOURS

PROGRAMME

Registration	:	9.30 am to 10.00 am
Inaugural Session	:	10.00 am to 11.00 am
Chief Guest	:	**Mr. S V Muralidhar Rao,** *Executive Director Securities and Exchange Board of India, Mumbai*
Guest of Honour	:	**Mr. Prashant Vagal,** *Senior Vice-President National Securities Depository Limited, Mumbai*
		Mr. Ravi Varanasi, *Chief Business Development Officer National Stock Exchange of India Ltd., Mumbai*

FIRST TECHNICAL SESSION – 11.00 AM to 1.30 PM

Topics	Speakers
1. Wealth Creation in Disrupting Times	**Mr. Prakash Diwan,** *Director Altamount Capital Management Pvt. Ltd., Mumbai*
2. Global Events & Domestic Reforms – Impact on Indian Markets	**Mr. Nipun Mehta,** *Founder & CEO Blue Ocean Capital Advisors , Mumbai*
3. Financial Planning and Wealth Management	**Mr. Chethan Shenoy,** *Director and Head - Product & Advisary Anand Rathi Private Wealth Management, Mumbai*

LUNCH BREAK : 1.30 pm to 2.00 pm

SECOND TECHNICAL SESSION – 2.00 PM to 5.30 PM

Topics	Speakers
1. Major Taxation issues in Capital Market including Angel Tax on Capital of Startups	**Mr. N K Poddar,** *Senior Advocate Supreme Court of India*
2. Different Tools of Investing	**Ms. Radhika Gupta,** *Chief Executive Officer Edelweiss Mutual Fund, Mumbai*
3. Behavioral Finance	**Ms Lakshmi Iyer,** *Chief Investment Officer Debt & Head Products Kotak Mahindra Asset Management Co. Ltd.,Mumbai*

PANEL DISCUSSION – Investment Strategies in 2019

Moderator	:	**Mr. Basav Bhattacharya,** *Financial Journalist*
Panelists	:	**Ms. Lakshmi Iyer** **Mr. Prakash Diwan** **Mr. Nipun Mehta** **CA Deepak Jain,** *Head-Retail Sales, Edelweiss Mutual Fund, Mumbai* **CA Rakesh Somani,** *Director, Eureka Stock & Share Broking Services Ltd., Kolkata*

PROFILE

Mr. S.V. Muralidhar Rao

Executive Director
Securities and Exchange Board of India (SEBI)

Mr. S.V. Muralidhar Rao Executive Director, Securities and Exchange Board of India (SEBI), is in charge of Market Regulation Department (MRD) and Department of Economic and Policy Analysis (DEPA).

A postgraduate in Commerce and Master in Business Administration, Mr. Muralidhar Rao joined SEBI in the year 1992 and has held various senior positions in SEBI with all around experience of working in the Divisions of Primary Market, Takeovers and Mergers, Investment Management in the areas of Mutual Fund, FIIs and Collective investment Scheme. He is presently member of Secondary Market Advisory Committee and Risk Management Review Committee constituted by SEBI.

Mr. S.V. Muralidhar Rao is representing SEBI as a member of International Organisation of Securities Commissions (IOSCO) Committee 2 (C2) on Regulation of Secondary Markets, also represented SEBI in CPSS-IOSCO working group for RCCP of OTC derivatives and Repositiories and in EMC Working Group on the Regulation of Secondary Markets (Day Trading in Emerging Markets).

Mr. Prashant Vagal

Senior Vice President and Heads, Business Development and Products department
National Securities Depository Limited (NSDL)

Mr. Prashant Vagal is Senior Vice President and Heads the Business Development and Products department in NSDL. He has completed Bachelor of Engineering and MBA in finance and over 22 years of experience in Capital Markets. Mr. Vagal has been associated with NSDL for 21 years now and handled various activities viz., Business development, Participant and CC Interface, New Product developments, Settlements, Training etc. Mr. Vagal has been a speaker at various forums held internationally.

Mr. Ravi Varanasi

Chief Business Development Officer
National Stock Exchange of India Limited (NSE)

Mr. Ravi Varanasi spearheads exchange initiatives in the areas of market structure policy and business development across all asset classes traded on the exchange. He also oversees capital raising platforms for main, SME and start up boards, education, skilling and financial inclusion. He earlier headed regulatory function of the exchange.

Mr. Varanasi represents the Exchange in various committees / advisory groups of the Regulator and Ministry of Finance. Ravi has been with the Exchange since 1995 and has wide ranging experience in Business Development, Regulatory and Operational roles. He has a bachelors' degree in Chemistry and a diploma in Management. He is an associate member of Indian Institute of Bankers and a certified anti-money laundering specialist.

Mr. Prakash Diwan

Director
Altamount Capital Management Group

Prakash Diwan is a Masters in Business Administration (Finance) from Faculty of Management Studies, Vadodara, M. S. University of Baroda and Bachelors in Engineering (Mechanical) from Faculty of Technology, M. S. University of Baroda. He has over 28 years in diverse areas such as Merchant Banking, Venture Capital, Institutional Equities, Stock Broking, Wealth Management, Asset Management and Family Offices. He has led multi-disciplinary teams in various CXO positions held in the past 10 years. He is currently advising UHNW families on Indian equities along with being an active commentator on the state of our markets through the mainstream, electronic media. Presently he is Head – Equities in Altamount Capital Management Group.

PROFILE

Mr. Nipun Mehta

Founder & CEO

Blue Ocean Capital Advisors, Mumbai

Nipun Mehta is a Fellow member of the Institute of Chartered Accountants of India and brings more than 3 decades of experience across Equity Markets, Private Banking, Asset Management & Wealth Management. He is the Founder & CEO at Blue Ocean Capital Advisors, a Multi Family Office.

In his last corporate stint, Mr. Nipun Mehta was Executive Director & India Head of the French Banking giant Societe Generale Private Banking India & Societe Generale Wealth Management India. He earned global recognition as 'Global Outstanding Private Banker', an award given to future global leaders in Private Banking.

Known for his ability to read corporate and economic trends he is frequently invited for his views by CNBC TV18, Bloomberg, Zee Business etc and by global Newswire agencies. He is a popular speaker at the Institute of Chartered Accountants of India, IIMs and business schools. Mr.Mehta is also an Independent Director in companies.

Mr. Chethan Shenoy

Director and Head of Products & Advisory

Anand Rathi Wealth Management, Mumbai

Chethan Shenoy is a Director and Head of Products with over 16 years of experience in the Banking, Financial Services and Insurance Industry, Chethan is the force behind the development of innovative financial products at Anand Rathi Wealth Management. As Head of Products, he manages the roadmap of all products based on the company's vision and strategy. Being a Certified Financial Planner and an MBA (Finance) graduate, Chethan found his passion in private wealth management. Previously, he has worked with Religare Macquarie Private Wealth and Citibank. Chethan hails from Bengaluru but is now based in Mumbai. In his free time, he spends family time with his wife and two beautiful daughters.

Mr. N. K. Poddar

Senior Advocate

Supreme Court of India

Mr. N. K. Poddar, aged about 71 years, is a Fellow Member of the Institute of Chartered Accountants of India and a Fellow Member of the Institute of Cost & Works Accountants of India. He is also a Member of the Institute of Management Accountants (USA). He is also a Law Graduate from the University of Calcutta. He is the Past President of the Association of Company Secretaries, Executives & Advisers. He was also a visiting Lecturer for more than 15 years in the Post Graduate Classes of the University of Calcutta. He is the member of the Supreme Court Bar Association, New Delhi, the Bar Library, High Court, Calcutta and Life Member of the Indian Law Institute and the Indian Council of Arbitration, New Delhi.

Ms. Radhika Gupta

Chief Executive Officer

Edelweiss Mutual Fund, Mumbai

A graduate of Management and Technology Program from the University of Pennsylvania (USA); with joint degrees in Economics from the Wharton School & Computer Science Engineering from the Moore School, she is presently the CEO of Edelweiss Asset Management.

Radhika started her career with McKinsey & Company, and then progressed to become a hedge fund manager with AQR Capital – One of the world's largest Systematic Asset Managers. She then moved to India to start her own venture named – Forefront Capital Management, an alternative asset management firm, which was acquired by Edelweiss in 2014. An asset management professional with experience across asset classes and investor segments; she successfully led Edelweiss's acquisition of JP Morgan's Mutual Fund business and Ambit Capital's AIF business in 2016.

PROFILE

Ms. Lakshmi Iyer

Chief Investment Officer, Debt & Head Products
Kotak Mahindra Asset Management Co. Ltd., Mumbai

Ms. Lakshmi Iyer is the Chief Investment Officer of Debt and Head of Products at Kotak Mahindra Asset Management Company Limited, and was previously a Senior Vice President, Head of Fixed Income Products, Portfolio Specialist, and Fund Manager. She joined the firm on November 1, 1999. From 1999 to 2006, Ms. Iyer was responsible for credit research as well as deal execution, managing fund performance across all debt funds, and assisting sales in client interaction. From September 2006 till September 2008, she was Heading Products where her primary responsibilities were product related initiatives, product pricing, and coordinating with the funds management and sales team. Since September 2008, Ms. Iyer is heading the fixed income and products team. Prior to this, from November 1997 to October 1999, she served at Credence Analytics Pvt Ltd. as a Research Analyst, where she was tracking corporate bond markets in India and generating research reports. Ms. Iyer holds a D.B.M. from Narsee Monjee Institute of Management Studies.

Mr. Basav Bhattacharya

Financial Journalist

Basav Bhattacharya joined as a journalist at Business Standard in 1982. He worked under Dr. D K Rangnaker, the eminent economist and editor. He was led into exposure to finance world in terms of research on corporate sector and writing various new stories on stock markets, commodities - news analysis. Later he moved on to the main section of the paper as a stock market reporter, a specialization that remained with him ever since and right through his journalism career and even after. In 1993, moved over the Times of India Group as Senior Feature Writer and joined The Economic Times.

He was responsible for news from stocks and commodity markets and of the corporate world. During his career as a journalist he had the opportunity to meet a cross section of people connected to various corporate and other works of life. In 2002 he moved over to the Television Media as VP of ATN International, a Bengali television channel with a world footprint. Presently he is associated with the Times of India as a freelance journalist writing on various economic issues. He is also the consulting editor for ANMI Journal and an integral part of the organisation's initiatives for the past many years.

Mr. Deepak Jain

Head - Retail Sales
Edelweiss Mutual Fund, Mumbai

Deepak Jain is a Chartered Accountant comes with more than 14 years of experience in financial services industry most of which have been in Mutual Fund Sales. He started his professional journey from ICICI Bank, where he was part of the Corporate Investment & Services Team. Before joining Edelweiss Asset Management he was working with DSP BlackRock as Head Sales - South & East and Head - Online Distribution. He spent more than 12 years there and helped in building Institutional, Retail & online distribution for the firm.

Mr. Rakesh Somani

Director
Eureka Stock & Share Broking Services Ltd, Kolkata

Mr. Rakesh Somani, a commerce graduate from St. Xavier’s College, Kolkata, Rank Holder Chartered Accountant (CA), Cost Accountant & DBF (ICFAI). He is the Executive Director of Eureka Stock & Share Broking Services Ltd, with over 22 years of experience in Capital Market, Stock Broking, DP services, MF distribution, PMS service, NPS distribution & product related to financial market. He has served as Regional Chairman (EIRC) & National President of ANMI & also chaired AFIE, an international association for promotion of Investor Education. He had participated in Capital Market Training programs of KOFIA (Korea) and JSDA (Japan). He is the one of the members of Trading Advisory Committee of NSE and ICCL.

Global Events & Domestic Reforms -
Impact on Indian Markets

Mr. Nipun Mehta
Founder & CEO
Blue Ocean Capital Advisors, Mumbai

John Maynard Keynes is supposed to have famously said, the only sure thing is that the market can remain irrational much longer than you or I can remain solvent. Given recent market movements, most global traders and investors will agree with this.

Global asset markets – whether stock markets, bond, commodity or currency – have undergone huge bouts of volatility over the last several months. This is not the first time, nor will it be the last. In fact incrementally, we might see increasingly more frequent bouts of volatility, as technology, and globalization of trade, businesses and markets create an even more unified and integrated marketplace.

Over the past 32 months, major global and domestic events and reforms have thrown up surprises, caught markets unawares, and have given rise to unpredictability in both global and domestic stock markets. It probably started with the Brexit referendum, Demonetization, the US Presidential elections, 2018 Finance Bill and the global crude oil price movement in that chronological order, and ended up in sharp market movements across asset classes.

As far as Indian stock markets were concerned, midcap and smallcap stocks saw huge appreciation from the last quarter of 2013 till Jan 2018. The huge gains of 2017 in these stocks were more than more than wiped out in 2018. This washout in mid and small capitalisation stocks has obviously resulted in huge wealth destruction for all investors with several stocks falling more than 60-70%. The price erosion did not spare companies either with good results or those with strong promoter reputation. There were several instances where there was little rationality in the volatility.

Robust inflows into equity based mutual funds helped support markets tremendously in the last couple of years at a time when FII outflows during 2018 were the highest in 10 years. Some uncertainty and churn was also created by the regulatory change in definition of market capitalization of stocks where equity schemes could invest. Fortunately, the MF industry settled into the groove quickly, and 2018 became the year when the industry crossed AUM of Rs.25 Lakh Crores. It has fallen since then.

2018 will also be remembered as a year when markets severely punished companies and managements where corporate governance was found lacking. Stock prices were battered down by 90-95% in some of these cases. Markets were unforgiving.

Too many factors and events will define market movements during 2019, with geo-political risk being the highest. Domestic elections, global crude oil prices, global growth, Trade wars, Brexit, Interest rate movements, currency movements are just some of the events that could throw up surprises and fuel bouts of volatility.

With India GDP growth sustaining and promising to rise, with clearer visibility of the economy touching $5 Trn in the next few years, the long term direction of Indian markets is clearly north bound.

Happy Investing!

* * * * *

PEACE Investing

Ms. Radhika Gupta
Chief Executive Officer
Edelweiss Mutual Fund, Mumbai

"There was never a good war or a bad peace."

- Benjamin Franklin

History is witness, that an excessive state of flux, war, or excitement does very little good, and in matters as important as money, what we actually need is a little more peace. And while external factors will always exist, there are things that we as investors and advisors can do – that rest in our control – to achieve just that little more peace in our portfolio.

History is witness, that an excessive state of flux, war, or excitement does very little good, and in matters as important as money, what we actually need is a little more peace.

Protecting downside is the first element of PEACE. Many war stories talk about the cost of war – it is important to win a war, but wars can be fatally expensive if you lose too many of your troops in the process. The same is true of investing – in the journey, if you lose much more than your risk appetite, you may be too scared to hold on for the long term, and in the best of years, markets are volatile and cyclical. Also the mathematical reminder that if you lose 10%, you need to make 11% to come back to par, but if you lose 50%, you need to make 100% to come back to par should never be forgotten. Protect your downside through a single word – Asset Allocation. Investing in a diversity of asset classes, with debt being an important part of your portfolio or using asset allocation funds is the easiest way to ensure that you don't lose more than you can chew while investing.

Emotional control is the second element of PEACE. Even the smartest of men and women are emotional beings, and make emotional mistakes while investing. There is a famous story of how the genius Isaac Newton, bought shares of South China Sea at 180, exited the stock at 360, saw his friends getting rich while holding it, and re-entered at 680. The stock then reached 1050 and subsequently crashed. When did Newton exit? At 175. EQ is far more important than IQ in investing, because greed and fear are such powerful emotions, and the desire to follow the herd is very human. Find ways to exercise emotional control and resist the urge to act. In fact, develop the urge to be counter cyclical – the difference in SENSEX returns between investing at the peak of 2007 and the bottom of 2009 is 6% annualized, 7% if you had invested in 2007 and 13% if you had invested in 2009.

Automated investing is a third part of PEACE. Automation is a wonderful thing in any domain – it takes the burden of activity from us, it saves time and it is cost effective. In investing, where there is a constant desire to react to the news around us, the more we automate, better it is! We are constantly trying to time when to invest – should we wait for another correction, only to realize that fear takes over when the correction actually occurs, and then by the time the environment has stabilized, markets have run up again too much, only to wait for another correction. Timing is futile, and investing constantly is the easiest answer for most of us. The mutual fund industry has created a range of features to do this – SIPs, STPs and SWPs also for disciplined exits.

Chase consistency is the fourth part of PEACE. A little bit like fashion and social media, trends in markets keep

Itihaas gawah hai that peace is important – when kingdoms were in a state of war and flux, very little development happened.

changing – if infrastructure was the flavour of the season in 2007, it was gold in 2011, and mid-caps from 2015-2017. In a simple exercise, if you had just invested in the “flavour of the season” fund from 2007 to 2018 every year – and we used 7 flavours in our study, you would've realized a 9.9% CAGR. If you had instead just invested in the NIFTY TRI in this period, you would have returned 11.29% CAGR. Chase simplicity and change consistency, especially in a country like India where the opportunity across segments and sectors is large enough, that the index growth itself will give you a very respectable return.

Expert advice is the last and the most important part of PEACE. During my recent trip to Kanpur city, I addressed an investor event where a young investor asked me, “There are 1000s of MF schemes and 40+ AMCs, how do I choose the right one?” Surprisingly, at the same event, present was a very famous orthopaedic surgeon from North India. I asked the young investor, if you had a knee problem, would you Google the answer and try to fix your knee yourself, or would you talk to the well qualified gentleman standing next to us? His answer was clearly that he would consult the expert. I asked him then, “Then why is it different in investing?” We are happy to consult experts when we have a tax problem, a legal problem or a medical problem, then why not when we have a financial problem? Forget us, even the sharpest of minds relied on advisors like Chanakya for political advice. Just like in most domains of life, in investing, we at Edelweiss AMC truly believe, #AdviceZarooriHai. The advice of an expert will provided you a sounding board during good and bad times, and an external perspective, that will give you peace and comfort.

Itihaas gawah hai that peace is important – when kingdoms were in a state of war and flux, very little development happened, but when there was an environment of peace, arts, culture and development, ultimately people blossomed. Let us try to make our investing journey peaceful, so that the rest of our life around us blossom – because money is a part of life, not life itself.

Wishing you happy investing and peaceful investing!

* * * * *

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Decoding the Indian Capital Market

Mr. Vijay Chandak, FCA, FCS, AICWA
Managing Director, C/o. VC Corporate Advisors Private Limited

Capital Markets play a very important role in the development of the economy. It helps in allocating the unutilized resources i.e. transfer of funds from savers to its efficient users. They consist of investors, who are the backbone of the economy, issuers, regulatory bodies and intermediaries. The movement of capital in the economy from the savings pool to the investment pool is performed by two main platforms of institutional intervention – (a) Financial institution and banking framework; (b) the capital market framework. The capital market plays the primary role of a facilitator and an intermediary in raising capital and deployment of the same in the economy.

1.1 Capital Market

Capital Market provides a platform for the Issuers and the investors to come together. It helps the issuers to raise capital for productive deployment in creating economic wealth. At the same time, the capital market offers investment avenues to investors with appetite for higher risks and returns as compared to the safe investment option with banks. Capital Market is further divided into Primary Market and Secondary Market whereas Money Market is classified into Organized Money Market and Unorganized Money Market.

- **Primary Market** is the new issue market, which provides opportunity to Issuers of securities, Government as well as corporates, to raise resources to meet their requirements of investments and/or discharge some obligation through Initial Public Offer and Further Public Offer.
- **Secondary Market** helps in providing liquidity to the securities which has already been issued in the primary market. In this type of market, the securities are traded through the stock exchange route, where trading and settlement is done through the stock exchanges and the buyers and sellers may not be in touch with each other. The transaction is carried out through SEBI registered stock brokers or sub-brokers.
- **Money market** is a market for financial assets that are close substitutes for money. It is a market for short term, medium term and long term funds. The money market deals primarily in securities and investments, such as banker's acceptances, negotiable certificates of deposit (CDs), repos and Treasury Bills (T-bills), call/notice money market, commercial papers. Government securities such as infrastructure bonds and oil bonds are also a part of the money market.

1.2 Products in Indian Securities Market

Indian Securities Markets cover a wide range of products depending upon the risk appetite of the investors. For example, if an investor wants to invest in risky products he has the option to invest in products of the equity market, whereas a risk-averse investor can invest in bond markets which are comparatively less risky. Product portfolio of Indian securities markets can be broadly classified into 3 categories:a) Equity Market Products; b) Derivative Market Products and

Derivative is a product whose value is derived from the value of one or more basic variables, called bases (underlying asset, index, or reference rate), in a contractual manner.

c) Debt Market Products.

a) Equity Market Products: The equity segment of the stock exchange allows trading inshares, debentures, warrants, mutual funds and exchange traded funds (ETFs).

- ***Equity Shares*** represent a form of fractional ownership in a business venture. Equityshareholders collectively own the company and also bear the risk and enjoy the rewardsof ownership.
- ***Debentures*** are instruments for raising long term debt. Debentures in India are typicallysecured by tangible assets. There are fully convertible, optionally fully convertible, nonconvertibleand partly convertible debentures.
- ***Warrants*** entitle an investor to buy equity shares after a specified time period at a givenprice.
- ***Mutual Funds*** pools money from numerous investors who wish to save or makeinvestments having similar investment objective. A mutual fund companypools money from many investors and invests the money in stocks, bonds, short-termmoney-market instruments, other securities or assets, or some combination of theseinvestments, depending on the objectives of the fund.
- ***Exchange Traded Fund*** is a fund that can invest in either all of the securities or arepresentative sample of securities included in the index. Importantly, the ETFs offer a one-stop exposure to a diversified basket of securities that can be traded in real time likeindividual stock example gold exchange traded fund.

b) Derivative Market Products : Derivative is a product whose value is derived from the valueof one or more basic variables, called bases (underlying asset, index, or reference rate),in a contractual manner. The underlying asset can be equity, forex, commodity or anyother asset. The derivatives segment in India allows trading in the equities, currency andcommodities. There are two types of derivatives instruments viz., Futures and Optionsthat are traded on the Indian Stock Exchanges.

- ***Index/Stock Future*** *is an agreement between two parties to buy or sell an asset at acertain time in the future at a certain price. Futures contracts are special types of forwardcontracts in the sense that the former are standardized exchange-traded contracts.Futures contracts are available on certain specified stocks and indices.*
- ***Index/Stock Options*** *are of two types - calls and puts. Calls give the buyer the right, butnot the obligation, to buy a given quantity of the underlying asset, at a given price on orbefore a given future date. Puts give the seller the right, but not the obligation, to sell agiven quantity of the underlying asset at a given price on or before a given date.*
- ***Currency Derivatives*** *trading was introduced in the Indian financial markets with thelaunch of currency futures trading in the USD-INR pair on the National Stock Exchange ofIndia Limited. Few more*

currency pairs have also been introduced thereafter viz. USDINR, GBP-INR, EUR-INR and JPY-INR on NSE, MCX-SX and USE.

- ***Commodity Derivatives** markets are markets where raw or primary products areexchanged. These raw commodities are traded on regulated commodities exchanges, inwhich they are bought and sold on the basis of standardized contracts for a specifiedfuture date. Commodity markets facilitate the trading of commodities such as gold, silverand various agricultural goods.*

- ***Interest Rate Futures** trading is based on notional 10 year coupon bearing Governmentof India (GOI) security. These contracts are settled by physical delivery of deliverablegrade securities using electronic book entry system of the existing depository's viz., NSDLand CDSL and the Public Debt Office of the Reserve Bank unlike the cash settlement ofthe other derivative products.*

c) Debt Market Products: Debt market consists of Bond markets, which provide financing through the issuance of Bonds, and enable the subsequent trading thereof. Instrumentslike bonds/debentures are traded in this market. In India, the debt market is broadly divided into governmentsecurities (G-Sec) market and the Corporate Bond market:

- ***Government Securities Market**: The Government needs enormous amount of money andone of the important sources of borrowing funds is the government securities market.Thesesecurities do not carry default risk as the government guarantees the payment of interestand the repayment of principal. They are therefore referred to as gilt edged securities.*

- ***Corporate Bond Market**: Corporate bonds are bonds issued by firms, corporate and areissued to meet needs for expansion, modernization, restructuring operations, mergersand acquisitions. The corporate bond/debt market is a market wherein debt securities of corporate are issued and traded therein. The investors in this market are banks, financialinstitutions, insurance companies, mutual funds, FIIs etc.*

Recent Developments in Capital Market :

1. SEBI lays framework to make physical settlement mandatory :

Recently, SEBI issued a framework for making physical settlement of stock derivatives mandatory in a phased manner, a move that could bring much-needed balance between equity cash and derivative segments. Stock derivatives, which are currently being cash-settled, would move to physical settlement in a prescribed manner in accordance with the SEBICircular vide reference no. SEBI/HO/MRD/DOP1/CIR/P/2019/28 dated 08.02.2019.SEBI said derivatives introduced on new stocks, meeting the enhanced eligibility criteria specified by the regulator, would also be physically settled.SEBI's move is aimed at curbing excessive speculation, which creates too much volatility in the market. Under physical settlement, traders will have to compulsorily take delivery of shares on the expiry day against their derivative positions. Thus, Physical delivery could also reduce short selling. Short sellers will now have to first borrow stocks under the SLB (securities lending and borrowing) mechanism, which allows borrowing of securities from institutional investors. But that space still remains shallow in India. Some of the market participants would now have a relook at the SLB space. Globally, stock-specific shorting happens through SLB, and futures & options are used more for index positioning. Alternatively, as more market participants start trading in the SLB segment, liquidity will develop, leading to deeper SLB market and more volumes in that space.Though some do argue that physical settlement can be beneficial to the overall ecosystem in the future as it can aid in achieving at equilibrium price due to the physical visibility of the underlying asset which otherwise can be manipulated with.

2. **SEBI tightens margin requirements for equity derivatives segment :**

SEBI vide their circular dated 17.12.2018 has increased the margin requirements for brokers in the derivatives markets, effective from 21.01.2019. The affected margin requirements include Standardised Portfolio Analysis of Risk (SPAN) and exposure. SPAN is the minimum deposit to be made by a broker to participate in future and options trading. “Exposure” is the amount required over and above the SPAN to cover up mark-to-market (MTM) losses and brokers were expected to collect from their clients for trading in derivatives at the time of initiating a trade. MTM refers to the valuation of a contract on a daily basis to reflect the price changes of the underlying asset. As futures and options (F&O) involve high risk, these tools are used for risk management in derivatives trading. Earlier, the amount of exposure stood at 3% of the value of the contract for index F&O. For Stock F&O, the requirement was 5% of contract value. Post-ruling, these requirements have almost been doubled. Among other things, the regulator increased the so-called Margin Period of Risk (MPOR) to two days from the current one day to ascertain the total margin. Further, exchanges were directed to calculate the MPOR for each equity derivative product based on liquidity and scale up the initial margins and exposure margins accordingly.

3. **Alignment of Trading Lot and Delivery Lot size :**

As per the IOSCO Principles for Regulation and Supervision of Commodity Derivatives Markets, with regards the size of delivery unit for physically settled commodity derivatives contracts, “any deviation from the physical market delivery size or composition should be closely examined to ensure that it does not constitute a barrier to delivery or otherwise impedes the physical delivery of the commodity. In the commodity derivatives markets, it is observed that the Stock Exchanges keep differential “trading lot size” and “delivery lot size” of some commodity derivatives contracts. The practice of different trading and delivery lot sizes, at times, puts participants in disadvantageous positions. Based on therecommendation of Commodity Derivatives Advisory Committee it has been decided that the exchanges shall follow the policy of having uniform trading and delivery lot size for the commodity derivatives contracts. An exception to the above may be provided on case to case basis, subject to the recognized stock exchanges submitting detailed rationale including physical market practices, feedback from stakeholders etc., for keeping different lot size for trading and delivery with respect to any contract, to SEBI for approval. In such cases exchanges shall put in place an adequate mechanism to ensure that no participant is put to disadvantageous position and that it does not constitute a barrier to delivery or otherwise impedes the physical delivery of the commodity and the said has already been effective w.e.f 23.01.2019 vide SEBI Circular. Further, for existing contracts with different trading lot and delivery lot size, stock exchanges shall submit their proposal for alignment/exemption to SEBI within one month from the aforementioned SEBI circular.

4. **Creation of segregated portfolio in mutual fund schemes :**

In order to ensure fair treatment to all investors in case of a credit event and to deal with liquidity risk, SEBI vide their circular dated 28.12.2018 allowed Mutual funds to segregate portfolio of debt and money market instruments. Creation of segregated portfolios is a mechanism to separate illiquid and hard-to-value assets from other more liquid assets in a portfolio. It prevents the distressed assets from damaging the returns generated from more liquid and better-performing assets. Segregated portfolio may be created, in case of a credit event at issuer level-downgrade of a debt or money market instrument to ‘below investment grade’ or subsequent downgrades of the instruments from ‘below investment grade’ or similar such downgrades of a loan rating- by a registered credit rating agency. In case of difference in rating by multiple credit rating agencies, the most conservative rating will be considered.The SEBI said that creation of segregated portfolio will be optional and at the discretion of the Asset Management Company (AMC). It should be created only if the scheme information document has provisions for such portfolio with adequate disclosures. AMC needs to have a detailed written down policy on creation of segregated portfolio and the same need to be approved by the trustees.The new mechanism should not encourage the AMCs to take undue credit risk in the scheme portfolio and any misuse of the provisions of segregated portfolio, would be considered serious and stringent action may be taken.

Recent Volatility in Capital Markets :

The Indian Capital Markets have been through a tumultuous phase lately which has led to a rise in volatility. Certain factors which may have flared up global volatility include:

- **USA imposing tariffs** on over $200 billion of Chinese Goods & China retaliating back on US Imports, with no site of settlements. Moreover, there has been an **inversion in the US Yield curve** after nearly a decade which means that the Long term Treasury yields have shrunk compared to Short term Yields. This may signal a recession leading to an expansionary monetary policy or a flight of capital from Equity markets across the globe to safe havens.
- **Chinese real GDP growth forecast has been reduced** to 6.2% for 2019 from an estimate of 6.5% in 2018 (Source: World Bank report titled-Global Economic Prospects- Darkening Skies). The Caixin/Markit Manufacturing Purchasing Managers' Index (PMI) came in at 48.3 in January 2019, compared to 49.7 in December 2018. This shows that the economy has entered into contraction. A slowdown in Chinese demands will dampen the growth of most major economies across the globe.
- A "**No-deal Brexit**" elevates concerns of a crisis in the European Union as PM Theresa May has not been able to convince the lawmakers of UK or EU on reaching a deal. The consequences may include **large scale factory shutdowns** due to lack of demand and slowdown in trade between UK & EU owing to **enhanced border customs checks & compliances**.

  A peak into the domestic economic scenario shows volatility may be unleashed into the capital markets due to the following reasons:

- A major **Liquidity crunch** may not be far away owing to allegations on ILFS group & DHFL financial crisis. Both of them have a loan exposure ranging roughly around Rs900 billion &Rs 1200 billion respectively.
- The **Upcoming General Elections**, 2019 may brew up immense volatility as uncertainty builds up over a simple majority or a coalition government.
- The fact that India has around $22-billion trade surplus with the U.S., despite running a deficit with many of its other major trading partners, is particularly annoying to the Trump administration, & US may take actions to reduce this deficit by **removal of GSP benefits** under which India can export some goods to USA free of any duties.

  However, despite the economic darkness prevailing across the globe, there are rays of light visible in our economy which is evident from the following:

- **Corporate Profits as a percentage of GDP** is at an approximate 15 year low level which may pave way for immense earnings growth & strengthen valuations of Indian Equities.
- Equity assets of Mutual funds have risen from around Rs 1.52 trillion in November 2013 to around Rs 7.44 trillion in 5 years. Despite this fact, the Mutual Fund Equity investments are at around 4% of GDP against a global average of around 35%. Developed countries like Canada & US have Mutual Fund Equity exposure in excess of 40% & 60% respectively. **Indian Mutual fund industry is highly underpenetrated** with a total penetrated level of just around 11% (Equity 4%approx, Debt 7%approx).
- In the last 4 decades, Sensex has gone up from 100 to over 36000 i.e. almost 36 times. Our **GNI(gross national income) per capita** is at 1800 dollars(2017) (Source: World bank data) and is forecasted to be approximately 4000 dollars to 5000 dollars in next 5-7 years. This massive rise will pave way for demand particularly in sectors like consumer, Travel, Education, Consumptions etc.
- The greatest strength of India is its **demographic profile**. About 130 Million Indians shall be entering into work force in the next about 10 years. The youngest Emerging market at the average age of 26.
- **Indian Household savings** are about $400 billion. If we assume that only 5% of such savings shall be invested by Indian Households, that's another $20 billion of prospective funds to be injected in the Capital Markets.

Capital Markets are full of opportunities. One needs to understand the macro and micro economic scenario and remain updated about the changes made by the Regulatory Body. Emotions don't rule the markets, holistic knowledge and its application does. Hence, one should always continue to enhance their knowledge in order to generate wealth. As Warren Buffet says- "The best investment you can make, is in yourself. The more you learn, the more you'll earn".

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Impact of IBC on Capital Market

CA Binay Kumar Singhania
Author is a designated partner of AAA Insolvency Professionals LLP
email : binaysinghania@aaainsolvency.com

The Insolvency and Bankruptcy Code (IBC or Code) is considered as one of the most effective reforms brought in with the potential of transparently and expeditiously resolving India's overwhelming non-performing assets (NPAs) problem. The Code seems to be an effective and time-bound mechanism for dealing with the ever-escalating non-performing assets (NPAs) and providing our banking system some much needed respite.

IBC has also driven massive Merger & Acquisition momentum in the country; several investors (including private equity firms) have been actively participating, given the opportunity to acquire valuable assets at attractive prices added with the prospect of generating higher returns.

With a strict 180+90 days 'resolve-or-liquidate' diktat, the Code has received commendation, not only from the Indian Industry, but from the global fraternity, including The World Bank and IMF, and has materially contributed to India's 30 place jump in 2018's 'Ease of Doing Business' ranking. IBC truly enforces the concept of 'creditor in control' instead of 'debtor in possession', and maximises value recovery potential corporate debtors

The private equity funds, asset reconstruction companies and strategic investors, both in India and abroad are said to believe that the enactment of IBC is likely to have caught the attention of domestic and foreign investors who are now looking at the distressed asset space in a new light. Majorly considering the turnaround potential as the key reason as to why distressed deals were of interest to them, hence indicating their belief in either positive macro-economic tailwinds or their ability to influence better performance for their investee companies.

In 2018, with the introduction of Foreign Portfolio Investment (FPI) concentration norms, the investors started to prefer the ARC route for distressed asset investments. This further threw light on the importance and effectiveness of the ARC as an investment vehicle, as compared to the preference for FPIs as a vehicle for investing in Indian distressed assets (through Bond investment).

In the past 26 months since the IBC has become effective, there have been a plethora of amendments including an ordinance to make changes to the original law. Furthermore, there was a complete overhaul in the framework prescribed for banks in dealing with stressed assets.

Reserve Bank of India had issued Foreign Exchange Management (Borrowing and Lending) Regulations, 2018 ('New Regulations') in December, 2018 in supersession of Foreign Exchange Management (Borrowing or Lending in Foreign Exchange) Regulations, 2000 and Foreign Exchange Management (Borrowing and Lending in Rupees) Regulations, 2000 with an objective to rationalize the framework of borrowing and lending in foreign exchange/ rupees and foster the ease of doing business. However, the recently issued regulations required clarifications with respect to certain provisions mentioned therein.

Thus, in furtherance thereof, RBI has promulgated External Commercial Borrowings (ECB) Policy – New ECB Framework ('New ECB Policy') on 16th January, 2019 supplementing the New Regulations.

The key features of the New ECB Policy are cited hereinbelow:

ELIGIBLE BORROWERS

Under the New Regulations, RBI has expanded the domain of eligible borrowers and allowed all the entities who are eligible to receive FDI, to raise ECB. In addition to this, RBI has further included the following entities as eligible borrowers –

- Port trusts
- Units in SEZ
- SIDBI
- EXIM bank
- Registered entities engaged in micro-finance activities namely registered NPO, societies/ trusts/ co-operatives and registered not for profit companies

ELIGIBLE LENDERS

Instead of providing detailed list of eligible lenders under different tracks as recognized under the Erstwhile Regulations, the New ECB policy has enlisted a simpler yet broader criterion to determine the lenders who are eligible to lend ECB.

MINIMUM AVERAGE MATURITY PERIOD (MAMP)

RBI streamlined the provisions with respect to MAMP and has provided that the MAMP shall be 3 years for all ECBs under the New Regulations. However, through the New ECB Policy, it has been clarified that the ECBs may be raised by the manufacturing sector companies with MAMP of 1 year. Further, it has also been provided that the ECB may also be raised by an eligible borrower from its foreign equity holders with MAMP of 5 years, after complying with prescribed conditions.

FORMS OF ECB

ECB denominated in Foreign Currency	ECB denominated in INR
Loans including bank loans, floating fixed rate notes/ bonds/ debentures (other than fully and compulsorily convertible)	Loans including bank loans, floating fixed rate notes/ bonds/ debentures/ preference shares (other than fully and compulsorily convertible)
Trade credits beyond 3 years	Trade credits beyond 3 years
FCCBs and FCEBs	Financial Lease
Financial Lease	Plain vanilla Rupee denominated bonds issued overseas (RDBs)

HEDGING

Through the New ECB Policy, RBI has modified hedging provisions with respect to ECBs denominated in foreign currency, though operational aspects remain the same.

The Erstwhile Regulations allowed specified borrowers to hedge 100% of their ECB exposure in case the average maturity is less than 5 years. However, in the New ECB Policy, only infrastructure space companies are obligated to hedge 70% of its proceeds if ECBs are raised with an MAMP of less than 5 years. Further, all entities raising ECB are required to follow the guidelines for hedging issued by the concerned sectoral or prudential regulator.

Recently in a Circular dated 7th February, 2019, Reserve bank of India had decided, to relax the end-use restrictions for resolution applicants under the Corporate Insolvency Resolution Process (CIRP) and allow them to raise ECBs from the recognised lenders, except the branches/ overseas subsidiaries of Indian banks, for repayment of Rupee term loans of the target company under the approval route.

IBC has also come as a relief to bondholders, who were at the mercy of their trustees, now they can take action against the corporate debtor in case of default. This will boost the sentiments of bond holders and companies will get boost in funding through the bond route.

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Capital gains on Penny Stocks- Way forward

CA Ramesh Kumar Patodia

1. Penny stock is a phenomenon , not only of India, but even in developed markets like United States of America the issue of penny stocks was subject matter of legislation in the form of The Penny stock Reform Act,1990 which was signed into law by the then president George H W Bush on October 15,1990 to deal with the growing incidence of penny stock fraud in the 1970s and 1980s. The said Act sought to clamp down on fraud in non-exchange listed stocks priced below US $ 5 that generally trade in the "Over the counter" (OTC) market. The law attempted to impose more stringent regulations on the brokers/ dealers who dealt with in Penny stocks. Penny stocks as the name suggests are low priced stocks.

2. The issue of penny stock has been at the forefront in the Indian markets ever since the Income-tax department started a crackdown on the assesses who had declared huge tax-free capital gains upon sale of penny stocks held by them. The modus operandi was simple and the manipulations were mostly done through the scrips listed on Calcutta Stock Exchange by first buying physical shares mostly by making cash payment and thereafter getting the shares converted into Demat Mode and then selling those shares at a hefty premium in Calcutta Stock exchange. Even though the entire transaction was completed in a period of 3-6 months, it was made to appear as if the transaction was done over a period of 2-3 years since the transaction of purchase was done by way of transfer of physical shares and the payment was also made in cash. This modus operandi was utilized to take benefit of Section 10(38) of the Income-tax Act, 1961 by claiming a hefty sum as exempt.

3. The above was only one of the modes which are employed, though there were other methods also. However, in this process there were some genuine transactions also which were entered into and they also got embroiled in controversy.

4. In this regard, it is pertinent to note the provisions of Section 10(38) of the Income-tax Act,1961 which were introduced in the Statute book by Finance (No 2) Act, 2004 w.e.f. 1/4/2005 and provided that any income arising from the transfer of a long term capital asset, being an equity share in a company or a unit of an equity oriented mutual fund or a unit of a business trust was exempt where

(a) The transaction of sale of such equity share or unit is entered into on or after the date on which Chapter VII of the Finance (No 2) Act 2004 comes into force and

(b) Such transaction is chargeable to securities transaction tax under that chapter.

Thus the original section as introduced had no provision or restrictive clause regarding the manner in which the acquisition of the shares on which the capital gain was claimed as exempt took place.

An important amendment was made to Section 10(38) of the Income-tax Act,1961 by Finance Act, 2017 w.e.f. 1/4/2018 by inserting a proviso as follows:-

Provided also that nothing contained in this clause shall apply to any income arising from the transfer of a long term capital asset, being an equity share in a company, if the transaction of acquisition , other than

Section 10(38) of the Income-tax Act,1961 has been amended to provide that exemption under this section for income arising on transfer of equity shares acquired on or after 1st day of October, 2004 shall be available only if the acquisition of share is chargeable to securities transaction tax under Chapter VII of the Finance (No 2) Act, 2004.

the acquisition notified by the Central Government in this behalf of such equity share is entered into on or after the 1st day of October 2004 and such transaction is not chargeable to securities transaction tax under Chapter VII of the Finance (No 2) Act, 2004.

The aforesaid amendment was explained by CBDT Circular No 2/2018 dated 15th February 2018 (2018) 401 ITR 178 at p.199 as follows:-

With a view to prevent abuse of this exemption by certain persons for declaring their unaccounted income as exempt long term capital gains by entering into sham transactions, Section 10(38) of the Income-tax Act,1961 has been amended to provide that exemption under this section for income arising on transfer of equity shares acquired on or after 1st day of October, 2004 shall be available only if the acquisition of share is chargeable to securities transaction tax under Chapter VII of the Finance (No 2) Act, 2004. However, to protect the exemption in genuine cases, it is also provided that the Central Government shall notify transactions of acquisition for which the condition of chargeability to securities transaction tax on acquisition shall not be applicable. This amendment takes place from 1st April,2018 and will, accordingly apply from assessment year 2018-19 and subsequent years.

Thus upon introduction of the proviso as above, the loop hole that was existing in the Section 10(38) has been plugged by providing that the transaction for purchase also must have been chargeable to securities transaction tax under Chapter VII of the Finance (No 2) Act,2004.

Also the CBDT vide Notification No SO 1789€ dated 5th June,2017 exempted certain categories of transaction being taxed even if the transaction of purchase did not suffer securities transaction tax and they were specified as below:-

(a) where acquisition of existing listed equity share in a company whose equity shares are not frequently traded in a recognised stock exchange of India is made through a preferential issue:

Provided that nothing contained in this clause shall apply to acquisition of listed equity shares in a company:—

(i) which has been approved by the Supreme Court, High Court, National Company Law Tribunal, Securities and Exchange Board of India or Reserve Bank of India in this behalf;

(ii) by any non-resident in accordance with foreign direct investment guidelines issued by the Government of India;

(iii) by an investment fund referred to in clause (a) of Explanation 1 to section 115UB of the Income-tax Act or a venture capital fund referred to in clause (23FB) of section 10 of the Income-tax Act or a Qualified Institutional Buyer

(iv) through preferential issue to which the provisions of chapter VII of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 does not apply.

(b) where transaction for acquisition of existing listed equity share in a company is not entered through a recognised stock exchange of India:

Provided that nothing contained in this clause shall apply to the following acquisition of listed equity shares in a company made in accordance with the provisions of the Securities Contracts (Regulation) Act, 1956 (42 of 1956), if applicable,

(i) acquisition through an issue of share by a company other than the issue referred to in clause (a);

(ii) acquisition by scheduled banks, reconstruction or securitisation companies or public financial institutions during their ordinary course of business;

(iii) acquisition which has been approved by the Supreme Court, High Courts, National Company Law Tribunal, Securities and Exchange Board of India or Reserve Bank of India in this behalf;

(iv) acquisition under employee stock option scheme or employee stock purchase scheme framed under the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines,1999;

(v) acquisition by any non-resident in accordance with foreign direct investment guidelines of the Government of India;

(vi) where acquisition of shares of company is made under Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulation, 2011;

(vii) acquisition from the Government;

(viii) acquisition by an investment fund referred to in clause (a) to Explanation 1 to section 115UB of the Income-tax Act or a venture capital fund referred to in clause (23FB) of section 10 of the income-tax Act or a Qualified Institutional Buyer;

(ix) acquisition by mode of transfer referred to in sections 47 or 50B of the Income-tax Act, if the previous owner of such shares has not acquired them by any mode referred to in clause (a) or clause (b) or clause (c) [other than the transactions referred to in the proviso to clause (a) or clause (b)].

(c) acquisition of equity share of a company during the period beginning from the date on which the company is delisted from a recognised stock exchange and ending on the date immediately preceding the date on which the company is again listed on a recognised stock exchange in accordance with the Securities Contracts (Regulation) Act, 1956 read with Securities and Exchange Board of India Act,1992 (15 of 1992) and the rules made thereunder;

Explanation,—For the purposes of this notification,—

(a) “frequently traded shares” means shares of a company, in which the traded turnover on a recognised stock exchange during the twelve calendar months preceding the calendar month in which the acquisition and transfer is made, is at least ten per cent. of the total number of shares of such class of the company:

Provided that where the share capital of a particular class of shares of the company is not identical throughout such period, the weighted average number of total shares of such class of the company shall represent the total number of shares.

(b) "listed" means listed in a recognised stock exchange in India in accordance with the Securities Contracts (Regulation) Act, 1956 and the rules made thereunder.

(c) “preferential issue” and “Qualified Institutional Buyer” shall have the meanings respectively assigned to them in sub-regulation (1) of regulation (2) of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009.

(d) "public financial institution" and "scheduled bank" shall have the meanings respectively assigned to them in *Explanation* to clause(viia) of sub-section (1) of section 36 of Income-tax Act.

(e) “recognised stock exchange" shall have the same meaning assigned to it in clause (f) of section 2 of the Securities Contracts (Regulation) Act, 1956.

(f) “reconstruction company” and “securitisation company” shall have the meanings respectively assigned to them in sub-section (1) of section 2 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (54 of 2002.

5. Since the crack down on these types of cases, the government has swung into action and in all the cases wherever there were cases of long-term capital gains, the assessment has been either reopened u/s 148 or has been selected for scrutiny and assessment orders are being passed by adding these capital gains as income. In this regard some of the judgements that have been passed by Courts and tribunals across the Country recently are worth noting.

6. The Pune Bench of ITAT in the case of Raj Kumar B Agarwal VS DCIT Central Circle 1(2) in ITA No 1648&1649/PUN/15 decided on 4/1/2019 was dealing with a case where the assessee had gained Rs 22.77 lacs by way of sale of shares of a company called Praneta Industries Ltd (PIL). The shares were purchased through a broker Vijay Bhagwandas & Co who were suspended by SEBI for illegal activities in the trading of shares. The AO in this case noted that full-fledged enquiries were launched by BSE and SEBI into the purchase and sale of penny stock which divulged that the price of the shares of PIL were also manipulated. In the absence of any demat details filed by the assessee, the AO had that there was no proof of having received the shreds of PIL immediately after the alleged date of purchase. The transaction was thus treated as Sham. The tribunal after noting that the buying and selling broker in the said case were fined by SEBI for manipulating stock prices and in absence of full details, the ITAT held that mere furnishing of contract notes etc and more specifically when seen in the background of the above noted facts, does not inspire any confidence and cannot be a ground to delete the addition which is otherwise made on the solid bedrock of detailed enquiries. The Apex Court cases of CIT Vs Durga Prasad More(1971) 82 ITR 540 (SC) and Sumati Dayal Vs CIT(1995) 214 ITR 801(SC) were relied upon and it was finally held that PIL is a penny stock company and the assessee obtained only accommodation entries in the grab of short term capital gain from transfer of shares of PIL for which an appropriate addition has rightly been made and upheld by the authorities below. The ITAT also noted that in these types of cases, factual position in each case can differ from other and even a slightest variation in the factual matrix of two apparently similar cases changes the entire complexion of the decision.

7. The Chennai bench of ITAT in the case of Pankaj Agarwal & Sons(HUF) Vs ITO decided on 6/12/2018 in ITA No 1413/CHNY/2018 after noting that the facts regarding the nature of equity shares which were purchased, investigation report being against the assessee, price rigging and manipulation were never controverted at the earlier stage and the cross examination and natural justice having been sought for the first time at the appellate stage , did not merit and the case was decided against the assessee replying on Durga Prasad More and Sumati Dayal as well as McDowell's case.

8. In the case of Ramprasad Agarwal Vs ITO Ward 2(3)(2) Mumbai (2018) 100 taxmann.com 172(Mumbai ITAT), the ITAT following the decision in the case of Meghraj Singh Shekhawat Vs Dy CIT wherein the same scrip which was involved as in this case , it was held that the evidence of the assessee could not have been doubted and the appeal was allowed. It is important to note that cross examination having been specifically called for against the statement recorded before Investigation wing was not allowed in this case. Also it was nowhere recorded in the statement that the transaction was bogus and it was only stated to be a business nexus with the company. On these facts the appeal was decided in favour of the assessee.

9. The Bangalore bench of ITAT in the case of M K Rajeshwari Vs ITO Ward 3 (2018) 99 taxmann.com 339(Bangalore-Trib) the assessee's appeal was dismissed relying upon the fact that the findings of the assessing officer about the accommodation entry providers obtained on the basis of investigations were not controverted by the assessee by placing any evidence. Reliance was placed on the decision of Bombay High Court in the case of Sanjay Bimalchand Jain Vs Pr CIT(2018) 89 taxmann.com 196(Bom).

10. The Kolkata Bench of ITAT in the case of Consistent Vyappar Pvt ltd Vs DCIT CC 3(3) (2018) 9 TMI 1745(ITAT Kol) allowed the appeal of the assessee by holding

that the entire addition was made on the basis that the prices of the shares have been rigged by certain individuals. No evidence is brought on record to connect the assessee with the alleged price rigging and to demonstrate that the assessee was involved in the rigging or was closely involved with those persons. The addition could not have been made on the basis of probabilities, human behavior. The ITAT relied interalia on the following decisions:-

CIT Vs Carbo Industrial Holding ltd (2000) 244 ITR 422(Cal)
Dhakeswari Cotton Mills Ltd Vs CIT(1954) 26 ITR 775(SC)

11. There have been decisions of Delhi ITAT in the case of Ankita Vijay (pronounced on 8th February, 2019) and Lalit Kumar Agarwal(pronounced on 24th January, 2019) where relief has been given to the assessee on grounds of suspicion and conjectures.

12. From the few recent citations which are appearing hereinabove it will appear that the view which has been taken by the various benches of the ITAT is as follows:-

    a) In any matter relating to the Income-tax, the income tax officer is not fettered by technical rules of evidence and pleadings, and he is entitled to act on material which may not be accepted as evidence in a court of law, but the income tax officer is not entitled to make a pure guess and make an assessment without reference to any evidence or any material at all. There must be something more than bare suspicion to support. Dhakeswari Cotton Mills Ltd Vs CIT(1954) 26 ITR 775(SC)

    b) In the case of Omar salary Mohamed Sait Vs CUT(1959) 37 ITR 151(SC), the apex Court held that every fact for and against the assessee must have been considered with due care and the Tribunal must have given its finding in a manner which would clearly indicate what were the questions which arose for determination, what was the evidence pro and contra in regard to each one of them and what was the findings reached on the evidence on record before it. The conclusions reached by Tribunal should not be coloured by any irrelevant considerations on matters of prejudice and if there are any circumstances which are required to be explained by the assessee, he must be given an opportunity to do so. On no account, the tribunal should base its findings on suspicions, conjectures or surmises nor should it act on no evidence at all or on improper rejections of material and relevant evidences or partly on evidence and partly on suspicions, conjectures or surmises.

    c) Though it has been held that the rigors of evidence act are not applicable to tax proceedings, the Bombay high court in the case of J S Parker Vs V B Palekar (1974) 94 ITR 616(Bom) held that what was meant by saying that the Evidence Act did not apply to proceedings under the Act was that the rigors of the rules of evidence contained in the Evidence Act was not applicable but that did not mean that when the taxing authorities were desirous of invoking the principles of the Act in proceedings before them, they were prevented from doing so . Evidence Act embodies principles of common law jurisprudence which could be attracted to a set of circumstances that satisfies its conditions. In the context of Evidence Act, Section 106 specifies that when any fact is especially within the knowledge of any person, the burden of proving that fact is upon him. Thus, in case of Penny stocks, it is incumbent upon the AO to prove that the investigation report/ statement given by any person has a direct bearing on the case of an assessee and simply a guess work cannot be of any help.

13. The crux of the arguments which has been accepted by various appellate forums and tribunals and courts has been related to the violations of natural justice, cross examination etc which are in built into any income tax proceedings and in any matter relating to income tax , it is incumbent upon the Assessing officer to follow the same and if the said principles are not followed, then the assessment is liable to be quashed and set aside and the courts have taken serious note of such violations.

14. In the light of above, for any assessment relating to penny stocks, it is incumbent upon an assessee to bring to the notice of the AO each and every point relating to the case to drive home the point that even though there may be an investigation report or an statement made by a third party, but unless the same can be correlated to the transaction entered into by him, there cannot be any guess work, surmise or conjecture on the basis of which the assessment is completed. Mere factual arguments or arguing that the paper work or paper trail is complete is unlikely to yield any positive result.

* * * * *

The impact of Technology in Capital Markets

Mr. Sanjib Sanghi
FCA

In today's age of big data analytics & machine and deep learning, machines are increasingly taking away jobs of humans. With technology changing so fast, no one knows where jobs of the future are going to emerge from and what they will look like.

Recent advances in technologies such as blockchain, cloud computing, machine intelligence, behavioral science, and other areas provide us with the opportunity to literally rewrite tomorrow and drive our industry forward in entirely new ways[1].

Better technology leads to faster business execution and higher operational efficiency, which in-turn leads to customer retention and growth in both top line and bottom line. This is applicable to capital markets business more than any other.

Why technology is the key in Indian Capital Markets

In the capital market business, competitive edge is directly derived from effective use of technology. In this industry the rates in many asset classes change every second or at times even faster.

Equities transactions for instance are aiming at a sub-milli second transaction window. The round trip from the trading application to the exchange and back should be executed in less than a milli second by ultra-low latency applications. This cannot be achieved without cutting-edge technology infrastructure.

Let us analyze ***the technology adoption and trends in the Indian capital markets.*** In 2008, the Securities and Exchange Board of India (SEBI) allowed brokers to offer ***Direct Market Access (DMA)*** to their institutional clients. DMA allows the clients to use the broker infrastructure to trade on the exchange order book directly. Through DMA clients can place their orders directly on the exchange without any manual intervention from the brokers. The level of adoption of DMA in India is increasing. The pressure from FIIs to adopt DMA is pushing the brokers in this direction.

Interestingly, the SEBI circular mentions "Initially, the permission is restricted to institutional clients" Will this be extended to any other client segment in future is anybody's guess. However, this does give an indication of the trend in future.

In the year 2010, SEBI allowed ***Smart Order Routing (SOR).*** This would allow the trader to place the order on the best possible exchange. Many scripts are listed both on BSE and NSE. SOR technology will route the prices from the stock exchanges to the trader and automatically determine the best execution venue.

Along with this co-location of trading servers has been permitted. NSE allows ***co-location of servers as this would reduce the time taken for the execution round trip to the exchange.*** Even though this fuels a debate on whether some players will have an unfair advantage or not, it still is the direction. Going by the way developed markets have moved, adoption of co-location in emerging markets is a clear direction as there is a business value in co-location.

These form the basic building blocks for algorithmic trading. This is a form of trading which is executed without any manual intervention, where the computer algorithms trade on the exchange. ***Algo Trading*** is another trend for the Indian equities market which is on the rise. Currently a small percentage of equity volumes come through algo trading in India.

Currently the securitization volumes in India are not very high. As a result, many players use the bond trading application as a work-around for trading in Mortgage Backed Securities (MBS) and Asset Backed Securities (ABS).[2]

Here are the 4 technologies which are revolutionizing the capital markets:

I. **Artificial intelligence and natural language processing: Machine learning algorithms** have improved significantly. With burgeoning processor capabilities at lower cost, these algorithms are available for broader use. Artificial intelligence techniques allow systems to learn from user interactions and patterns without being explicitly programmed for it.

   Smart algorithms can identify new patterns of trading or system abuse in capital markets. It can also look at keywords, decipher colloquial encryption of information and perform complex searches on the recordings. These technologies also automate the decision-making process in the fast-paced financial trading environment, where timing of decisions is extremely important.[3]

   RPA (bots). RPA deploys software bots to handle static, typically simple data management-related tasks. RPA has demonstrated its potential to handle a wide range of operational functions: trade processing and support, reconciliations and case management, various aspects of fund administration, and client portfolio rebalancing, among others.

   Statistical machine learning is probably the most diverse and best-known set of applications, and moves closer to the front-office and pre-trade functions. Spanning from know-your-customer and fraud detection checks to cyber defenses, machine learning can shore things up operationally. But it is more about enabling trading desks and business units to glean information faster and ultimately increase margins.

   Deep learning (neural networks) - At the other end is a still-emerging branch of machine learning that is focused more on data science and a reconceptualization of finance at the modeling and engineering levels than on the wholesale or operational levels.[4]

II. **Quantum 'sealed envelope':** Scandals based on information theft have always been a nightmare for players in financial markets. So far, hackers have always managed to stay ahead of security programs and passwords. However, this may change very soon.

   Early experiments using these digitally 'sealed envelopes' have been successful and if all goes well, financial markets can be totally safeguarded against any threat of information invasion

III. **Blockchain, a Distributed Ledger Technology (DLT)** underpins bitcoin technology and has enormous power to not only expand existing markets by reducing cost but also to create entirely new markets.

   The DLT eliminates the need of such a central repository by settling an asset trade between the counterparties in no time. It has potential of settling millions of such transactions per second saving considerable amount of operational cost to the enterprise.[5]

   The Reserve Bank of India (RBI), which had issued a cautionary note against Bitcoin in 2013, recently changed its stance. The Indian central bank now believes that the Blockchain technology can help prevent counterfeiting currency and financial transactions.[6]

IV. **Big data and analytics**

   Financial markets generate massive amount of data every second. Storing and analysing this information on real time basis is critical. A combination of ***private and public cloud*** solves the problem of storage and real-time access to this ocean of data at an affordable price.

   Big data analytics makes it possible to highlight correlations that were impossible for humans to find out. Imagine a situation where 90 per cent of orders placed on NSE and BSE through high-frequency algorithmic trading platforms are suddenly cancelled within less than 30 seconds. A human could never have identified such trends with so much precision. Last year, RBI highlighted this trend and alerted the markets about it.

Such an analysis can never be done without leveraging technology for big data analysis. There can also be software that analyze thousands of social media feeds about the sentiment and news around a company and can try to predict future and potential sentiments around that company. These insights can change the way institutional as well as retail investor trade in the market.[7]

Future trends : Going forward the following trends shall be seen in near future in the respect of increasing application of technology in capital markets.

Algo trading volumes will increase in India. This is in lines with the way technology was deployed and used in the developed markets. There is no authentic source of actual equity trading volumes through the algorithmic route, but at this stage the algo volumes in India are much lower than in the developed markets. Potential for growth in the algo volumes is huge since the basic technology infrastructure required for algo trading is now falling in place.

The complexity of algorithms will increase. Currently the algorithms are largely focused on the comparison of the future price and spot price. Complexity in the form of various variables can be added. As the volumes of MBS/ABS will increase there will be a need for many applications in securitization for instance structuring application for implementing complex structures, pricing application which would model the pre-payment behavior of borrowers. Since pre-payment is a risk and has an impact on the future cash-flows, predicting the pre-payment behavior of borrowers in the pool is essential for determining the right price. The analytical applications are critical for performing valuations of MBS and will be in demand as the volume of securitization business increases in India.

Debt markets will also see an increase in India specific research tools which would be made available to institutional clients. These tools would be used to analyze the performance of specific Indian bonds over time and also used to perform valuations and risk for various debt market asset classes in the client portfolio.

To summarize, capital markets technology is at a very critical juncture in India where the capital markets are evolving and so is the technology shaping the future of this business. Presence of global players i.e. the FIIs and the global investment banks will make it imperative for the local players to scale up the technology to keep pace with the business requirements.[8]

1 https://bit.ly/2paVO3b
2 https://bit.ly/2GnHHma
3 https://bit.ly/2I7XHu4
4 https://bit.ly/2yvUehw
5 https://bit.ly/2TQYIYU
6 https://bit.ly/2I7XHu4
7 https://bit.ly/2I7XHu4
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* * * * *

A man is but a product of his thoughts. What he thinks he becomes.

Wealth Management

Mr. Amit Jain
VP-Wealth Management
JRK Group

Wealth management is about managing your wealth or surplus funds to achieve a financial goal, e.g. to ensure capital invested is kept intact or the investment risks are well managed at all times. Wealth is defined as your net assets, after deducting your debt (or liabilities). Once you have determined your net worth and set your goals, you will need to have an action plan to achieve these goals

HOW TO START?

Before deciding how your money should be managed, WE need to determine the financial situation and financial goals. To do this, WE need to:

- Understand your business and personal financial goals and constraints
- Analyze your business and personal financial position using net worth and cash flow analysis
- Assess your business risks and personal risk profile

Net Assets (wealth) = Assets – Liabilities
+
Net Income = Income – Expenses
+
Financial Situation
+
Financial Goals

Objective 1 **Objective 2** **Objective 3**

ASPECTS OF WEALTH MANAGEMENT :

A comprehensive wealth management plan should generally include ways to maintain, grow and distribute assets which would involve the following:

- Debt / cash flow planning to enable efficient and optimum use of credit for the business
- Investment planning and management to maintain wealth and ensure adequate returns
- Insurance planning for business protection (e.g. fire, theft, marine or key-man insurance) and personal protection (death, disability, critical illnesses and household)
- Tax planning to minimize unnecessary cash outflows and ensure efficient cash flow management
- Retirement and welfare planning for employees to ensure retention of key staff for business continuity
- Retirement and succession planning to ensure that the business can continue to operate smoothly when the business owner leaves the business
- Estate planning to ensure efficient wealth transfer to successors / beneficiaries

CASH FLOW PLANNING

Managing cash inflows and outflows is the first step to have a better understanding of your financial position.

Proper management of your cash flow would allow you to utilize any surplus funds to your benefit based on their availability over the short, medium or long term and also allow you to meet your obligations as they become due.

INVESTMENT PLANNING AND MANAGEMENT

Your investment plan would depend on your goals and your willingness to take risks. You need to monitor and

perform regular review on the performance of your investments to ensure that you are on track to achieving your goals. Your investment plan may be modified based on the performance of your investments or changing market conditions.

In designing an investment plan, you need to consider:

- Your investment objectives
- An asset allocation strategy to meet the investment objectives
- The types of investment products to meet your goals

INSURANCE PLANNING

An insurance programmed should be part of your plan to protect against the risk of unexpected financial losses. This will include protection for losses from fire, flood and other risks to your business and the purchase of health and life insurance for yourself and your employees. The amount of insurance depends on your needs, the circumstances as well as the objectives. Insurance protection should be reviewed regularly to ensure that the protection is adequate based on your current situation.

TAX PLANNING

The goal of tax planning is to manage your financial affairs to minimize your tax payable. The amount of tax payable will affect your decisions on the following:

- Investment
- Borrowing
- Savings

RETIREMENT AND SUCCESSION PLANNING

Retirement planning is an essential aspect of wealth management. As a business owner, you will need to consider the following issues:

The timing of your retirement

- The amount of money you need to continue your current lifestyle
- The succession plan as to who and how the business will be run after you retire. This is to ensure that there is a plan in place which will maximize the selling price of your business or enable the business to continue with minor disruption

Factors to consider when developing a retirement plan are:

- Future retirement needs
- Current living standard / style and future expenses
- Total funds accumulated (investment & savings) taking into account inflation, insurance and taxation
- Family circumstances (number of dependants, age, and education needs, etc.)

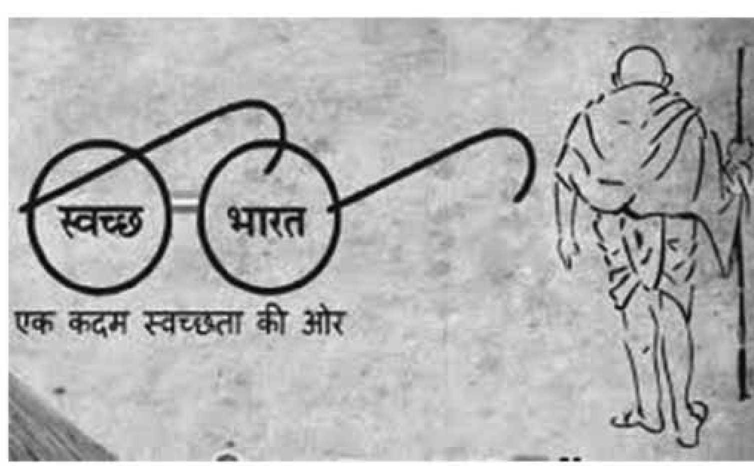
BENEFITS OF WEALTH MANAGEMENT

Benefits of wealth management include:

- Better utilization of free funds
- Minimizing tax on investment
- Maximizing return on investment on a given risk appetite

* * * * *

Happiness is
when what you think,
what you say, and
what you do are in harmony



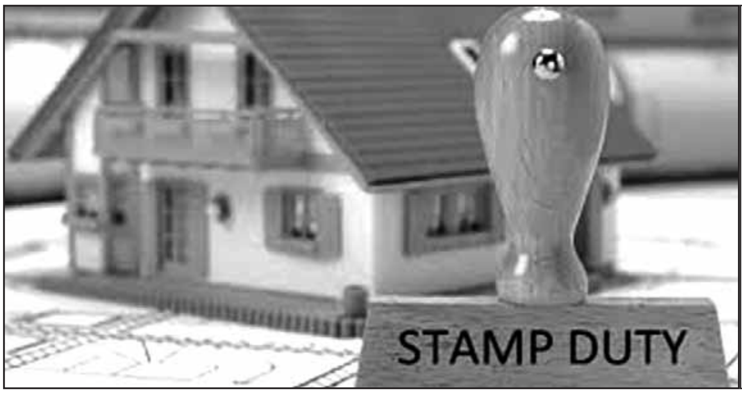
Stamp Act –
Key changes proposed in Budget 2019-20

Mr. Pratik Jain
Partner, Regulatory Service, PwC

The Finance Bill, 2019, has proposed certain amendments in the Indian Stamp Act, 1899 (the Act) bringing uniformity in the levy of stamp duty on securities whether through physical or dematerialised form. The amendments also seek to introduce a central mechanism for collection with respect to stamp duty(ies) by certain authorised entities for issuance and transfer of securities and subsequent disbursement of the duty collected to the respective states.

Key changes proposed in the budget 2019-20 for stamp act are:

- Exclusion in 'bond': 'debenture' is now excluded from the definition of 'bonds'. This amendment will now help in clarifying for various stamp duty adjudications / litigations wherein the adjudicating authority used to charge them interchangeably basis the terms of the 'debentures'. With this amendment, 'debentures' will now be charged only under Art. 27 (which is a part of the Union list).
- Definition of 'debenture': the term 'debenture' is now separately defined under stamp act and covers most of the instruments which are used in transaction structuring like:
- bonds or any other instrument of a company evidencing a debt whether constituting a charge or not (this will open up a pandora box for various loan instruments used by banks / NBFCs)
  - bonds in the nature of 'debenture';
  - certificate of deposit;
  - securitized debt instrument;
  - certificate of deposit, commercial usance bill, commercial paper and such other debt instrument of original or initial maturity upto 1 year as RBI may specify from time to time
  - and any other debt instrument specified by SEBI
- Definition of 'marketable security': The definition is now rationalised. The new definition proposes that the security has to be capable of being 'traded' on any stock exchange, unlike earlier definition where the security has to be capable of being 'sold'. Further, the term 'stock exchange' is also defined and thus the ambiguity of how to define a stock exchange under a fiscal statute is also clarified.
- Definition of 'market value' to mean:
  - for securities traded in a stock exchange - the price at which it is traded;
  - securities transferred through depositories but not traded in stock exchange - price / consideration mentioned in the instrument;
  - security dealt otherwise than in stock exchange or depository - price or consideration mentioned in the instrument.
- Consolidation of stamp laws: it is proposed to consolidate the stamp duty provisions relating to issue, sale or transfer of securities under the newly inserted Section 9A of the Indian Stamp Act. The challenge one may apprehend in this case is that Entry 91 of List 1 of Seventh Schedule of Constitution of



The Finance Bill, 2019, has proposed certain amendments in the Indian Stamp Act, 1899 (the Act) bringing uniformity in the levy of stamp duty on securities whether through physical or dematerialised form.

India empowers the central government to cover only a certain instruments viz. bills of exchange, cheques, promissory notes, bills of lading, letters of credit, policies of insurance, transfer of shares, debentures, proxies and receipts. So even if the government makes changes (under this budget) in issuance of shares or sale of debentures, the same will actually impact the stampability of the respective instruments when the state governments also amends their respective state schedules / acts and follow the central amendments.

- Stamp duty on transfer: transferability of demat securities between beneficial owners was earlier exempted from stamp duty u/s 8A(c)(ii) & (iii). The same is now deleted and now the exemption is only limited to transfer of securities from a person to a depository or from a depository to a beneficial owner. The rates at which stamp duty is chargeable on transfers are:
  - in case of transfer and re-issue of debentures @ 0.0001%
  - in case of transfer of security (other than debenture) on delivery basis @ 0.015%
  - in case of transfer of security (other than debenture) on non-delivery basis @0.003%
- Centralised collection: a new Section 9A is inserted wherein stamp duty paid on any of the following instances will now be collected on behalf of the state government and they will then transfer the said stamp duty within three weeks of the end of each month to the state government.
  - stamp duty on sale of any securities made through a stock exchange - by the stock exchange or a clearing corporation appointed by it;
  - stamp duty on transfer of securities for a consideration made by a depository otherwise than on the basis of any transaction referred to above - by the depository;
  - stamp duty on issue of securities, any creation or change in the records of depository is made - by the depository, the stock exchange (or the clearing corporation appointed by it) / depository shall transfer the said stamp duty to the respective state government within three weeks of the end of each month. The central government shall make rules in this regard.
- Stamp duty on issuance: issuance shall be charged as under:
  - issuance of debentures @0.005% (currently the issuance is charged @0.05% per year upto a maximum of 0.25% or Rs. 25 lacs whichever is lower)
  - issuance of security (other than debenture) @0.005% (currently the issuance is charged as per state schedule which is generally @0.1%)
  - derivatives
    - futures @ 0.002%
    - options @ 0.003%
    - currency & interest rate derivatives @ 0.0001%
    - other derivatives @0.002%
  - government securities @ 0%
  - repo on corporate bonds @0.00001%
- Stamp duty payable by: stamp duty shall be paid by:
  - in case of sale of security through stock exchange - by the buyer
  - in case of sale of security otherwise than through a stock exchange - by the seller
  - in case of transfer of security through a depository - by the transferor

- in case of transfer of security otherwise than through a stock exchange or depository - by the transferor
- in case of issue of security whether through a stock exchange or depository or otherwise - by the issuer
- in any other case - by person making, drawing or executing such instrument

- Exemption for 'debentures': In case of debentures the exemptions the caveat under Article 27 for 'debenture' re 'marketable security' is deleted. In other words, earlier 'debenture' which were 'maketable' were subject to stamp duty under article 27. Now every 'debenture' (defined under newly inserted section 2(10A)) is subject to stamp duty. Further, the exemption of mortgage deed is also deleted. So even if the debentures are issued pursuant to mortgage deed which is already stamped, the debentures will also be required to be separately stamped under article 27.

The amendments propose a uniform system for collection and payment of stamp duty on the issue and transfer of securities, and thus, it would result in effective collection of duty across all the states and reduce instances of evasion/ avoidance of stamp duty payments. However, certain articles fall under the jurisdiction of states, and thus, the acceptance and implementation of some of these amendments under respective state laws would need to be seen.

* * * * *

NEW MEMBERS ENROLLED

November, 2018 to February, 2019

Sl. No.	Name	Membership No.
1	Mr. Sanjay Jhunjhunwala	L1430
2	CA Anand Mehta	G1431
3	CA Joydeb Bhattacharya	L1432
4	CA Anupama Dhanuka	L1433
5	Mr. Gopi Kishan Agarwal	L1434
6	CA Mridula Agarwal	L1435
7	Mr. Anil Changoiwala	L1436
8	CA Rakesh Somani	L1437

Sl. No.	Name	Membership No.
9	CA Dilip Kumar Parmanandka	L1438
10	CA Vikash Goel	L1439
11	CA Deepak Jain	L1440
12	CA Dilip Kumar Patni	PL1441
13	CA Anup Kumar Sanghai	PL1442
14	CA Arun Kumar Agarwal	PL1443
15	CA Jitendra Lohia	PL1444

A Journey towards rule based economy – a paradigm shift

Indranil Mitra
Eureka Stock & Share Broking Services Ltd.

Preamble

Our nation is now 72 years old independent country. During this long period, our nation has experienced different kind of economic policies and transition phases. At every transition point, there is a need to introspect the past policies, to recapitulate the path of evolution of our political economy and also to**quest for** our future roadmap. We had witnessed such a critical transition phase in 1991-92 and once again now we have entered into a transition phase.

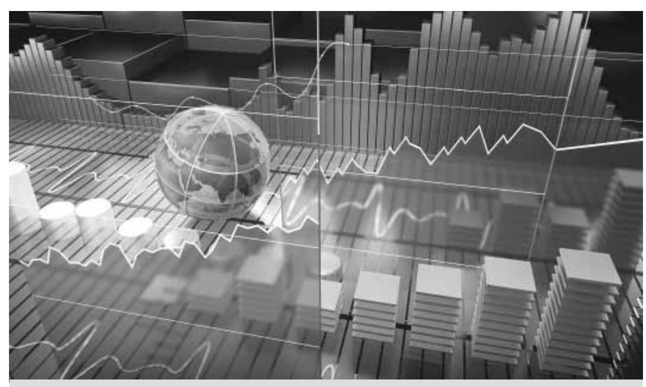
The period of 1947 to 1992 – Closed economy

The **Constituent Assembly of India** was elected to write the Constitution of India. Following India's independence from Great Britain in 1947, its members served as the nation's first Parliament. Dr. Ambedkar was the Chairman of the drafting committee. In the preamble of the Constitution, it was first proposed to add that "India shall be a Secular, Federal, and Socialist Union of States." Dr. Ambedkar opposed to both "Secular" and "Socialist" words. Both the words were incorporated in the constitution much later vide 42nd Amendment of the Constitution during emergency period on 1976, by the then Prime Minister Mrs. Indira Gandhi.

We all remember Dr. Ambedkar as the architect of Constitution of our country but many of us do not even know that he was a renowned economist, earned doctorates in economics from both Columbia University and the London School of Economics. In fact, he was the first Indian to pursue an Economics doctorate degree abroad.While opposing to the word "Socialist", he said "*What should be the policy of the State, how the Society should be organised in its social and economic side are matters which must be decided by the people themselves according to time and circumstances. It cannot be laid down in the Constitution itself, because that is destroying democracy altogether.*"

There was another brilliant economist in the Economist Panel, B. R. Shenoy, one of the best economists India has ever produced, although he is least discussed and almost forgotten today. Shenoy also was of the opinion that planned socialistic and soviet-based approach to the economic policies would be a bad idea. Shenoy and Ambedkar, both were market based economists and due to their opposition, the word "Socialist" was dropped off the preamble of the original constitution.

Nevertheless, Nehru opted for planned soviet-inspired socialistic approach in policy framing and next 40 years India witnessed Nehruvian Socialism in its economic policies. Unfortunately, a great majority of India's economists also toed the Gosplan line. (Gosplan was Soviet



Nehru opted for planned soviet-inspired socialistic approach in policy framing and next 40 years India witnessed Nehruvian Socialism in its economic policies. Nehruvian Socialism in its economic policies.

Russia's state committee for planning whose Five Year Plans continue to be a model for India.) It was the beginning of LPQ (License, permit and quota) regime, which is infamously known as License Raj. This was actually the elaborate system of licences, regulations and accompanying red tape that were required to set up and run businesses in India between 1947 and 1990. The Licence Raj was a result of the Nehru government's decision to have a planned economy where all aspects of the economy are controlled by the state and licences are given to a select few.

This bureaucracy often led to absurd restrictions: up to 80 agencies had to be satisfied before a firm could be granted a licence to produce, and, even then, the state would decide what was produced, how much, at what price and what sources of capital were used.

The term License Raj plays off "British Raj", the period of British rule in India. It was coined by Indian freedom fighter and statesman Chakravarthi Rajagopalachari, who firmly opposed it for its potential for political corruption and economic stagnation. Even the economist Shenoy also was strong believer that interventionism is the root cause of the corruption. Shenoy once said - "a piece of paper which costs nothing, but the signature of the government official concerned to produce has value. And it has value because government policy mandates acquiring licences, permits and quotas (LPQ) to run businesses." However, voices of Shenoy or Rajagopalachari were ignored and Nehruvian Socialism and License Raj triggered massive government control.

The key characteristic of the Licence Raj is a Planning Commission that centrally administers the economy of the country. Like a command economy, India had Five-Year Plans on the lines of the Five-Year Plans in the Soviet Union. Before the process of reforms began in 1991, the government attempted to close the Indian economy to the outside world. The Indian currency, the rupee, was inconvertible and high tariffs and import licensing prevented foreign goods reaching the market. India also operated a system of central planning for the economy, in which firms required licences to invest and develop. This bureaucracy often led to absurd restrictions: up to 80 agencies had to be satisfied before a firm could be granted a licence to produce, and, even then, the state would decide what was produced, how much, at what price and what sources of capital were used.

The government also prevented firms from laying off workers or closing factories. The central pillar of the policy was import substitution industrialisation, the belief that countries like India needed to rely on internal markets for development, not international trade, a belief generated by a mixture of socialism and the experience during the colonial period.

As it was rightly predicted by Shenoy, such massive Government control gave birth of blanket corruption across the government administration. Today we discuss about corruption among Govt officials but foundation of this corruption was laid in 1950s in the regime of License Raj. This corruption showed snow ball effect and turned monstrous over the time. This is the factor which later started looting the money allocated to poorer section of the society and thus the purpose of socialism was defeated miserably. This is the factor which compelled PSU Banks to provide loans rampantly to persons who had no credential; most of these loans turned bad over the time and this was the beginning of today's humongous NPA problem of the PSU Banks.

The classic example of the administrative corruption was Mundhra-LIC Scam, the first financial scam of independent India, which broke out in 1958 and LIC was nationalised just in 1956. It was alleged that the scam was cooked inside the ministry of Central Government and Finance Secretary was directly involved. Amazing part is, the scam was first pointed out in Parliament by none other than Mr. Firoze Gandhi and the whole system was trebled by the said revelation. After that incident the relationship between Nehru and Firoze Gandhi got shattered and ultimately that ended with divorce of Indira Gandhi and Firoze Gandhi, however that is a separate issue altogether.

There is no denying that since Nehru was the first Prime Minister of India, he inherited an economically backward country where starvation, poverty and illiteracy were at the peak, moreover recent partition took a huge toll in the economy and therefore his challenge as the first Prime Minister was huge. But the closed and planned economic policy, which was an ineffective copy from Soviet Russia and actually a blend of socialist and mixed economy, could not achieve any goal, either in short term or long term. Soviet Russia finally fell, Berlin wall too and Indian economy also finally collapsed in early 90s leaving the core issues of the economy and society unresolved.

On short term basis, if we look at the data, it shows that the growth remained stagnant at around 3.5% during 1950 to 1980. During the same period, South Korea (got independent in 1948) grew by 10% and Taiwan (got independent in 1949). Even, if we take the data from 1960 to 1980, it shows India's growth rate was lower than South Korea, Taiwan, Hongkong, Singapore, Thailand, Indonesia and even Pakistan, Bangladesh and Srilanka and almost lowest among South – East Asian countries.

On long term basis, the closed economy and the License Raj and the resultant absolute government intervention gave birth of corruption within the Government and in almost all Government owned organisations, especially Banks. Monopolistic approach is always harmful, even in case of absolute Government control. It basically builds up a corrupt bureaucracy and our nation has been suffering from such corruption since decades. Most of the State owned Enterprises were highly over staffed, poorly managed and loss making. In 1969-70, Prime Minister Indira Gandhi nationalised Banks and created huge number of state owned banks. There was no proper surveillance system for the banking sector and over the time corruption engulfed the banking system. Loans were provided on the political recommendation and not on the basis of repayment capacity and the managers gradually became slaves of political leaders and bureaucrats. The principal reason was the number of State owned banks was much higher than the requirement and therefore it was practically impossible to monitor the affairs of such large number of banks.

Economic crisis of 1990 and then milestone reforms

Nehruvian socialist economy finally collapsed in 1990. 40 years of During 1985 India began having balance of payments problems as imports swelled, leaving the country in a twin deficit, the Indian trade balance was in deficit at a time when the government was running on a large fiscal deficit. By the end of 1990 in the run-up to the Gulf War, the situation became so serious that the Indian foreign exchange reserves could barely finance three weeks' worth of imports while the government came close to defaulting on its financial obligations. By July that year, the low reserves had led to a sharp devaluation of the rupee, which in turn exacerbated the twin deficit problem. Chandrasekhar government could not pass the budget in February 1991 at a crucial time when Moody had downgraded India and it further went down after the budget was not passed and global credit-rating agencies further downgraded India from investment grade making it impossible to even get short term loans and the government was in no position to give any commitment to reform the economy. The World Bank and IMF also stopped their assistance, leaving the government with no option except mortgaging the country's gold to avoid defaulting on payments. This led the Indian government to airlift national gold reserves as a pledge to a large conditional bail out from the International Monetary Fund (IMF) and World Bank in exchange for a loan to cover balance of payment debts. India was practically on the verge of bankruptcy.

The whole scenario forced Indian Government to go for liberalisation. There is no denying that the economic reforms in 1992 is historic but the fact is, the reform was not any innovation, rather it was compulsion. It is not that economy was liberalised because think tank of our country changed their mind, rather they were forced to liberalise it. However, the then Prime Minister P.V.Narsimha Rao and the Finance Minister Dr. Manmohan Singh did commendable job and opened the gate for the first time since independence. Before 1992 reforms, Prime Minister Rajiv Gandhi made some attempt to initiate the process of liberalisation but that ultimately didn't take any shape. However, under Rajiv Gandhi's Prime Ministership India experienced some radical improvements in some sector like

Science & Technology, Telecommunication etc. The irony is, Nehruvian socialism was ended only when it collapsed, basically the successors of Nehru had no intention to divert from the path even when the signal of collapse was quite clear. And the funniest part is, when India was following the close economic policies during 80s, the China, a communist country, already started liberalising its economy. The consequence is, today although India is growing faster than China but still it would not be able to overtake China in near future, only because China started much earlier.

The 1991 reforms did away with the Licence Raj, reduced tariffs and interest rates and ended many public monopolies, allowing automatic approval of foreign direct investment in many sectors. Since then, the overall thrust of liberalisation has remained the same, the withdrawal of state. By the turn of the 21st century, India had progressed towards a free-market economy, with a substantial reduction in state control of the economy and increased financial liberalisation. This has been accompanied by increases in life expectancy, literacy rates and food security, although urban residents have benefited more than rural residents. It is worth mentioning here, that strengthening Capital Market was a part of the economic reforms and as a consequence SEBI was formed in the year 1992, after the infamous Harshad Mehta Scam broken out. After SEBI was formed, the Capital Markets of India was much regulated and gradually it emerged as one of the most efficient, regulated and investor friendly markets in the world. Due to economic reforms and liberalisation, Indian markets over the time turned hot spot to the Foreign Investors, at the same time Domestic Institutions got permission to invest in capital markets and this dual effect provided immense depth into the markets.

However, as said earlier, the 1991 reforms was not out of change of policy, it was basically out of compulsion, and therefore the mind-set of the policy makers did not change radically. Corruption was the deadliest legacy of the license raj and by then the corruption managed to engulf the whole administrative system. Withdrawal of state began without putting framework of governance in place, which naturally led to complete chaos. Economic reforms started at 1991-92 but the progress was limited during next 20 years and the reason is during this time the economy was rent seeking, patronage based and inefficient, although it was much better than the earlier closed economy model.

Chanakyan State vs Ashokan State

If we contemplate to relook at economic history of our country, we have to revisit the era of Chanakya and also Ashoka. Chanakya was the creator and the prime minister of one of the largest empires in ancient world. His work, the *Arthashastra*, is a treatise on the governance of a kingdom. It focuses on various aspects such as trade, diplomacy, agriculture, taxation, bureaucracy, military, etc. It is important to revisit this treatise as a part of our political thought process as we explore ways to improve governance.

According to Chanakya, the role of the state is to make sure there is no *matsya nyaya* i.e. big fish eat small fish. *Matsya nyaya* is the natural way in which the world functions. It is the responsibility of the state to prevent the exploitation of the weaker by the stronger ones. The basis of such a state is rules and regulations. This entails enforcement of contracts, ensuring property rights and consumer protection, having a swift and functional justice system among other things. While the state has the power to indulge in welfarism, it must first focus on enabling its citizens. It must be a state that focuses on governance rather than actually dictating and trying to run the economy through controls. The state must be a limited but strong state focused on governance.

The Ashokan state on the other hand is the exact opposite of a Chanakyan state. It is interventionist in the sense that the government's paternal instincts kick in and the ruler feels *"I am father of my people"*. Ashoka appointed *Dhamma Mahamatras* to look after the material and spiritual welfare of the people. India, since 1947, has been a similar state based on Nehruvian ideas of welfare. The state was a weak and all-pervasive state with intervention in matters ranging from reproduction to setting of prices, obtaining licenses and permits to do business, restrictive and regressive laws, etc. Governance was not the primary focus in this theory.

Chanakya was very suspicious of government officials. He said just as it is impossible to tell if a fish is drinking water while it is swimming around, it is impossible to tell whether a government official is siphoning money from the state's coffers. This meant that the state operated from a platform where the officials were also treated with certain degree of suspicion. India operated from a governance platform where the basic assumption was that the official is right and the citizen is corrupt. This led to the creation of laws and systems around where the element of discretion given to the government official increased. To accommodate this, there had to be highly complex rules. An outcome of such a system is corruption.

Therefore, Instead of targeting eradication of poverty, it is always better idea to target eradication of corruption, because corruption (mainly administrative corruption) basically gives birth of exploitation and deprivation of the poor people. Until and unless corruption is eradicated, no amount of subsidy or social welfare scheme is sufficient to help poor. Prime Minister Rajiv Gandhi once said with utter frustration that, if Government release one rupee, practically 20 paisa out of that one rupee reaches poor. Therefore, subsidy and social welfare become meaningless if it does not reach poor and on the other hand the large subsidy results into large fiscal deficit which ultimately weighs on the overall economy. This is the reason that why Garibi Hataao slogan which started in 70s failed to work even after 40 years.

Implementation of rule based economy in 2014

Since Prime Minister Narendra Modi came to power, the principal focus has been to shift from a rent seeking economy to a rule based economy, to put in place the framework of effective governance and basically to fight against corruption and prevent Matsyanyay. The transition of Ashokan state to Chanakyan state, might not be completely but to a large extent.

In this line, the first step was opening bank account for poor people at free of cost (Jan Dhan Yojna), linking the bank account with Adhar and to transfer the subsidy and social welfare money directly to the bank account of the target section of population (Direct benefit transfer), thereby plugging the leakage of subsidy. JAM (Jan dhan – Adhar – Mobile) trinity is a revolutionary idea to reach the poor. According to Government sources, by 1 June 2016, over 22 crore (220 million) bank accounts were opened. Linking Adhar with social welfare scheme and subsidy helped identifying huge number of ghost beneficiaries which in turn was able to save huge amount of government fund.

Another major reform was to abolish Planning Commission and establishment of Niti Ayog. The new National Institution for Transforming India (NITI) acts more like a think tank or forum, in contrast with the Commission which imposed five-year-plans and allocated resources to hit set economic targets. NITI includes leaders of India's 29 states and seven union territories. But its full-time staff - a deputy chairman, Chief Executive Officer and experts - answers directly to the Prime Minister, who is the chairman. It is different from planning commission, which used to report National Development Council. The major difference in approach to planning, between NITI Aayog and Planning Commission, is that the former invites greater involvement of the states, while the latter took a top-down approach with a one-size-fits-all plan. The states had little direct say in policy planning, which was the purview of the Planning Commission. Involvement of the states was indirect through the National Development Council; it is not repeated in the NITI Aayog. Therefore, concept of NITI Ayog is much more federal in nature and unlike Planning Commission it is not a parallel power house, rather it reports to the Prime Minister and hence it is having much more accountability than the planning commission.

This Government realised the necessity of widening tax base as the tax compliance of India was terribly poor till 3-4 years ago. In this line, Government practically declared war against black money and brought two back to back major reforms – Demonetisation and the game changer GST. Demonetisation was basically aimed to change the culture, from tax evasion to tax compliance and is only a small part of war against black money. However, post demonetisation, tax base has widened and tax collection has risen significantly in last 2 financial years, resulting into major tax relief to middle income group in last interim budget 2019. After initial glitches, GST is now a reality and working more smoothly than the initial phase. GST also aimed to plug the evasion of indirect tax and to simplify the indirect tax system. Over the time, it will become a huge game changer reform which is believed by even the most critics. Necessity of GST was realised some 15 years back, lot of planning, debates, discussion, thesis, meeting took place regarding implementation of GST but nothing happened. The modus operandi of this Government was to kick start the process and then keep fine tuning according to need and situation. It might take some time to get stabilised, because it was a very major change, but after the initial pain the every stakeholder would realise that the dream is reality!

One of the major achievements of the Modi Government is maintaining the high growth rate even after two major disruptive reforms Demonetisation and GST and to maintain high growth rate keeping the inflation very low. Growth rate was high 3-4 years back also but then the inflation was also high which became very costly for the poorer section and therefore the high growth was practically meaningless to them. During last 3-4 years, inflation is down almost 500 basis points and if any other country would have done this, it would have gone to recession. Low inflation with high growth is really an amazing and remarkable achievement. It is expected that in next 5 years, if inflation stays low, the real rate of interest may come down significantly which would give a major boost to the growth and at every possibility it would be a genuine inclusive growth.

There are series of regulatory measures taken by the Government – like regulations for real estate segment RERA, common medical entrance NEET, series of Capital Market regulations to protect small investors, making all kind of Government tenders and auctions online, introduction of e-waybill, establishment of online marketplace dedicated for procurement of various items by various government departments, even easing the tax assessment process etc., the list is quite long but all these measures had single aim to eradicate corruption from the system and to establish good governance. In order to achieve this, Government has taken help of technology and as a result the digital payment has been promoted. Even in case of income tax assessment, Government is planning for complete face-less assessment within next 2-3 years, which is expected to remove bribery and corruption in tax assessment mechanism.

The narration of achievement story will remain highly incomplete without mentioning one of the greatest reforms, i.e., IBC (insolvency and Bankruptcy Code). NPA problem in PSU Banks was snow-balling since last 15-20 years but it was kept hidden below the carpet very cleverly. Banks were showing profits at every quarter without provisioning for bad debts. RBI Governor Raghuram Rajan identified first that the NPA issue might have become out of control and Banks need to be cleaned up. However, the Government realised that normal recapitalisation is meaningless until and unless the culture is changed. Bank cleaning up process took place earlier also but didn’t produce permanent solution. Further, the normal legislation of debt recovery was much ineffective as the promoters themselves used to buy its own company at throw away prices, make hefty unscrupulous gain, the ultimate sufferer remained banks and shareholders. Therefore, Government realised the necessity of austerity plan for the banks before bailing out or recapitalisation and also stringent restriction for the promoters. Initially it was planned to create Bad Bank, to transfer all bad debts to the bad bank and thereafter to recapitalise the bank and continue. Later, after lot of discussions, Government rejected the idea of Bad Bank. Rather than cleaning up the bank every time, which was wasteful perpetuation of corrupt system, it was decided to do something concrete and decided to force the banks to pass through a painful process, by introducing PCA Guidelines, change in management, bringing merger plans etc. IBC was introduced which prevented promoters to bid for their own companies at throw away price. Promoters realised that if they do not repay the loan, they would have to lose the ownership permanently. Banks realised if they do not change the lending culture, they would have to face painful austerity process. As a consequence, promoters started repaying debts by selling their assets, undertakings. Through IBC and without IBC, PSU banks have been able to recover more than 3 lacs crores bad debts till date, nothing could be better than this.

Conclusion

Journey towards a rule based economy is still far from over but the most satisfactory aspect is that the journey has begun and our economy is on the way from rent seeking to rule based economy. The component of socialism could be effectively incorporated even into the liberal economy, if the corruption is eradicated or at least minimised. However, still there are lot of things to do. Chanakya believed that if the state really wants to help poor, it must improve its judiciary system, because state could not prevent Matsyanyay effectively with 34 lacs pending cases at various courts. Therefore, we expect the next Government would target the judiciary reforms. There are lot of areas which need much more attention and concrete reforms like agriculture, health and education. If morning shows the day, we could expect and believe that a complete rule based system would be put in place in near future and thus the purpose of socialism would be genuinely served.

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Brief Note on - Amendment to Significant Beneficial Ownership Rules, 2018

Sumit Binani
B.Com(H), MBA(IIMCal), FCA, FCS, ACMA, IP(1st In India)

assisted by
CS Arundhuthi Bose, Partner
Mamta Binani & Associates,
Company Secretaries

Introduction

On the 14th of June, 2018 the Ministry of Corporate Affairs (MCA) brought in the Companies (Significant Beneficial Owners) Rules, 2018[1] (SBO Rules) in order to keep a track of the actual holders of the share capital of a corporate entity. In order to bring in further clarity on the matter of SBO, the MCA notified the Companies (Significant Beneficial Owners) Amendment Rules, 2019[2] ('Amendment Notification') on the 8th of February, 2019.

Amendments

1. **Changes in the definitions: -**Clause (b) to clause (i) of rule 2 of the SBO Rules has been substituted and some of the important definitions have been explained hereunder.

   a. **Control :** In rule 2 of the SBO Rules the definition of 'Control' has been inserted in clause (b), where "Control" means control as defined in clause (27) of section 2 of the Act.

      Here, 'Act' refers to the Companies Act, 2013.'Control' as per section 2(27) of the Act includes the following aspects:-

      - The right to appoint majority of the directors
      - Control the management or policy decisions exercisable.
      - By a person or persons acting individually or in concert, directly or indirectly.
      - Including by virtue of their shareholding or management rights or shareholders agreements or voting agreements or in any other manner.

   b. **Majority stake :** The definition of majority stake has been inserted in the SBO Rules in rule 2 clause (d), which define it as :-

      i. *"holding more than one-half of the equity share capital in the body corporate; or*

      ii. *holding more than one-half of the voting rights in the body corporate; or*

      iii. *having the right to receive or participate in more than one-half of the distributable dividend or any other distribution by the body corporate".*

      This castes a wide net in taking in its ambit not only the aspect of equity share holding *per se*, but also the aspect of voting rights as well as the dividend scenario. This will help in going further to finding the significant beneficial owner in real terms.

   c. **Partnership Entity : -** The definition of Partnership Entity has been inserted as rule 2 clause (e).

   d. **Reporting Company : -** A new term 'Reporting Company' has been inserted in the amended definition of SBO. This has been defined under rule 2 clause (f) as a company as defined in clause (20) of section 2 of the Act, required to comply with the requirements of section 90 of the Act.

   e. **Significant Beneficial Owner (SBO) :-** The definition of Significant Beneficial Owner has also been amended *vide* the Amendment Rules.

[1] http://www.mca.gov.in/Ministry/pdf/CompaniesSignificantBeneficial1306_14062018.pdf
[2] http://www.mca.gov.in/Ministry/pdf/CompaniesOwnersAmendmentRules_08020219.pdf

The definition of an SBO as per clause (g) has been tabulated below for better understanding:-

<table>
<tr><td>SBO in relation to a reporting company</td><td colspan="2">(i) holds indirectly, or together with any direct holdings, not less than ten per cent. of the shares;
(ii) holds indirectly, or together with any direct holdings, not less than ten per cent. of the voting rights in the shares;
(iii) has right to receive or participate in not less than ten per cent. of the total distributable dividend, or any other distribution, in a financial year through indirect holdings alone, or together with any direct holdings;
(iv) has right to exercise, or actually exercises, significant influence or control, in any manner other than through direct-holdings alone</td></tr>
<tr><td colspan="3">If an individual does not hold any right or entitlement indirectly under sub-clauses (i), (ii) or (iii) of rule 2 (h) he shall not be considered to be a significant beneficial owner</td></tr>
<tr><td>Holding a right or entitlement directly in the reporting company by an individual</td><td colspan="2">• the shares in the reporting company representing such right or entitlement are held in the name of the individual; Or
• the individual holds or acquires a beneficial interest in the share of the reporting company under sub-section (2) of section 89, and has made a declaration in this regard to the reporting company.</td></tr>
<tr><td rowspan="5">Holding a right or entitlement indirectly inthe reportingcompany by an individual</td><td>Body corporate
(whether incorporated or registered in India or abroad),
other than a limited liability partnership</td><td>(a) holds majority stake in that member; or
(b) holds majority stake in the ultimate holding company (whether incorporated or registered in India or abroad) of that member;</td></tr>
<tr><td>Hindu Undivided Family(through Karta)</td><td>The individual is the Karta of the HUF</td></tr>
<tr><td>Partnership entity
(through itself or a partner)</td><td>The individual
• is a partner; or
• holds majority stake in the body corporate which is a partner of the partnership entity; or
• holds majority stake in the ultimate holding company of the body corporate which is a partner of the partnership entity.</td></tr>
<tr><td>Trust
(through trustee)</td><td>The individual,-
• is a trustee in case of a discretionary trust or a charitable trust;
• is a beneficiary in case of a specific trust;
• (c) is the author or settler in case of a revocable trust.</td></tr>
<tr><td>a) a pooled investment vehicle; or
b) an entity controlled by the pooled investment vehicle,
based in member State of the Financial Action Task Force on Money Laundering and the regulator of the securities market in such member State is a member of the International Organization of Securities Commissions</td><td>The individual in relation to the pooled investment vehicle,-
(A) is a general partner; or
(B) is an investment manager; or
(C) is a Chief Executive Officer where the investment manager of such pooled vehicle is a body corporate or a partnership entity.
Note :-
(i) a pooled investment vehicle; or
(ii) an entity controlled by the pooled investment vehicle,
based in a jurisdiction which does not fulfill the requirements referred to in clause (v) of Explanation III, the provisions of clause (i) or clause (ii) or clause (iii) or clause (iv) of Explanation III, as the case may be, shall apply.</td></tr>
<tr><td>Deemed to be ‘acting together’</td><td colspan="2">If any individual, or individuals acting through any person or trust, act with a common intent or purpose of exercising any rights or entitlements, or exercising control or significant influence, over a reporting company, pursuant to an agreement or understanding, formal or informal, such individual, or individuals, acting through any person or trust.</td></tr>
<tr><td>Shares to include</td><td colspan="2">The instruments in the form of global depository receipts, compulsorily convertible preference shares or compulsorily convertible debentures shall be treated as ‘shares’.</td></tr>
</table>

f. **Significant influence : -** Significant influence has been defined in rule 2 clause (i) to mean The power to participate, directly or indirectly, in the financial and operating policy decisions of the reporting company but is not control or joint control of those policies.

2. **Substitution of rule 3 and rule 4 in the SBO Rules :-**

   a. **2A. Duty of the reporting company**:- (Insertion of new clause)

      Every reporting company shall **in all cases where its member (other than an individual), holds not less than ten per cent.** of its shares, or voting rights, or right to receive or participate in the dividend or any other distributionpayable in a financial year, **give notice to such member, seeking information in accordance with sub-section (5) of section 90, in Form No. BEN-4.**

   b. **Declaration of significant beneficial ownership under section 90 :- [Rule 3]**

      i. On the date of commencement of the Companies (Significant Beneficial Owners) Amendment Rules, 2019, every individual who is a SBO in a reporting company, shall file a declaration in Form No. BEN-1 to the reporting company **within ninety days from such commencement.**

      ii. Every individual, who subsequently becomes aNSBO/ or where his significant beneficial ownership undergoes any change shall file a declaration in Form No. BEN-1 to the reporting company, **within thirty days of acquiring such significant beneficial ownership or any change therein.**

      Explanation - Where an individual becomes a significant beneficial owner, or where his significant beneficial ownership undergoes any change, within ninety days of the commencement of the Companies (Significant Beneficial Owners) Amendment Rules, 2019, ***it shall be deemed that such individual became the significant beneficial owner or any change therein happened on the date of expiry of ninety days from the date of commencement of said rules,*** *and the period of thirty days for filing will be reckoned accordingly.*

   c. **Return of significant beneficial owners in shares (BEN-2)** :- **[Rule 4]**

      Upon receipt of declaration under rule 3, the reporting company shall file a return in Form No. BEN-2 with the Registrar in respect of such declaration, within a period of thirty days from the date of receipt of such declaration by it, along with the fees as prescribed in Companies (Registration offices and fees) Rules, 2014.

3. **Application to the Tribunal :- [Rule 7]**

   The reporting company shall apply to the Tribunal where any person fails to give the information required by the notice in Form No. BEN-4, within the time specified therein; or where the information given is not satisfactory, in accordance with sub-section (7) of section 90, for order directing that the shares in question be subject to restrictions. The restrictions includes –

   - restrictions on the transfer of interest attached to the shares in question;
   - suspension of the right to receive dividend or any other distribution in relation to the shares in question;
   - suspension of voting rights in relation to the shares in question;
   - any other restriction on all or any of the rights attached with the shares in question.

4. **Non-Applicability :-**

   After the amendment these rules shall not be made applicable to the extent the share of the reporting company is held by the authority constituted under sub-section (5) of section 125 of the Act; or its holding reporting company. The details of such holding reporting company shall be reported in Form No. BEN-2.

   The non-applicability also includes entities to the extent where the share of the reporting company is held bythe Central Government, State Government or any local Authority; a reporting company, or a body corporate, or an entity, controlled by the Central Government or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments.

   The Rules are also not applicable on SEBI registered Investment Vehicles such as mutual funds, AIF, REITs, lnVITs regulated by the SEBI, (lnvestment Vehicles regulated by RBI, or IRDAI, or Pension Fund Regulatory and Development Authority

Conclusion

The framing of Amendment Rules has been aimed at bringing in clarity in implementation of the SBO Rules in a better and more effective manner. A lot of the terms have been redefined to be more specific. Also considering the difficulty in tracing the SBO in certain situations, the net of the non-applicability has been cast wider, but not defying the purpose of the Rules as such.

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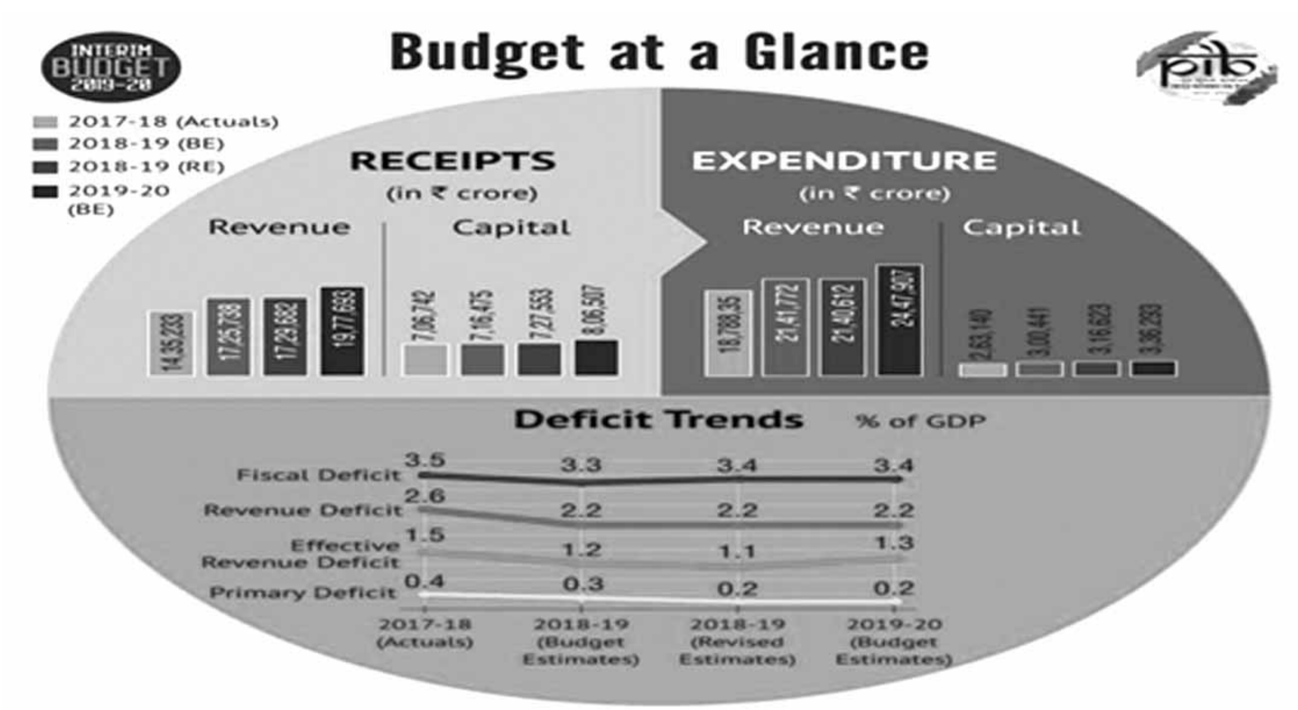
Budget Proposals

CA Rishi Khator
Past President, ACAE

FISCAL ARITHMETIC

- Fiscal deficit as percentage of GDP for FY 2017-18 is revised to 3.4% from 3.3% budgeted. The Government expects to bring down the deficit to 3% of GDP by FY21.
- The Current Account Deficit widened to 2.7 percent of GDP in first half of 2018-19 from 1.9 percent of GDP in 2017-18
- Gross tax revenue (GTR) projected to rise to 12.2% of GDP in the FY 2021-22. FY19 pegs the collection at 11.9% against the earlier budget projection of 12.1%.
- Revenue deficit target is maintained at 2.2 % of GDP for FY20. (Expected to decline to 1.5% by FY22)
- The Direct tax tax collections increased significantly from Rs. 6.38 Lakh crore in 2013-14 to almost Rs. 12 lakh crore this year. The number of returns filed have also increased from 3.79 crore in 2013-14 to 6.85 crore this year, showing 80% growth in tax base.
- The average monthly tax collection of GST in the current year (FY 2018-19) is Rs. 0.97 Lakh crore per month as compared to Rs. 0.89 Lakh crore per month in the first year (FY 2017-18).
- In 2018-19, the total expenditure has been kept at Rs. 24.57 lakh crore and is more than budget estimate by Rs.0.15 lakh crore. Much of it could be managed due to holding back of capital expenditure.



- Average inflation during 2014-2019 was 4.6%. Inflation in December 2018 was down to 2.19%.

MACRO ECONOMIC FINANCIALS

Key facts & figures :

- Rs. 0.75 lakh crore is proposed Under "Pradhan Mantri KIsan Samman Nidhi (PM-KISAN)" programme for farmers having cultivable land upto 2 hectares, to provide direct income support at the rate of Rs.6,000 per year in three equal instalments of Rs. 2,000 each. (Rs. 0.20 lakh crore provided in FY 2018-19). (Many are referring this proposal as "note for vote")
- Defense Budget pegged at Rs. 3.05 lakh crores for FY 2019-20. For the first time it crosses Rs.3 lakh crore.
- Rs. 1.70 lakh crores were spent in the year 2018-19 to provide food grains at affordable prices to the poor and middle classes (Rs.0.92 lakh crore spent in 2013-14.
- Rs. 0.60 lakh crore are being allocated for MGNREGA in 2019-20.
- Under the Pradhan Mantri Gram Sadak Yojana, 15.80 lakh habitations out of a total of 17.84 lakh habitations have already been connected with pucca roads.
- Pradhan Mantri Gram Sadak Yojana (PMGSY) is being allocated Rs. 0.19 lakh crore in 2019-20 as against Rs.0.155 lakh crore in 2018-19.
- 10 lakh patients have benefited under "Ayushman Bharat" for medical treatment (Costing Rs. 0.03 lakh crore)
- Fixation of the minimum support price (MSP) of all 22 crops at minimum 50% more than the cost.
- The crop loan to farmers increased to Rs. 11.68 lakh crore in year 2018-19.
- Sum of Rs.500 crore has been allocated for 'Pradhan Mantri Shram-Yogi Maandhan' scheme.
- Under MUDRA Yojana15.56 crore loans have been disbursed amounting to Rs.7.23 lakh crore.
- An amount of Rs. 0.35 lakh crore was already disbursed over after implementation of the One Rank One Pension (OROP) Scheme.
- Capital support from the budget for railways is proposed at Rs.0.64 lakh crore in 2019-20. The Railways' overall capital expenditure programme is of Rs. 1.59 lakh crores.
- Allocation for infrastructure development of the North Eastern Areas is being increased by 21% to Rs.0.58 lakh crore in 2019-20 over 2018-19.

Key Direct Tax Proposals :

- Individual taxpayers having taxable annual income up to Rs 5 lakh will get full tax rebate, therefore will not be required to pay any income tax.
- People with gross taxable income up to Rs 6.5 lakh will have to pay no tax if they utilise the maximum benefit of Rs 1.5 lakh available under section 80C.
- There have been no changes proposed in the income tax slabs and rates in Budget 2019.
- For salaried individuals and pensioners, the standard deduction has been proposed to be hiked to Rs 50,000 from the current Rs 40,000.
- Home-owners will not be required to pay tax on notional rent if they have more than one self-occupied property. According to budget proposals, exemption has been proposed on the income tax from the notional rent on second-self-occupied house.
- TDS threshold limit has been proposed to be hiked to Rs 2.4 lakh in a financial year from the current Rs 1.8 lakh for small taxpayers who have given property on rent to non-individuals.
- To save tax on long-term capital gains on the sale of house property, the assessee will be able to invest gains in two house properties instead of one currently, once the budget is passed by the Parliament. But this benefit is available once in a lifetime only if capital gains does not exceed Rs 2 crore. If capital gain is more than Rs 2crore, then earlier provision of investment limited to one house property.

MAJOR AMENDMENTS IN INCOME TAX

Section	Explanation		Effective date
	Old	New	
16 **Standard Deduction on Salary income**	For salaried individuals, a **standard deduction** of **Rs. 40,000** or the amount of salary received, whichever is less. Consequently, the **exemption** in respect of Transport Allowance (**except in case of differently abled persons**) and reimbursement of medical expenses was **withdrawn**.	It is proposed to increase the standard deduction to **Rs. 50,000** or the amount of salary received whichever is less.	A.Y. 2020-21
23 **Calculation of Annual Value of House property**	Section 23(2), allowing the annual value of self-occupied house property to be zero, was applicable only on one house property.	It is proposed Section 23(2), allowing the annual value of self-occupied house property to be zero, shall now be applicable for upto 2 houses under a single owner.	A.Y. 2020-21
23 **Tax on House property held as stock in trade**	Where a property was held as stock in trade the annual value of such house property shall be **Nil upto one year** from the end of the financial year in which the certificate of completion of construction of the property is obtained from the competent authority.	It is proposed that where a property was held as stock in trade the annual value of such house property shall be **Nil upto two year** from the end of the financial year in which the certificate of completion of construction of the property is obtained from the competent authority.	A.Y. 2020-21
54 **Capital Gain on sale of residential house property**	**Long term capital gains** (LTCG) from transfer of a self-occupied house property was not taxable if the same was used to build/ purchase **a new house property** within a specified period before or after the date of transfer.	It is proposed that **Long term capital gains** (LTCG) from transfer of a self-occupied house property would not be taxable if it is **not more than Rs. 2 crore** and the proceeds are used to build/ purchase **two new house property** within a specified period before or after the date of transfer.	A.Y. 2020-21
87A **Standard deduction on Income**	An Assessee, being an individual resident in India, whose total income does not **exceed Rs 3,50,000,** shall be entitled to a deduction on his total income, of an amount equal to hundred per cent of such income-tax **or an amount of Rs. 2500, whichever is less.**	It is proposed that an assessee, being an individual resident in India, whose total income does **not exceed Rs 5,00,000**, shall be entitled to a deduction on his total income, of an amount equal to hundred per cent of such income-tax **or an amount of Rs. 12500, whichever is less**.	A.Y. 2020-21

Section	Explanation		Effective date
	Old	New	
194A of ITA **TDS for interest on securities**	Any person responsible for making a payment **of more than Rs.10,000** as interest on securities shall deduct income tax at rates in force, i.e. @10%.	It is proposed that any person responsible for making a payment of **more than Rs. 40,000** as interest on securities shall deduct income tax at rates in force, i.e. @10%.	A.Y. 2020-21
194I of ITA **TDS on Rent**	Any person (not being an Individual or HUF) who is responsible **for paying of rent more than 1,80,000** in a financial year is liable to deduct tax at source @2% for plant & Machinery & @10% for land or building.	It is proposed that any person (not being an Individual or HUF) who is responsible **for paying of rent more than 2,40,000** in a financial year is liable to deduct tax at source @2% for plant & Machinery & @10% for land or building.	A.Y. 2020-21

Income Tax Slab for FY 2019-20

INDIVIDUALS

Status	Individual	Age of 60 but less than 80	Age 80 or more	% Tax
Income	Up to Rs. 2,50,000	Up to Rs. 3,00,000	Up to Rs. 5,00,000	Nil
	Rs. 2,50,001- Rs. 5,00,000	Rs. 3,00,001- Rs. 5,00,000	---xxx---	5%
	Rs. 5,00,001- Rs. 10,00,000	Rs. 5,00,001- Rs. 10,00,000	Rs. 5,00,001- Rs. 10,00,000	20%
	Above Rs. 10,00,000	Above Rs. 10,00,000	Above Rs. 10,00,000	30%

- **Tax Rebate (section 87A):**Rs.12500 or 100% of income tax (whichever is lower) for individuals with income below 5 Lakhs.
- **Surcharge on Individuals, HUF, BOI**:

  10% of the Income Tax, where total taxable income is more than Rs.50 Lakhs and up to Rs. 1 Crore.

  15% of the Income Tax, where total taxable income is more than Rs.1 Crores.
- **Health and Education Cess:**

  4% of Income Tax including surcharge wherever applicable, in the cases of persons not resident in India including company other than a domestic company.

DOMESTIC COMPANIES

- In case of domestic company, the rate of income-tax shall be 25% of the total income if the total turnover or gross receipts of the **previous year 2016-17** does not exceed Rs.250 crores, and in case of all other companies the rate of income tax shall be 30% of the total income.

A. Domestic Company having total turnover in FY 2016-17 not exceeding Rs.250 Crores :

Particulars	Taxable income < 1 crore	1crore <Taxable income< 10 crore	Taxable Income > 10 crore
Corporate Tax	25%	25%	25%
Surcharge	----	7%	12%
Health & Education Cess	4%	4%	4%
Effective tax rate	26%	27.82%	29.12%

PARTNERSHIP FIRM/LLP

- The rates of Income-tax will continue to be the same as those specified for financial year 2018-19 i.e. **a partnership firm (including LLP) is taxable at 30%.**
- Health & education Cess is proposed @ 4% of income tax plus surcharge.

A composition scheme shall be introduced for supplier of services having a turnover of up to Rs 50 lakh. The service providers opting for composition scheme can pay tax at a rate of 6 per cent (CGST 3 per cent + SGST 3 per cent) on their turnover and would not be eligible to avail any input tax.

Key Indirect Tax Proposals effective from Feb 1, 2019

Increase in basic exemption limit for GST

It is proposed to increase the threshold limit for exemption from registration and payment of GST to Rs 40 lakh and Rs 20 lakh (for Special Category States). Currently, all businesses with a turnover of up to Rs 20 lakh are exempt from GST registration, while the limit for Special Category States is Rs 10 lakh.

Increase in limits for eligibility of composition schemes for manufacturers and traders

The GST composition scheme, under which intra state suppliers of goods pay tax at a flat rate on the turnover (generally 1 per cent), can now be availed by businesses with a turnover of up to Rs 1.5 crore as against the earlier limit of Rs 1 crore. It is proposed to increase this turnover limit with effect from February 1, 2019 (as per recommendations of the GST Council). Suitable notification is, however, awaited in the said regard.

GST composition scheme for small service providers

A composition scheme shall be introduced for supplier of services having a turnover of up to Rs 50 lakh. The service providers opting for composition scheme can pay tax at a rate of 6 per cent (CGST 3 per cent + SGST 3 per cent) on their turnover and would not be eligible to avail any input tax. The said scheme shall be applicable across all service providers. The service providers covered under the Composition Scheme shall be required to file 1 annual return and make quarterly payment of GST. Suitable notification is, however, awaited in this regard.

* * * * *

Live as if you were to die tomorrow. Learn as if you were to live forever.

ITC Reversal in case of stock-brokers involved in client trade as well as proprietary trade

CA Gagan Kedia
gagan@mrgkedia.com

The capital market is classified in to two categories. They are the Primary market (New Issues Market) and the Secondary market (Old (Existing) Issues Market) The primary market helps to raise fresh capital in the market. In the secondary market, the buying and selling (trading) of capital market instruments takes place. In this article, we shall be discussing GST implications by way of reversal of ITC in case of stock-brokers involved in client trade as well as pro-trade

1. **What is Pro-Trading:**

   In order to understand the intricacies of ITC reversal in the above situation, let us first understand what is pro-trading.

   Pro-Trading or Proprietary Trading is trading in securities by the brokers using their own money to make profits. The account used by brokers for proprietary trading is known as pro-account. Such proprietary trading is a business activity undertaken in addition to the broker services *(which is facilitation of purchase/sales of securities for the clients of the broker*).

   For the purpose of proprietary trading, the brokers use highly skilled employees, high-speed servers *(co-located with exchange servers)* and high bandwidth networks to execute such proprietary trade. Also, the stock exchanges charge an exchange transaction fees and co-location charge for providing equipments and infrastructure required for such trade.

   Even after so many expenses as enumerated above, the business of proprietary trade is so profitable that many brokers have significantly narrowed their retail customer business in comparison to pro-trading in terms of turnover.

The business of proprietary trade is so profitable that many brokers have significantly narrowed their retail customer business in comparison to pro-trading in terms of turnover.

2. Now, **let us take a situation** wherein a broker is involved in broking service for its clients (earning brokerage income) *as well as* engaged in pro-trading (earning profit/loss on purchase and sale of securities).

   Therefore, the said person is undertaking two types of activities. The **first one** being broking service against which it is receiving brokerage from the clients **and the other** being pro-trade which is transaction in securities.

3. **Now let us discuss the taxability of both the activities.**

   a) **Taxability of Broking Service** – is a taxable service under GST since inception of GST w.e.f. 01/07/2017.

The said activity was covered within the definition of 'Service' as per section 2(102) of the CGST Act and has been further clarified by way of an ***explanation*** inserted in the definition of the term 'Service' by the CGST Amendment Act, 2018 *w.e.f. 01.02.2019*. The said explanation reads as follows - *For the removal of doubts, it is hereby clarified that the expression "services" includes facilitating or arranging transactions in securities*

Hence, brokerage income was always taxable in GST *(@ 18%)*

b) **Taxability of Proprietary Trading** – It is an **activity or transaction in securities**. Now, 'Securities' *as defined in clause 2(h) of the Securities Contracts (Regulation) Act, 1956* is excluded from the definition of the terms 'goods' as per sec. 2(52) as well as the term 'service' as per sec. 2(102). Hence, any transaction of purchase or sale of securities is **neither** a Supply of Goods **nor** Supply of Service (as securities are neither *goods* nor *services*).

Further, **as per the charging section**of GST [Sec. 9(1)], the **levy of GST** is on Supply of Goods and/ or Services or Both. Since, Securities are neither Goods nor Services, purchase / sale / supply of securities is outside the purview of levy of GST. Therefore, we can term it as '*Non-Taxable Item*'

4. **What about ITC Reversal ?**

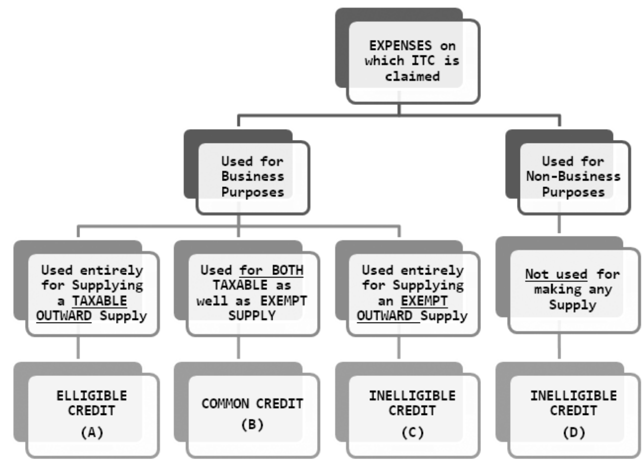
In order to understand the concept of ITC reversal, let us first understand **a story / situation.**

Mr. Akshay has taken a two-storied building on rent say at INR 20,000 plus GST per month. On the first floor, he carries on the business of providing a service (which is taxable in GST) and the second floor is used as his residence.Mr. Akshay pay rent plus GST for both the floors. But only half of the property is used for conduct of business and the other half is used for non-business purpose.

So the government has specified *[vide Sec. 17]* that in such a situation, Mr. Akshay should not be eligible for ITC of the entire rent amount for both the floors as he has not used the entire service in his business to provide / supply a taxable goods / service. Accordingly, he has to reverse a portion of the total ITC availed by him.

Let us see the **below diagram** to understand the situation in totality.

Brief Pictorial presentation of Sec.17(1) & 17(2)



Now, the Input Tax Credit provisions [Sec. 17(1) & 17(2) read with Rule 42 & 43] enumerates that **a taxable person is allowed to take ITC as below:**

Credit of Items at	% of ITC available	Remarks
A	100%	*Avail full Credit*
B	**Proportionate**	***Based on turnover***
C	0%	*Reverse entire such Credit*
D	0%	*Reverse entire such Credit*

5. **Now, What does Sec. 17(3) say?**

- Sec. 17(3) explains **what should be taken as the value of exempt supply for the purpose of calculation of reversal under point B in the above diagram (that is common credits)**.

17(3) says –*"The value of exempt supply shall be such as may be prescribed under Rule 42 & 43, and shall include supplies on which the recipient is liable to pay tax on reverse charge basis, **transactions in securities**, sale of land and, subject to clause (b)of paragraph 5 of Schedule II, sale of building."*

[Emphasis applied]

- Now, as per **Explanation 2(b) to Rule 45** – ***"the value of security shall be taken as one per cent of the sale value of such security."***

[Emphasis applied]

6. **Hence, to summaries the discussions till now,** in case a broker / sub-broker is engaged in security broking

(client trade) as well as pro-trade (self trade), then :

- Value of Brokerage Income will be considered as **Taxable Supply**.
- 1% of the sale value of securities in pro-tradewill be considered as **Exempt Supply**.
- Therefore, such persons will have to **find out and categories** its entire ITC into different categories being :
    - used entirely for client trade,
    - used entirely for pro-trade and
    - used for both the activities.
- After categorization of the ITC, apply Rule 42 / 43 and **calculate the amount of ITC Reversal**.
- Accordingly, **reverse the said ITC** in table 4 of the GSTR-3B return.
- Such reversal is required to be done on a **monthly basis** and a final adjustment is required to be done after the end of financial year within next year's 3B for September.

[Rule 42(2)]

7. **For Example :**

Income details:

For the month of February 2019, M/s Akshay & Lena Brokers LLP have earned brokerage income of Rs. 2 Lakhs and have also engaged in pro-trade wherein they have purchased securities worth Rs. 390 Lakhs and sold the same for Rs. 400 Lakhs (thereby earning Rs. 10 Lakhs).

Expense Details:

For the purpose of running the office wherein such business activities were carried on, they have incurred the following expenses :

Table A

Sl no	Expense Head	Expense Amount	GST Paid on such expenses	Nature of Expense
a)	Leased line charges	100,000	18,000	Common Expense
b)	Client Management Software	25,000	4,500	Fully Eligible
c)	Office Rent	100,000	18,000	Common Expense
d)	Special server for pro-trade	150,000	27,000	Fully in-eligible
	TOTAL ITC	**375,000**	**67,500**	

Here, the calculation of GST out-put tax liability, ITC eligibility and tax payable there-on shall be as follows :

Note 1 : Calculation of output tax liability and tax payable thereon :

Sl No	Particulars	Amount (Rs.)	Amount (Rs.)
a)	**Total OTL** Tax on Value of taxable outward supply *(Brokerage Income of Rs. 200,000 @ 18%)*		36,000
b)	**Total ITC**	67,500	
c)	Less: ITC fully in-eligible *(special server for pro-trade)*	(27,000)	
d)	Less: ITC reversal on common credit *(**Refer note 2 below**)*	(24,000)	
e)	Net Eligible ITC (b-c-d)		16,500
f)	**Balance To be paid in Cash [a-e]**		**19,500**

Note 2 : Calculation of Reversal of common credit :

Sl No	Particulars	Amount (Rs.)
a)	Turnover of Taxable Supply [Brokerage Income]	200,000
b)	Turnover of EXEMPT Supply *(1% of the value of Sale of Securities)* **[1% of 400 Lakhs]**	400,000
c)	Total common Credits **[Leased line & Office rent charges] [18,000+18,000]**	36,000
d)	**Total Reversal u/r 42 [c x b/(b+a)]** **Common Credit x $\frac{\text{Exempt Turnover}}{\text{(Exempt + Taxable Turnover)}}$**	**24,000**

In case such reversals are not done by the assessee, then interest @ 18% along with penalty upto 100% of the reversal amount may be applicable.

Now in case of pro-trade in derivatives, the calculation of 1% of Value of Sale of Securities should be done with appropriate caution considering the favorable & unfavorable difference in derivative contracts.

* * * * *

March 8 - International Women's Day

Ms. Saroj Agarwal
(Spouse of President – Mr. Vasudeo Agarwal)

Dear reader's,

Women..... Women is the strength of the family. The strength behind a child's growth, his development, his sanskars, his culture, his success. Woman is the backbone of a family, a strong pillar of support, the reason for smiles in her family. She shoves her priorities somewhere at the back of her list of duties and makes others her priority. She does everything to make life easier for others . It is said that behind every successful man there is a woman- be it a mother, a wife, a daughter, a sister.....

But what happens when she grows older, when her little babies fly away from the nest to become independent. Those around whom used to revolve her life. There is emptiness... Because she had spent major part of her life looking and caring for others and when her prime had passed, she is left with void emptiness. Most of the women-folk at this juncture of their life.... After fulfilling their responsibilities, feel as if they are standing at the brim of empty space with nothing to do. Some do take the path of developing themselves or making their way to follow their passions and even at the brink of their youth, become successful, rather satisfied with their lives. But most do get into depression, or find some unacceptable ways to live their lives.

Our association is trying to bring forth this catastrophic situation in the lives of middle aged women who have been leading a purposeful life with no actual purpose in limelight so as to motivate them to reboot their life and restart to live a purposeful life with purpose. For this, we, the members of the ladies wing intend to bring some women of the society who have actually carved a way for themselves with their determination, focus and hard work, to discuss their journey and to motivate other women to follow their dreams, their passions and to live for themselves.

To do this, we are organising an interactive session to discuss this topic which we call-in **"AB NAHIN TOH PHIR KAB ??"**

ABOUT WOMEN'S DAY

Women's Day is celebrated globally on 8 March every year in honour of their remarkable contribution to our society. The day also commemorates the inspiring role of women around the world to secure women's rights and build more equitable societies. Women's Day also remembers the voices of many women that go unheard and who continue to be dominated from securing their rights and realizing their full potential.

Woman – the power to create, nurture and transform! The word 'woman' conjures up the images of selfless love, care and affection. At the same time, women ignite the spirit of power and hope. Unfortunately, across the world, women had to fight for their independence and protection of rights. Since decades, women had struggled and are still fighting to express their right to speech, to vote, to equality, to education, to income and most importantly, to freedom.

International Women's Day honours the women who have paved the path towards our progress and struggled to take 'womanhood' to a level where it is now. Unfortunately, at the same time, the day is a reminder of the discrimination and inequality that still continues to plague our society. This special day, dedicated to women around the world, is a celebration of the great success of women across all spheres of life as well as shaping the future.

The objective of Women's Day is to express love and gratitude towards women's' contribution to our lives and society. It honours the power and struggles of women who have broken all barriers and reached the pinnacle of success in every sphere of life. Today, women across the globe actively participate in politics, education, social work, corporate, sports, IT, research & development, innovation and diverse fields, and have left their footprints.

Several resolutions to protect women's rights have also been passed globally, which has opened up broader avenues for the growth and development of women in our society. Women's Day also celebrates the role of women as a daughter, a wife, a mother, a sister and a homemaker. The day honours the voices that go unheard, the rights that are dominated and the tears that go unnoticed. Even today, there are millions of women around the world who are either speechless or are struggling hard to secure their rights. The discrimination and inequality is still every prominent, especially in developing and backward countries.

Despite all pessimism, International Women's Day is a special day dedicated only to women and their role in our lives. Culture and ethnicity has given a new dimension to this day where the tradition of gifting presents to women is popular in some countries. Personalised gifts and greeting cards dedicated to Women's Day have become exceptionally popular today. Many people think it is the ideal way to express their love and gratitude for women in life. Though, the true essence of the day lies in identifying the rights and power of women and giving them a stature that they deserve.

https://www.womensdaycelebration.com/significance-of-womens-day.html

Insolvency and Bankruptcy Code, 2016 Summary of Recent Amendments to IBC Regulations

Arun Kumar Gupta, Accountant And Insolvency Professional
assisted by **Wrishik Ganguly,** Advocate, Calcutta High Court

(1) Summary of Amendment to IBBI (Insolvency Resolution Process for Corporate Persons) Regulations, 2016 on 24 Jan, 2019

The Insolvency and Bankruptcy Code, 2016 provides for corporate insolvency resolution process for invitation, receipt, and consideration of resolution plans; and approval of a resolution plan to resolve insolvency of the corporate debtor. It envisages that a resolution plan, once approved, must be implemented. In furtherance of this, to discourage persons, other than genuine, capable and credible resolution applicants, to submit resolution plans following amendments are proposed-

1. It is mandatory that the request for resolution plans shall require the resolution applicant, in case its resolution plan is approved by the committee of creditors, to provide a performance security. Performance security means security of such nature, value, duration and source, as may be approved by the committee of creditors, having regard to the nature of resolution plan and business of the corporate debtor. Regulation 36B(4A) has been inserted

2. The Resolution Professional shall attach the evidence of receipt of performance security while submitting the resolution plan to the Adjudicating Authority for approval. Such performance security shall be forfeited if the resolution applicant of such plan, after its approval by the adjudicating authority, fails to implement or contributes to the failure of implementation of the plan.Regulation 39, in sub-regulation (4) has been amended

3. The resolution plan shall include a statement as to whether the resolution applicant or any of its related parties has failed to implement or contributed to the failure of implementation of any resolution plan approved by the Adjudicating Authority under the Insolvency and Bankruptcy Code, 2016 at any time in the past. Regulation 38 (1B) has been inserted

4. A creditor, who is aggrieved by non-implementation of a resolution plan approved by the Adjudicating Authority, can apply to the Adjudicating Authority for appropriate directions, Regulation 39 amended.

(2) Summary of Amendment to IBBI (Liquidation Process) Regulations, 2016 on 22 Oct, 2018

1. Regulation 32 has been substituted by the provision for Sale of Assets, etc. whereunder the liquidator may sell –
   a. an asset on a standalone basis;
   b. the assets in a slump sale;
   c. a set of assets collectively;
   d. the assets in parcels;

e. the corporate debtor as a going concern; or

f. the business(s) of the corporate debtor as a going concern:

However, where an asset is subject to security interest, it shall not be sold under this section unless the security interest therein has been relinquished to the liquidation estate.

2. Regulation 34 (2) (b) has been substituted by the provision for asset memorandum requiring to details in respect value of the assets or business(s) under clauses (b) to (f) of regulation 32, valued in accordance with regulation 35, if intended to be sold.

3. Regulation 35 has been substituted by the provision for valuation of assets or business intended to be sold.

   - Where the valuation has been conducted under regulation 35 of the Insolvency and Bankruptcy Board of India (Insolvency Resolution Process for Corporate Persons) Regulations, 2016 or regulation 34 of the Insolvency and Bankruptcy Board of India (Fast Track Insolvency Resolution Process for Corporate Persons) Regulations, 2017, as the case may be, the liquidator shall consider the average of the estimates of the values arrived under those provisions for the purposes of valuations under these regulations.

   - In cases not covered under sub-regulation (1), the liquidator shall within seven days of the liquidation commencement date, appoint two registered valuers to determine the realisable value of the assets or businesses under clauses (a) to (f) of regulation 32 of the corporate debtor: Provided that the following persons shall not be appointed as registered valuers, namely :

     a. a relative of the liquidator;

     b. a related party of the corporate debtor;

     c. an auditor of the corporate debtor at any time during the five years preceding the insolvency commencement date; or

     d. a partner or director of the insolvency professional entity of which the liquidator is a partner or director.

4. The Registered Valuers appointed under sub-regulation (2) shall independently submit to the liquidator the estimates of realisable value of the assets or businesses, as the case may be, computed in accordance with the Companies (Registered Valuers and Valuation) Rules, 2017, after physical verification of the assets of the corporate debtor.

   a. The average of two estimates received under sub-regulation (3) shall be taken as the value of the assets or businesses.

* * * * *

Members at the Helm

1. **CS. S.M.Gupta** – Past President of ACAE has been Re-elected as President of National Company Law Tribunal Kolkata Bar Association for the Year 2018-19
2. **CA. Chirajit Goswami** - Past President of ACAE has been Co-opted in the Direct Tax Committee of ICAI for the FY 2018-19.
3. **CA. (Dr.) Debashish Mitra** – has been re-elected to the Central Council of ICAI for the years 2019-2022
4. **CA. Sushil Goyal** – has been re-elected to the Central Council of ICAI for the years 2019-2022
5. **CA. Ranjeet Agarwal** –has been re-elected to the Central Council of ICAI for the years 2019-2022
6. **CA. Sumit Binani** – has been re-elected to the EIRC Regional Council of ICAI for the years 2019-2022
7. **CA. Nitesh More** – has been re-elected to the EIRC Regional Council of ICAI for the years 2019-2022
8. **CA. Debayan Patra** – has been elected to the EIRC Regional Council of ICAI for the years 2019-2022
9. **CA. Ravi Patwa** – has been elected to the EIRC Regional Council of ICAI for the years 2019-2022

ACAE joined Care, Kankurgachi, a Charitable Organisation for CAREOTHON in categories like 2/5/10/21 Km Run on Sunday, the 23rd December, 2018

CA Vasudeo Agarwal, President with participants.

Talk on (1) Neurology in Modern World & (2) Lifestyle Modification for Good Health held at Emami Conference Hall (ACAE) on Friday, the 28th December, 2018

General Secretary CA Anup Kr Sanghai, Guest Speaker Dr. Hrishikesh Kumar, Head-Dept. of Neurology, President CA Vasudeo Agarwal, Guest Speaker Dr. Mrinal Kanti Das, Consultant Cardiologist, CA Ketan Satnalia, Chairman-Members Co-ordination and Service Committee

Lecture Meeting on Demat of Shares of the Companies in light of SEBI & MCA Amendments held at Emami Conference Hall (ACAE) on Saturday, the 5th January, 2019

Dy. Convenor CA Niraj Agrawal, Guest Speaker CS Atul Labh and Chairperson-Corporate Laws Sub-Committee CA Beena Jajodia

Lecture Meeting on (Practical Guide to various Appeals under the Income-Tax Act, 1961 including ITAT held at Emami Conference Hall (ACAE) on Thursday, the 10th January, 2019

Speaker CA S S Gupta, President CA Vasudeo Agarwal and Convenor CA Anup Kr Sanghai

Residential Seminar on (1) Expected changes in Indirect Taxes in forthcoming Budget (2) Recent Changes in Companies Act, 2013 held at Andaman (4 nights/5 days) Tour from 23rd January to 27th January, 2019

Group Photograph

(L-R) Speaker, CA Pulak Kr Saha, Past President ACAE, CA Vasudeo Agarwal, President ACAE, Speaker, CS (Dr.) (h.c) Mamta Binani, Past President, ICSI, CA Sumit Binani and CA Sanjib Sanghi

Lecture Meeting on (1) Recent Judicial Pronouncements under GST (2) Recent Amendments in GST Laws held at The Bengal Chamber of Commerce & Industry on Tuesday, the 29th January, 2019

Speaker CA Arun Kr Agarwal, Guest Speaker Mr. Shailesh P Sheth, Advocate, SPS Legal, Mumbai, President CA Vasudeo Agarwal and Treasurer CA Anup Kr Banka

Lecture Meeting on Charity and Mutuality under Income-Tax Act, 1961 held at Emami Conference Hall (ACAE) on Thursday, the 31st January, 2019

Past President CA Ketan Satnalia presenting memento to Speaker CA Ramesh Kr Patodia

Live Telecast of Union Budget - 2019 with Panel Discussions held at Emami Conference Hall (ACAE) on Friday, the 1st February, 2019

Panelists CA Ramesh Kr Patodia and CA Sushil Kr Goyal sharing their thoughts and views on Union Budget - 2019

Live Telecast of Union Budget - 2019

Inter CA Study Circle Indoor Cricket Tournament

Participating Teams – ACAE, ACAE-B, DTPA, VIP, CKCA and BBD Bagh held at Space Circle on Sunday, the 3rd February, 2019

Chief Guest Mr. Sujit Bose, Hon'ble Minister of State, Fire & Emergency Services (Independent Charge) Govt. of WB lighting the inaugural lamp

CKCA won the tournament and debuntante BBD Bagh emerged as Runners up.

An Investors' Awareness Initiative From

Calcutta Stock Exchange Investor Protection Fund

Initiatives by the Calcutta Stock Exchange Investors' Protection Fund (CSE-IPF)

CSE-IPF's initiatives was broad based to spread the message of Financial Inclusion in line with SEBI's vision is a paradigm shift from the traditional route that has been tried till now. The increasing requirements for enabling financial awareness and enhancing Investor education initiatives, as actively undertaken by CSE-IPF, can be summarized from the following facts: Kolkata serves a vast hinterland of 12 states in Eastern India and also to the North-East. This region accounts for 26% of India's total population. However, the actual investor population these states is less than 10% of India's total. The investor population in India is 2.15% of the total population and this is also highly skewed towards Western India. Kolkata is the only city in Eastern India in the top 15 cities investing in mutual funds, accounting for 4.76%. A number of unauthorized Collective Investment Schemes operate in Eastern India taking advantage of low penetration of mutual funds. CSE with its legacy and platform with financial capabilities and technical expertise to operate efficiently, has a larger role to play in the envisaged journey of 'inclusive growth' than its perceived role as a regional exchange.

Hence, to touch all three milestones of Investors Awareness, Education, and Research towards mobilising more Investors from Eastern India, CSE-IPF is actively pursuing the following activities :

1. CSE-IPF regularly conducts Investors Education programmes to make them aware and also to enable them to invest in the capital market as 'informed investors'. These programmes for enhancing financial awareness and enabling financial inclusion in Eastern part of our country are conducted across various districts of the state and also cover other Eastern and North Eastern states in India. National Securities Depository Limited (NSDL) also partners with CSE for successfully reaching the potential investors across India. The Investor Awareness and Education initiatives of CSE-IPF covered around 700 programme since FY 2012-2013.
2. Reaching out to various college students and providing insight to them on the aspects of financial markets is another initiative undertaken by CSE-IPF which has benefitted the student community. These programmes have been very successful in reducing the gap between acquired theoretical knowledge and its practical applications in the financial instruments of capital market.
3. CSE-IPF has established a Centre of Excellence in Financial Markets in collaboration with Calcutta University CUCSE-CEFM, which continues to focus on thrust areas of financial inclusiveness, ethics in financial markets, research activities, publications and offering investors' related programmes for the students.
4. CUCSE-CEFM, introduced one year full time evening course on Postgraduate Diploma program in Investment Portfolio Management Service (PGDPMS) to enable students cum potential investors for opting their professional career as an investment advisor and also to clear the NISM certification courses in the capital market.
5. With the funding from the CSE-IPF, Indian Institute of Management, Calcutta (IIM-C), is offering a fellowship grant in their doctoral/fellowship programme on "Investor Attention and Sentiment" in the area of Capital Market Research under their Finance & Control group.
6. With a noble vision for spreading knowledge to the differently abled people of our Country, CSE-IPF has published a book 'Taking Stock' in Braille for the visually challenged people which is the first of its kind in the world. The book has been sent to all institutes that cater to the visually challenged across the country.
7. CSE-IPF also joined hands with various Institutes/ Professional Bodies like ASSOCHAM, CII, ICC, BCCI, ANMI and Calcutta Management Association to increase awareness among the working professionals on various aspects of capital market reforms which goes a long way in making them aware about the ongoing developments and to garner maximum benefit from these sessions.

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