"Power is gained by sharing knowledge and not hoarding it"

EMERGING THOUGHTS

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SURESH & CO.

Chartered Accountants

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Foreword

We are happy to release the third publication series "EMERGING THOUGHTS". As the name suggests, these updates are the emerging and constructive thoughts of article assistants (Interns undergoing Chartered Accountancy course). We, at SURESH & CO. have attempted to imbibe the habit of reading and updating one's knowledge library every single morning. The organisation has successfully implemented the concept of daily updates. This has been a beautiful journey of knowledge without any breaks. Many a times we ourselves have been surprised by the new learning opportunities that we got from these daily updates

The main objective of this publication is to enable the article assistants of SURESH & CO. to think beyond their capabilities. It also helps the articles to improve their knowledge and climb the professional ladder and reach greater achievements.

Every day is a learning day at SURESH & CO. As an organisation, we encourage all the budding professionals to share their views and opinions on various technical and non-technical aspects.

The article assistants have various practical insights which help them understand the theoretical aspects in a more efficient way, and they are able to share the same with all of us in these series of updates.

The intent behind these updates is imparting the skill of technical analysis and professional decision making of any case study/situation.

We at SURESH & CO. wanted to share these gems of infant thoughts as conceived by these young minds. It is to be noted that these updates may or may not have been reviewed by any senior or a technical expert and thus these should be used only to kindle thoughts in certain positive direction. Readers are advised to do further research and analysis on the topics which they find interesting. Professional advice should be sought before acting on any of the information contained in it.

A candle loses nothing by lighting another candle.

Update – 181
The WiFi Dabba

THE WIFI DABBA

With their innovative start-up "Wifi Dabba", Karam Lakshman and Shubhendu Sharma are working to provide super cheap, superfast wifi at stores, shops, and stalls around you.

Tea stalls are great unifiers - they cut across class barriers by bringing everyone together over an inexpensive cutting chai. An engineer duo dreamed of making quality, high-speed internet just as class-agnostic and accessible to everyone. And could there be more fitting hotspots than tea stalls across the city of Bengaluru?

Wifi Dabba, a 2-year old startup from Bengaluru, is working on creating a network of wifi dabbas that can provide super cheap, superfast internet at prices as low as Rs 2 for 100 MB of data. Sounds too good to be true? That's the founders' plan to beat the internet biggies at their own game.

Wifi Dabba was, in fact, a bit of an accident. Co-founders Karam Lakshman and Shubhendu Sharma, now in their early 30s, were tinkering with a Raspberry PI in early 2016 for a hardware project and realized they could build a router out of it. They set one up at a chaiwallah near their office and within a few hours, dozens of people were using it.

How does Wifi Dabba work?

Sharma started the company along with CEO Karan Lakshman, and the two began research and development for the idea in July last year. By September, they were ready to launch, and today they have over 400 locations in Bengaluru.

The "Dabbas" are hotspots that are distributed to small shops, such as bakeries, tea shops, and so on. They're broadcasting a Wifi signal, and you can buy a token at any of the shops, Sharma explains. "You connect to the open SSID, and then punch in your phone number - this is a one time requirement - to establish your identity," he says. "Then you enter the eight digit code on the token and you're online." "There is seamless connectivity in the background as long as your Wi-Fi is still on, just like you move from telecom tower A to tower B," Sharma continues. "And if your balance runs out, you can also buy a renewal online and extend."

What comes next for Wifi Dabba?

At present, Wifi Dabba has over 400 locations in Bengaluru, with 25 to 30 activations per day, Sharma says. It's tracing around 4,000 sessions every day, with between 65 and 80 percent of these being returning users, he adds. The goal right now is to expand further, and there are a few different ways in which this is happening.

"We are already doing pilots in Tier-III cities, across 100 locations in Maharashtra, UP, and Karnataka, where we're able to collect usage patterns and figure out what people want," says Sharma.

It turns out that while some users are visitors - customers who come to shops and so on - Wifi Dabba is also tapping into a neighbourhood-level demand for sachet access to the Internet. "Let's say we install it at a bakery," says Sharma. "Next to that there are lots of other shops, and even houses, and these guys are also becoming our users, paying for the Internet whenever they need it."

Aside from that, Wifi Dabba is also expanding the reach of local ISPs, laying cable in some areas. "It's a big expense, but we are trying to bring the cost of last mile delivery as low as we can," he says. "That's the top priority for us.


-Sakshi Bagrecha

Update - 182

Foreign Inward Remittance Certificate & Bank Realization Certificate

If you've sent money to someone in India, you might have been faced with the question of whether you need an FIRC or BRC. Meaning, what, exactly?

What is **Foreign Inward Remittance Certificate (FIRC)** and **Bank Realization Certificate (BRC)**

Both are certificate issued by authorized dealer bank to the customers for receiving amount from foreign countries. Let us try to understand in detail,

A **Foreign Inward Remittance Certificate (FIRC)** is a document that acts as a testimonial that all incoming international transfers have ended up in the account in which they were supposed to go. It's kind of like a receipt in which it's used as proof that an individual or a business has received a transfer from outside of India.
FIRC is issued against any receipt of amount from foreign countries by a bank to their customers. It can be an advance payment against export proceeds, ocean, airfreight, or remuneration or wages under consultancy charges or money received for any other reasons.

For example, if you're issuing shares to a foreign person or entity, an FIRC serves as proof that the share application money was received. An FIRC also demonstrates proof of share purchase between a resident Indian and non-resident buyer

Bank Realization Certificate (BRC) is issued by bank to their customers against specific documents. Normally BRC is issued by a bank to their customers who has been in to export business on each shipment of export proceeds. Various export promotion agencies provide incentives, import duty exemptions and other financial assistance to the exporters. These agencies require to be submitted export proof by exporters to claim such benefits. One of the proof of exports other than export promotion copy of shipping bill (EP copy of shipping bill), Mate Receipt issued by the carrier is BRC issued by the respective bank who received foreign amount for exports.

So once after receiving the amount under each shipment, the exporter approaches their bank and submits the proof of exports and FIRC details to obtain a BRC under each shipment. This BRC is submitted with the various authorities as proof of shipment or proof of exports along with customs legal document of EP copy of shipping Bill, Mate receipt issued by carrier of goods, where ever applicable.

Here you need to observe that an FIRC can be obtained whenever you receive amount from foreign country. It can even be an advance amount against exports or services. However, BRC is provided only against exports and hence advance payment received will not be entitled for BRC.

-Abhishek .P.A

Update - 183
Ambush Marketing

What is Ambush Marketing?

Ambush Marketing is a marketing strategy where a company ambushes its competitor's marketing efforts to gain an upper hand in terms of exposure by stealing the spotlight from him. Ambush literally means a surprise attack by the competitor.

It is a brand's attempt to associate itself with a team or event without buying the rights so as to steal the spotlight from the rival that paid to be an official sponsor. This was done either to capitalize on huge audience or just to attack the rivals.

Ambushing occurs when the event is hijacked by any party who hasn't sponsored it. It can be brand's competitors or any other unrelated brand too. For instance, if company A and B are sponsoring an event, and A goes on an advertising blitzkrieg making it seem like the sole sponsor for the event, then B would said to have been ambushed by A.

Types of Ambush Marketing

Direct Ambush Marketing Activities

The activities intentionally performed by a company so as to make itself seem associated with an event / property for which it has purchased no rights or when it uses clever advertising to attack a competitor and steal its spotlight.

Predatory Ambushing

A predator is any animal that lives by preying on other animals. Similar case is seen in Predatory Ambushing where a brand intentionally attacks a rival's sponsorship / advertising efforts to gain the market share and to confuse the consumers. An instance of predatory ambushing can be seen during the 1997 Pepsi Asia Cup (cricket) which had Pepsi as its official sponsor. Coca Cola bagged the television sponsorship rights for it and Pepsi, in spite of having branded the event, got its audience confused about who the official sponsor was.

Coattail Ambushing

A coattail is the loose back flap of a coat that hangs below the waist. Coattail ambushing is an attempt by a brand directly associate itself with an event or a property by using a link other than becoming an official sponsor of the same. For example Adidas may sponsor a football player participating in the football cup sponsored by Nike.

Self-Ambushings

When an official sponsor perform activities above and beyond what was decided in the sponsorship contract, self ambushing is said to take place. Self Ambushing may result in the brand performing activities which was earlier agreed upon to be performed by other official sponsors, like offering products or services to the audience at free of cost, etc.

Indirect Ambush Marketing Activities

When a brand associate itself with an event or a program indirectly – either through creating an allusion by using similar images, symbols, etc, or setting up a promotional presence at or near the event without

making specific reference to the event, or by using certain theme as that of the concerned event, in order to gain more exposure and publicize their products with no intention of attacking or stealing spotlight from their competitors, the brand is said to use Indirect Ambush Marketing Activities.

Examples of Ambush Marketing

Pepsi ambushed Coca Cola in 2014 Football World Cup.

Coca Cola signed a contract and became the official marketing partner of FIFA and had a marketing, branding and activation exclusivity in the category relating to FIFA and World Cup efforts of every Football World Cup. Pepsi ambushed this marketing effort of Coca Cola by signing 19 renowned football players including Argentinean Lionel Messi and Sergio Agüero, Englishman Jack Wilshere and Brazilian David Luiz, etc. and launching its 'Live for Now' Campaign. Though not associated with the actual event, Pepsi's marketing activities made it look like it was associated with it and this affected Coca Cola.

130 year old Mercedes Benz wished BMW its 100th birthday Mercedes Benz effectively capitalized on the event of BMW's 100th birthday and wished its competitor on social media while advertising for itself.

https://www.instagram.com/p/BCpITfPzcOr/?utm_source=ig_embed

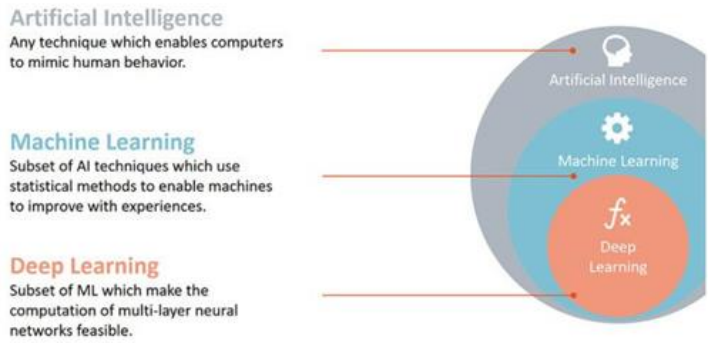
-Karthik Kumar.P

Update – 184

Artificial intelligence and its application in business

What does Artificial Intelligence mean?

The emergence of artificial intelligence (AI) has played a key part in ushering in a Fourth Industrial Revolution. According to the World Economic Forum, "it is disrupting almost every industry in every country."
"We stand on the brink of a technological revolution that will fundamentally alter the way we live, work, and relate to one another. In its scale, scope, and complexity, the transformation will be unlike anything humankind has experienced before." – Klaus Schwab, Founder and Executive Chairman, World Economic Forum Geneva Artificial intelligence is a conglomeration of concepts and technologies that mean different things to different people – self-driving cars, robots that impersonate humans, machine learning, and more – and its applications are everywhere you look. The typical definition used for AI looks something like this:



Why is Artificial Intelligence important?
Artificial intelligence systems are critical for companies looking to extract value from data by automating and optimizing processes or producing actionable insights. Artificial intelligence systems powered by machine learning enable companies to leverage their large amounts of available data to uncover insights and patterns that would be impossible for any one person to tease out, enabling them to deliver more targeted, personalized communications, predict critical care events, identify likely fraudulent transactions, and more.

Artificial Intelligence + DataRobot
DataRobot was founded on the belief that emerging AI and machine learning technologies should be available to all enterprises, regardless of size and resources. That's why we invented automated machine learning, which allows users of all skill levels to easily and rapidly build and deploy machine learning models without complex programming or math.

DataRobot believes in the democratization of AI, and for that reason, we developed a platform that enables business users across organizations to gain actionable, practical insights that result in tangible business value. DataRobot makes the power of AI accessible to users throughout your business, helping your organization transform into an AI-driven enterprise.

<u>Examples of smart AI gadgets :</u>
Ambi Climate AI Air Conditioner
Take control of the air in your home with the 2nd Edition Ambi Climate AI Air Conditioner. This smart system uses six factors to help your home's climate always remain perfect. These metrics include the temperature, humidity, weather, sunlight, and more. Using these factors, Ambi Climate automatically adjusts the flow of air in your home.

Chris Digital AI Co-Driver
Never ride solo again when you have Chris, the digital AI co-driver. Securing to your dashboard, this smart device connects directly to your smartphone. With Chris riding next to you, you can manage your messages, take and end calls, control your music, and even follow navigation. In addition, Chris is super intelligent.

Bonjour Smart AI Alarm Clock
Wake up on the right side of the bed every morning with the Bonjour Smart AI Alarm Clock. Another incredible invention from Holi, this alarm clock has voice-controlled AI that turns it into your personal assistant. Bonjour features a warm and welcoming female voice to inform you of possible traffic, weather for the day, and can respond to your every request.

Duo Home AI Computer
Smarten up your living quarters with the Duo Home AI Computer. At first glance, Duo looks like a sleek 27-inch mirror. But, with a single touch, the supercomputer comes to life. This incredible system responds to your touch as well as your voice to control your home and your media.

XTND—Electric Board with Artificial Intelligence
Introducing the XTND Electric AI Board. This personal vehicle is lightweight, thin, and easy to ride. However, what really sets it apart is the ground-breaking AI technology inside. The XTND Board learns about you over time. It understands the way you ride and produces settings to adapt to you.

CHiPK9—The World's First Lovable Robot Dog
With the ability to be trained, loyal, and affectionate, the CHiPK9 will be your family's new best friend. Just like a real dog, CHiP is playful and intelligent and can recognize you when you wear the smartband. CHiP will even follow you, wait for you to come home, and remind you when it's time for food.
Netatmo

The Netatmo Welcome security camera can recognize your face, so it's able to spot the difference between you, your kids, and an unwelcome intruder who's after your valuables. That kind of recognition relies on some AI machine learning, recognizing faces from any angle or direction.

Picking out faces puts the Netatmo Welcome one step beyond the standard motion detection in most security cameras – you're going to get fewer false positives if a shadow passes across the room or your dog wanders by. It can work in a positive way as well, alerting you if the camera spots that your kids or your elderly parents have made it back home, for example.

Beside the AI smarts built into the Netatmo Welcome camera, it can also respond to alarms in your home (for smoke or CO2, for example), as well as store videos locally or in the cloud. Everything is tied together with straightforward apps that are simple to use.
How businesses can benefit from artificial intelligence,
Instances;
Virtual assistance
Imagine the logistics behind a major international airline like Emirates. They're interacting with literally hundreds of thousands of people every day – across social media and the real time market. Sheer volume makes customer relationship management critical to their business model.

And that's where artificial intelligence can step in. Chatbots and intelligent systems can be Emirates' always on connection to their markets. Should a customer's flight be delayed, there can be systems in place that connect with said customer, keeping them updated on schedules, and referring them to new information as it happens, with personalized notifications. Chatbots can respond to customer queries, regardless of what time it is. This can only have a positive impact on the overall brand momentum.

Generating business and market insights

Data can be considered 'the new oil', as it's the raw material of the digital economy. But much like oil remains useless without specialized machinery to extract and process it, so data remains useless, trapped in vast cloud databases. Artificial intelligence can help businesses mine for the unique 'gems' found in these databases, processing billions of data points in a matter of minutes. And the best part is that AI isn't static. It learns and adapts. These insights can be fed back to the business to better its processes.

Systems automation

Since the industrial revolution, the rise of technology has gone hand in hand with the automation of work. From tractors, to automated hotel bookings and advanced robots working in manufacturing factories, the theme remains constant. As far as the introduction of artificial intelligence is concerned, the only difference is where it works. There's a growing trend towards the automation of routine work. Artificial intelligence is quickly automating routine processes, the same way industrial era machines automated physical labor. Not only are these technologies extremely capable.

Every business manager, entrepreneur, and business decision maker should look into the benefits that artificial intelligence can offer them in their commercial endeavors.

-Adithya.CV

Update – 185
Merchant Exporters

GST IMPACT FOR MERCHANT EXPORTERS

Merchant exporter is a person who is engaged in trading activity only. Further, the goods purchased are exported by the merchant exporter. Hence, a merchant exporter is not involved in any manufacturing activity, he just undertakes trading of the goods.
Under earlier law special tax benefit was provided to the merchant exporter for procurement of goods without payment of duty, however, the same is not available under Goods and Service Tax law. After several representation from the exporter, the Government of India, with effect from 23.10.2017, has exempted CGST and SGST above 0.05% and IGST above 0.1%. Meaning thereby that, from 23.10.2017, the merchant exporter can procure goods @0.05% CGST + 0.05% SGST and 0.1% IGST from domestic market.
In this article, we look at the applicability of GST for Merchant Exporters and the procedure to be followed by Merchant Exporters to avail benefit of the exemption notification.

Merchant Exporter under GST :-

Under GST, "Manufacturer Exporter" means a person who manufactures goods and exports or intends to export such goods. "Merchant Exporter" means a person engaged in trading activity and exporting or intending to export goods.

GST applicability for Merchant Exporter :-

Under GST, supply of goods or service s per provisions of section 7 (5) (a) when the supplier is located in India and the place of supply is outside India, supply of goods or services or both, would be treated to be a supply of goods or services or both in the course of inter-state trade or commerce.

Since the activities of merchant exporter is covered under criteria of supply, the merchant exporter is required to obtain GST Registration and follow all the rules and regulations, thereon. As per notification no. 40/2017-central tax (rate) and 41/2017-central tax (rate) both dated 23.10.2017, the registered supplier would supply the goods to the registered recipient on a Tax invoice charging GST as follows :

In case of intra-state supply – CGST is payable @0.05% and SGST is payable 0.05%.
In case of inter-state supply – IGST is payable @0.1%.

Conditions for Availing Exemption

In order to avail the above exemption, the Merchant Exporter must Fulfill the following condition.

1. The registered supplier should supply the goods to the registered recipient on a tax invoice.
2. The registered recipient should export the said goods within a period of ninety days(90) from the date of issue of a tax invoice by the recipient supplier.
3. The registered recipient should indicate the Goods and Service Tax Identification Number of the registered supplier and the tax invoice number issued by the registered supplier in the shipping bill or bill of export.
4. The registered recipient should be registered with an Export Promotion Council or a Commodity Board recognized by the Department of Commerce;
5. The registered recipient should place an order on registered supplier for procuring goods at concessional rate and a copy of the same shall also be provided to the jurisdictional tax officer of the registered supplier;

6. The registered recipient should move the said goods from place of registered supplier –
    1. Directly to the Port, Inland Container Deport, Airport or Land Customs Station from where the said goods are to be exported; or
    2. Directly to a registered warehouse from where the said goods shall be move to the Port, Inland Container Deport, Airport or Land Customs Station from where the said goods are to be exported;
7. If the registered recipient intends to aggregate supplies from multiple registered suppliers and then export, the goods from each registered supplier should move to a registered warehouse and after aggregation, the registered recipient should move goods to the Port, Inland Container Deport, Airport or Land Customs Station from where they shall be exported;
8. In case of situation referred to in condition (vii), the registered recipient shall should receipt of goods on the tax invoice and also obtain acknowledgement of receipt of goods in the registered warehouse from the warehouse operator and the endorsed tax invoice and the acknowledgment of the warehouse operator shall be provided to the registered supplier as well as to the jurisdictional tax officer of such supplier; and
9. When goods have been exported, the registered recipient shall provide copy of shipping bill or bill of export containing details of Goods and Services Tax Identification Number (GSTIN) and tax invoice of the registered supplier along with proof of export general manifest or export report having been filed to the registered supplier as well as jurisdictional tax officer of such supplier.

It is most important to note that the Merchant Exporter will not be eligible for the above mentioned exemption (payment of GST at concessional rates) if the Merchant Exporter fails to export the said goods within a period of ninety days_from the date of issue of tax invoice.

-Jayakumar.R

Update – 186 Change in Rate of tax in respect of goods and services

What is Time of Supply?

Under GST the point of taxation, i.e., the liability to pay CGST / SGST, will arise at the time of supply as determined for goods and services.

Section 14 of CGST Act, 2017: Change in Rate of tax in respect of goods and services:

Notwithstanding anything contained in section 12 or section 13, the time of supply, where there is a change in the rate of tax in respect of goods or services or both, shall be determined in the following manner, namely:

(*a*) in case the goods or services or both have been supplied before the change in rate of tax,—

(*i*) where the invoice for the same has been issued and the payment is also received after the change in rate of tax, the time of supply shall be the date of receipt of payment or the date of issue of invoice, whichever is earlier; or (*ii*) where the invoice has been issued prior to the change in rate of tax but payment is received after the change in rate of tax, the time of supply shall be the date of issue of invoice; or

(*iii*) where the payment has been received before the change in rate of tax, but the invoice for the same is issued after the change in rate of tax, the time of supply shall be the date of receipt of payment;

(*b*) in case the goods or services or both have been supplied after the change in rate of tax,—

(*i*) where the payment is received after the change in rate of tax but the invoice has been issued prior to the change in rate of tax, the time of supply shall be the date of receipt of payment; or

(*ii*) where the invoice has been issued and payment is received before the change in rate of tax, the time of supply shall be the date of receipt of payment or date of issue of invoice, whichever is earlier; or

(*iii*) where the invoice has been issued after the change in rate of tax but the payment is received before the change in rate of tax, the time of supply shall be the date of issue of invoice:

Provided that the date of receipt of payment shall be the date of credit in the bank account if such credit in the bank account is after four working days from the date of change in the rate of tax.

Explanation:For the purposes of this section, "the date of receipt of payment" shall be the date on which the payment is entered in the books of account of the supplier or the date on which the payment is credited to his bank account, whichever is earlier.

- Deepika.N.P

Update – 187
Portfolio Management Service

"Always try to represent yourself happy because initially, it becomes your look. Gradually it becomes your habit and finally, it becomes your personality." -Swami Vivekananda

Ever since the stock market has been in a downward spiral, several investors have migrated from direct equity and mutual funds to Portfolio Management Schemes (PMS).

What is a Portfolio?

A portfolio can be defined as different investments tools namely stocks, shares, mutual funds, bonds, cash all combined together depending specifically on the investor's income, budget, risk appetite and the holding period. It is formed in such a way that it stabilizes the risk of nonperformance of different pools of investments.

What is Portfolio Management?

Portfolio management refers to managing an individual's investments in the form of bonds, shares, cash, mutual funds etc so that he earns the maximum profits within the stipulated time frame. It is the art of managing the money of an individual under the expert guidance of portfolio managers.

It is the detailed SWOT analysis (strengths, weaknesses, opportunities, and threats) of an investment avenue, which could be in the form of debt/equity, domestic/international, with the goal of maximizing return at a given appetite for risk.

Types of Portfolio Management

There are majorly four types of portfolio management methods:

Discretionary portfolio management: In this form, the individual authorizes the portfolio manager to take care of his financial needs on his behalf.

Non discretionary portfolio management: Here the portfolio manager can merely advise the client what is good or bad, correct / incorrect for him, but the client reserves the full right to take his own decisions.

Passive portfolio management: It is the form which involves only tracking the index.

Active portfolio management: This includes a team of members who take active decisions based on hard core research before investing the corpus into any investment avenue. (e.g. close ended funds).

Objectives of Portfolio Management

It is aptly put as the customization of the investment needs catered by the portfolio managers as per the defined requirements.

Portfolio management helps in providing the best options for investments to individuals as per the defined criterions of their income, budget, age, holding period and risk taking capacity.

This is mainly done by the Portfolio managers who understand the investors' financial needs and accordingly suggest the investment policy that would have maximum returns with minimum risks involved. Aptly put, it is risk reduction through diversification.

This is the method preferred by those who believe in having liquidity in investments so that one can get the money back when needed.

Some of the portfolio management schemes are also done for tax saving purposes.

It helps the investors maintain the purchasing power.

Who would opt for Portfolio management?

Limited knowledge: It is opted by someone who would like to invest in different investment avenues like stocks, metals, other commodities but does not have the knowledge of doing it.

Limitation of time: People who would be from a different work profile may not have the time to set and track their portfolio and hence would hand it over to learn and experienced hands.

How Portfolio Management takes place practically?

The actual method of Portfolio Management is different from that we do it academically. The investors carry out a market survey in terms of the different schemes and their performances in the past, the fund managers involved their experiences and risk-reward ratio and accordingly select the fund in which they would chip in their money.

It is initiated with a contract between the investor and the company that would have different portfolio schemes. These could be purely stock/shares oriented or may have a blend of different investment avenues.

Once the contract is in place, verifying the fee structure, time frame, risk exposure and the kind whether discretionary or nondiscretionary is decided.

After all this is in place, the fund manager plays his role. The portfolio is structured on the basis of the agreed terms and then churns the portfolio at regular intervals.

The report of the performance of the portfolio is periodically sent to the investors.

There are certain computer-software that are used by the managers to keep a track of the developments in the portfolio.

The fund manager takes decisions on the basis of the hardcore research that is company specific as well as market-related done by the team of the portfolio managers.

Example of Portfolio Management

Say the investor has Rs 1,00,000 to start with and the manager has to distribute this across the different investment options. So the portfolio manager according to the risk-taking capacity and the kind of returns calculated provides a portfolio structured in tandem with that.

So for example, the portfolio could include real estate, fixed deposits with banks, mutual funds, shares, and bonds. There shall be bifurcation across these five units of the total corpus provided.

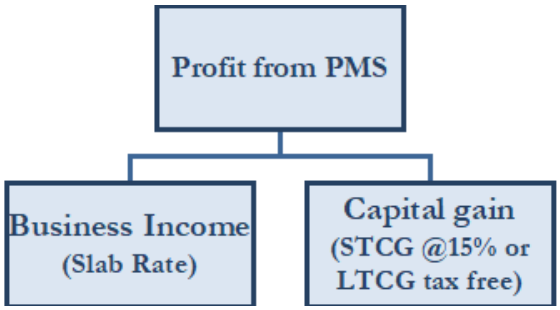
Thereby, depending on the security and the return from these avenues the bifurcation is done.

On the other hand, the portfolio could be stock specific as well. Thereby, the bifurcation is done across researched stocks in the markets.

Hence, depending on the requirements of the investors, the fund manager takes appropriate decisions and allocates the funds.

Taxation of PMS

Since the PMS account is maintained in the name of investor the tax treatment is also done on individual investor level.



Tax Treatment of Profit from PMS

It depends on Investor's Chartered Accountant or the Assessing Officer how he treats this Income. The PMS provider sends an Audited Statement at the year end of FY giving details of STCG and LTCG, it is on the investor and his Chartered Accountant to decide to treat this as Capital Gain or Business Income.

There are various court rulings whether gain/loss from using PMS would be treated as business income or treated as income from capital gain.

A Delhi High Court ruling gives clearer view with respect of taxation of PMS income by classifying investment objective into two:

Wealth maximization – If Investment is made with the purpose of maximization of wealth of client and not with the intention of encashing the profits when capital amount appreciates; then income from such kind of transaction will be taxed under the head ofCapital Gains.

Profit Maximization – If investment was made with the objective of encashing profits on capital appreciation; then income from such kind of transaction will be taxed under the head of Profits and gain from Business Profession.

As a thumb rule – tax officers will look at how income from PMS scheme was being treated in the books of accounts of the Assessee **IN PRIOR YEARS**. Investors should not change the treatment of income generated from PMS.

-Bashar Hamdi

Update – 188

A Milk Startup That Takes On 300 Million Cows !!!

"Innovation is seeing what everybody has seen and thinking what nobody has thought"
And something unique was thought by Mr. Srikumar Misra who moved back home to the eastern Indian city of Bhubaneswar from London to launch a milk company.

Today's update for the day is about a company called '*Milk Mantra*', founded in August 2009 by Srikumar Misra, a former executive with Tata Group. Backed with social media, smartphone apps and big-data analytics, Mr. Misra's dairy business is among hundreds of startup companies leveraging the arrival of the internet in rural areas in India. He zeroed in on the huge but underdeveloped dairy industry, which is exceedingly fragmented. According to Misra, the idea for Milk Mantra came from the business idea of Micromax Mobile, which focused on its phone's USP of 30-day battery life. Milk Mantra's USP lies in its packaging which promises improved shelf life of its dairy products.

The Problem:
Between cow and consumer, milk quality has suffered. Middlemen in India often sneak water, sugar or powdered milk into raw milk, adding volume and lowering the quality. The milk that independent middlemen gather from farmers and deliver to towns and villages is often unpasteurized and not properly refrigerated. That is why almost all Indians boil their milk, which is where Mr. Misra saw an opening. There was a huge problem with milk products that people could trust. The opportunity was addressing this trust deficit. Another problem was majority of the profits between cow and consumer was taken away by middlemen which left farmers to suffer.

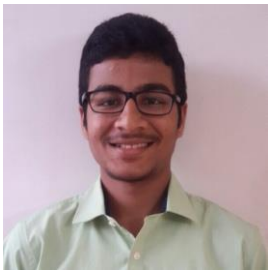
The Solution:
Milk Mantra sources its milk directly from farmers. Small farmers with marginal land holdings and a handful of cattle, line up with buckets of milk at the nearest Milk Mantra collection point to have their milk tested for its fat content. Every 10 days, the farmers receive their payments which ranges from 25-29 per litre, depending on the quality. A chart pinned up at every collection centre spells out the prices of milk per litre based on the percentage of fat. This transparency, as well as the elimination of middlemen, ensures that farmers receive fair and full prices. At the outset, packaging innovations were part of Milk Mantra's pitch. Misra knew from experience that the transparent plastic pouches that packaged milk was generally sold in exposed the milk to sunlight, turning it rancid. So he came up with a three-layered design—an inner translucent film to be in contact with the milk, a black middle layer to block out the sun and an outer white layer complete with Milky Moo design elements—which increased the shelf life of Milk Mantra's packaged milk by four days.
Milk Mantra has tied up with banks to provide low-interest loans to farmers to purchase cows. It also provides better animal feed at market rates. Besides, it has vets on call to help farmers breed healthier cows and regularly conducts health camps in villages where farmers can bring their cows for check-ups. Milk production has since tripled.

The Struggle:
Starting off wasn't easy. Misra left his cushy job as head of mergers and acquisitions at Tetley, the Tata group-owned tea company, in London in 2009, to return to his home state to set up his dream dairy company. He needed $5 million just to set up the supply chain which was not something he could do sitting out of a garage. The milk collection centres, bulk milk chillers and milk processing plant had to be in place before he could start sourcing milk from farmers. But investors turned him away. After two years of pitching unsuccessfully to venture capitalists, he decided to turn to individual angel investors who were willing to offer him amounts ranging from 5 lakh to 60 lakh. He bandied together a number of them, raised the seed amount he needed and kicked off operations in 2011.

The Journey:
In June 2011, the company developed its 3-layer packaging technique called 'Tripak' which prevents the milk contents from light damage. In 2012, it launched its products in Bhubaneshwar and Kolkata with services like direct-to-home milk delivery. In 2013, it launched a range of Easter India's first probiotic curd. In December 2014, it acquired Westernland Dairy, which extended Milk Mantra's reach to Jharkand and Chhattisgarh. Between 2010 and 2014, Milk Mantra raised a total capital of 35 million (US$490,000) in funding from a group of 20 angel investors which mainly included Aavishkaar India and Fidelity Growth Partners India. In early 2015, Milk Mantra entered the health food industry by launching MooShake. Under the brand, it produces a health beverage which is blended with curcumin, an extract from turmeric, believed to have multiple health benefits. It was first launched in Bengaluru. MooShake products have a shelf life of 180 days. Milk Mantra also produces and distributes various milk products like buttermilk, curd, probiotic yogurt, cheese, cottage cheese, milkshakes, energy drinks, and other beverages.

The Success:
What began with a handful of farmers and a single collection point has today morphed into a network of 55,000 farmers spread across the eastern and western regions of the state, a daily collection of over 1 lakh litres through 390 collection centres and distribution spanning Odisha (for milk and milk products) as well as Jharkhand, Chhattisgarh and West Bengal (for milk products). Milk Mantra has expanded relatively quickly and revenues have grown steadily at about 35% annually. Sales reached 1.8 billion rupees ($27 million), while producing an average of 120,000 liters of milk daily. The company has 340 employees, with almost 900 other workers on contracts. With its ethical sourcing model, Milk Mantra has transformed the dairy sector in eastern India, pulling farmers out of poverty along the way.

HAPPY FARMERS = HAPPY COWS = BEST MILK = HEALTHY PEOPLE is the driving force of THE MILK MANTRA.



- CA Harshad K Jain

Update – 189
How does virtual games make money?

We're spending an extraordinary – and ever-increasing – amount of time playing mobile games. Our smartphones and tablets, packed with addictive apps, entice us to spend on average **3 hours a day** playing games - a figure which rocketed 57% from 2014 to 2017.

A new generation of gamers are paying big money for their digital pastime. How much? Well, today's most profitable mobile game, Game Of War – Fire Age, grosses around **$1.5 million per day**, whilst Mobile Strike and Clash Royale both exceed the **$ 1 million per day** mark.

In all, the global app market (of which gaming accounts for around 80%) is worth a staggering **$ 50 billion per year**. Mobile analysts App Annie predict that figure will **double to $100 billion** by 2020.

There's a whole new world of mobile gaming out there that's making big money for the developers, marketers and strategists who are tapping into this emerging mobile gaming trend. As digital recruitment specialists since 2001, we've enjoyed front-row seats to the rise of this fascinating industry.

Following are the different ways to monetize virtual games.

1. In-game advertising.

Advertising is one of the most common and easy ways to monetize your VR games. By introducing in-game ads, you can keep the application free of charge and still have the game bring in decent revenues.

As users are more likely to have the ads running rather than pay for playing their favourite game. However, there is one side effect: most users find ads annoying and obtrusive. So, it is important to have a "Close" button for the ad or offer an ad-free subscription.

2. Freemium.

Another great way to monetize your game is by releasing its free "lite" version to let the users taste it a bit only to offer full access at a reasonable fixed price after some time.

To make this method work, your game must have a number of valuable additional features and improved functionality available after the purchase.

3. Cross-marketing.

You can also join the affiliate market and make money on promoting some other apps inside your game. You can make money by letting other companies use your app as a platform for their product promotion. Alternatively, you can promote your own game inside their app.

However, if you opt for this method, make sure to work with neighbouring niches and not your business rivals as well as do not make the ads take over your app. Do not let them be annoying and obtrusive.

4. In-app purchases.

In-game purchases are one of the most popular sources of revenue for businesses. As you understand from the name, money comes from all the purchases made inside the account. According to the trusted sources, this type of monetization is very successful.

AppsFlyer states that any user spends $0.50/ month on average on in-app purchases per application with purchase activity. They also state that Asian users spend more ($0.7 per user per app) than European, while the Latin users spend the least ($0.16 per user per app). Besides, iOS users spends more ($1.08 per user) on in-app purchases than Android ones ($0.43 per user).

5. Subscription.

This method has a huge potential even though it did not become as popular among the developers as other types of monetization.

Paying to play some game within a specific time is one way to run your business and increase profits, but this method will only work if you can offer fresh content on a regular basis. Otherwise, the subscription will bring no value to the target audience.

6. Premium content.

Having limited content available for free and then offering users to pay to get full access to premium content is another way to monetize your VR games.

Thus, you can specify what other features you have to offer for an additional cost. Users will want to have exclusive functionality at hand, and you will get a steady source of income.

-Sumukh K A

Update – 190
Forensic Accounting

"Rather fail with honor than succeed by fraud"

What is forensic accounting?

"Forensic" means "suitable for use in a court of law". Forensic accounting is defined as the application of investigative and analytical skills for the purpose of resolving financial issues in a manner that meets standards required by courts of law. Forensic accounting also encompasses the determination of whether criminal matters occurred. Forensic accountants follow the accountancy equivalent of presuming a suspect is guilty until proved innocent. The evidence they unearth can be presented in courts for prosecution.

Role of a forensic accountant:

Forensic accountants apply special skills in accounting, auditing, finance, quantitative methods, certain areas of the law, research and investigative skills to collect, analyze and evaluate evidential matter and to interpret and communicate findings. Financial forensic engagements may fall into several categories. For example:

- Economic damages calculations,
- Bankruptcy, insolvency and reorganization,
- Securities fraud,
- Tax fraud,
- Money laundering,
- Business valuation,
- Computer forensics/e-discovery,
- Insurance claims and
- Personal injury claims.

Along with testifying in court, a forensic accountant may be asked to prepare visual aids to support trial evidence. For business investigations, forensic accounting entails the use of tracing funds, asset identification, asset recovery and due diligence reviews. Forensic accountants may seek out additional training in alternative dispute resolution (ADR) due to their high involvement in legal issues and familiarity with the judicial system.

Forensic accountants often assist in professional negligence claims where they are assessing and commenting on the work of other professionals.

"Come on, I know there's something you're not telling me!"

Stages involved in forensic investigation:

- Planning stage,
- Evidence gathering stage,
- Review stage and
- Report writing stage.

What are the Qualifications to become a forensic accountant?

At the very least, a bachelor's degree is required in becoming a forensic accountant. Many employers also expect their forensic accountants to hold certifications like a Certified Public Accountant (CPA), Chartered Accountant (CA), or Certified Fraud Examiner (CFE).

Certified Forensic Accounting Professionals is the premier certification on Forensic Accounting in India. Since inception in 2006, demand for this certification has grown multifold. Today, there are more than 700 certified professionals spreaded in more than 140 business brands in 7 countries. Certified Forensic Accounting Professional (CFAP) is a person who has successfully completed the examination conducted by Indiaforensic Center of Studies to become an expert in the field of forensic accounting, forensic auditing, litigation support and investigative accounting.

Every candidate should have at least 45 points to be a Certified Forensic Accounting professional. Every year of Education carries 10 points and every year of work-experience is worth 5 points. To put it in simple words, any graduate with minimum three years of experience is eligible for the examination of CFAP. Ex: If a CA or CS aspirant who completed 3 years of articleship experience wants to appear for the exams of Certified Forensic Accounting Professional then it is essential that he is Graduate. Experience of CA articleship is considered to be valid experience for the purpose of CFAP eligibility.

Scope of Forensic accounting:

"Forensic auditing work has seen growth of at least 100% in the post-Satyam era," Mayur Joshi, a leading Indian forensic accountant, told Asia Times Online.

The Opportunities for the Forensic Accountants are growing at the rapid speed. Collapse of Enron have blessed the American Forensic Accountants with the opportunities.

In the Indian context the Forensic Accountants are the most required in the wake of the growing frauds. After the Satyam scam, forensic auditors are much in demand as many companies want to understand what the initial warning signals of a Satyam kind of fraud in other companies could be. Even the government's Serious Fraud Investigation Office (SFIO) has sought the help of forensic accountants to get to the root of the financial fraud at Satyam.

Reserve Bank of India has made forensic accounting audit compulsory for banks in India. However, banks are hesitant in approaching certified fraud examiners, and are mostly dependent on their internal auditors.

-Dhaarani. MV

Update – 191
Importance of Logo

A **logo** is a combination of text and visual imagery that serves two purposes. It tells people the name of the company and it creates a visual symbol that represents your business. Some **logos** have powerful symbolic association connected to people's memory. Here are few logos which are well known to everyone but let us know the intention behind the same

01. Cisco

Cisco, the worldwide leader in networking for the internet, is named after its headquarters' location in San Francisco. While its namesake doesn't have a hidden meaning, the blue stripes above the logotype not only represent an electromagnet but also, the Golden Gate Bridge.

02. NBC

NBC's logo has a couple of hidden meanings. It's clear that it's a peacock, but why? When the logo was developed color televisions were being introduced (explaining the rainbow of colors), and the network wanted a logo that would cause black and white tv owners to make the switch. So, they went with the common phrase (at the time), 'proud as a peacock', promoting that they were proud of their new color system. The six different colors of the feathers represent the six different divisions of NBC.

03. Baskin Robbins

Baskin Robbins is known for its seemingly limitless flavors of ice cream (31, if we're being exact). That famous number is hidden in the 'B' and the 'R' of their logo, acting as the curve of the 'B' and the stem of

the 'R'. The logo represents fun and energy, much like how you'll feel during (and after) eating their ice cream.

04. Vaio

Sony Vaio, aka Visual Audio Intelligent Organizer, is known worldwide for its technology, but not everyone knows the meaning behind its logo. Vaio represents the integration of both analog and digital technologies in its products. The letters 'va' are made to look like an analog wave, while the 'io' resemble the numbers 1 and 0, representing a digital signal or binary code.

05. Le Tour De France

The Tour De France logo has two hidden messages inside of it. The first is a bit more obvious, with a cyclist making up the letter 'r', but the second is more subdued. The yellow circle that acts as the bike's wheel is also a sun, indicating that the events of the race only occur in the daytime.

06. BMW

BMW's logo colors come from the Bavarian flag, which are blue and white. Their logo is derived from the Rapp Motor Works' logo, which is very similar. It is commonly thought that the logo represents the blades of a spinning propellor, due to their aviation history and an ad created in the 1920s.

07. Unilever

Unilever makes a ton of products, and to showcase that they created a 'U' out of a variety of icons symbolizing some of their core products. It's a fun way to show they have their hands in a variety of areas, and gives the viewer something to piece together.

08. Toblerone

The popular chocolate bar, Toblerone, has been around for quite some time. It's current logo features a mountain, symbolizing the Matterhorn Mountain in Switzerland. Hidden inside the mountain is a bear, symbolizing the unique honey flavor found in the chocolate and the fact that the chocolate is made in the 'City of Bears'.

09. Apple

One of the most recognizable logos in the world, the Apple logo is theorized to have come from none other than the story of Adam and Eve. The apple is supposed to be the apple Eve bit from in the bible and represents the fruits from the Tree of Knowledge.

10. Toyota

Toyota's current logo has been around since 1990. The popular car manufacturer's three overlapping rings symbolize the unification of the hearts of Toyota customers and Toyota's products. The background space represents their technological advancement and the opportunities that lay ahead.

Whether a Chartered Accountant/Firm is permitted to use logo on letter-heads, stationery, etc.?

No, the use of logo/monogram of any kind/form/style/design/color etc. whatsoever on any display material or media e.g. paper stationery, documents, visiting cards, magnetic devices, internet, signboard by the Chartered Accountant, firm of Chartered Accountants is prohibited. Use/printing of member/firm name in any other manner tantamounting to logo/monogram is also prohibited. However, a common CA logo has been allowed to the members, provided it is used in the correct manner within terms of the Council guidelines.

However, The use of CA logo in the stamp is permissible, subject to CA logo guidelines issued by the Institute.

- Sreekar.KV

Update – 192
Stock Exchanges

"Stock market is a battlefield. Always remember to survive in the game first. Only those that survive the battle can enjoy the spoils of the war." — *Benjamin Lee*

What is stock exchange?

An exchange is an organization or association which hosts a market where stocks, bonds, futures and options, commodities etc., are traded. Here, buyers and sellers come together to trade the financial instruments during the specific hours of business days.

A stock exchange is a facility where stocks are traded. Please note that stock exchanges do not own the stocks (similar to the vegetable market where the market doesn't own the vegetables but connects the buyers and sellers of vegetables at a location).

To trade in a stock exchange, the companies must be listed there. The exchange imposes rules and regulations on the firms & brokers for efficient trading and provides the facility for the issue and redemption of securities.

Two Popular stock exchanges in India

Bombay Stock Exchange:
Bombay stock exchange (BSE) is an Indian stock exchange located at Dalal Street, Mumbai, Maharashtra, India.

- It was established in 1875 and is Asia's oldest stock exchange.
- The BSE is the world's 10th largest stock exchange with an overall market capitalization of $2.3 Trillion as of April 2018. (as of 14 December 2018 market capitalization of BSE listed co. (Rs.Cr.) : 1,43,23,734.44 ($1.99 Trillion).
- More than 5100 companies are publicly listed on the BSE.

National Stock Exchange:
The National Stock Exchange (NSE) is the leading stock exchange of India, located in Mumbai, Maharashtra, India. It was started to end the monopoly of the Bombay stock exchange in the Indian market.

- NSE was established in 1992 as the first demutualized electronic exchange in the country.
- It was the first exchange in the country to provide a modern, fully automated screen-based electronic trading system which offered the easy trading facility to the investors spread across the length and breadth of the country.
- NSE has a total market capitalization of more than US$2.27 trillion, making it the world's 11th-largest stock exchange as of April 2018.

NSE's index, the NIFTY 50, is used extensively by investors in India and around the world as a barometer of the Indian capital markets.

Main highlights of Clause 49 of listing agreement (SEBI) deals with corporate governance

Corporate Governance refers to the set of system, principles and processes by which a company is governed.

Corporate Governance is based on principles such as:

- Conducting the business with all integrity & fairness,
- Being transparent with regard to all the transactions,
- Making all necessary disclosures,
- Complying with applicable Law,
- Accountability & responsibility towers the stakeholder.

Requirements under clause 49

1. Board of Directors
   A. Composition of Board
   B. Non-executive directors' compensation and disclosures
   C. Other provisions as to Board and Committees
   D. Code of Conduct
2. Audit Committee
   A. Qualified and Independent Audit Committee
   B. Meeting of Audit Committee
   C. Powers of Audit Committee
   D. Role of Audit Committee
   E. Review of information by Audit Committee
3. Subsidiary Companies
4. Disclosures
   A. Basis of related party transactions
   B. Disclosure of Accounting Treatment
   C. Board Disclosures – Risk management
   D. Proceeds from public issues, rights issues, preferential issues etc.
   E. Remuneration of Directors
   F. Management
   G. Shareholders
5. CEO/CFO certification

6. Report on Corporate Governance
7. Compliance

Compliance calendar: Quarterly / Half Yearly / Annual Compliances under SEBI

Sl. No.	Particulars	Due date
1	Statement of Investor complaints	Within Twenty one days from the end of each quarter.
2	Corporate Governance	Within 15 days from quarter end.
3	Shareholding Pattern	Within 21 days from quarter end.
4	Financial Results	Within 45 days from quarter end. And in case of Annual Financial Result, within 60 days from end of Financial Year.
5	Annual Report	Within twenty one working days of it being approved and adopted in the annual general meeting.
6	Certificate from Practicing Company Secretary	Within one month of the end of each half of the financial year.
7	Reconciliation of Share Capital Audit	Within 30 days from quarter end.

Note: Ind AS is applicable to Companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India.

-Sunilkumar.V.R

Update – 193
Bofors scam

One of the major arms scandal in the history of India was the Bofors scam. Let us learn more about it in today's update

The Bofors scandal was a major weapons-contract politicial scandal that occurred between India and Sweden during the 1980s and 1990s under the helm of the Indian National Congress. Many politicians, the then Prime Minister Rajiv Gandhi and several other members of the Indian and Swedish Governments were accused of receiving kickbacks from Bofors AB, a bank financed by the Wallenberg Family.

On 24th March 1986, a $285 million contract between Government of India and Bofors was signed to supply 410 155mm Howitzer field guns. A year later, Swedish Radio alleged that illegal kickbacks was paid to people from various countries to seal the deal. As a result of such revelations, the Indian Government blacklisted Bofors

One of the main person associated with the scandal was Ottavio Quattrochi, an Italian businessman who acted as a middleman in the deal. On 22nd October 1999, the CBI filed a first chargesheet against Quattrochi, Win Chadha, Rajiv Gandhi, the then defense secretary S.K Bhatnagar and various other people.

On 10th June 2002, the Delhi High Court quashed all the proceedings in the case. However, this was reversed by the Supreme Court in 2003. The case lost steam thereafter and on 6th February 2007, Quattrochi was detained in Argentina after the Interpol had issued a red corner notice against him. But the request to extradite Quattrochi was turned down by the Argentinian High Court.

On 29th September 2009, the Government of India informed Supreme Court about its decision to withdraw the case as he could not be extradited. In the beginning of 2011, the Income Tax Tribunal ruled that over Rs. 40 crore was paid to Quattrochi and Win Chadha in the gun deal. But on 4th March 2011, the Delhi High Court allowed CBI to drop the charges against Quattrochi and to close the case. On 14th July 2017, CBI said it would reopen the investigation if the Supreme Court and the Centre orders for the same.

Despite the controversy, Bofors gun was used as the primary field artillery during the Kargil War with Pakistan which gave an India an edge according to battlefield commanders.

Middlemen in Arms Deal

Middlemen were employed in arms deal in India during both the British Raj and Independent India and commission was paid to them under various guises and headings. Some of these was paid as personal bribes while some was paid as contributions to political parties. This led to high levels of corruption and payments being made to the political bigwigs to influence decisions.

However, this practice was made illegal by Rajiv Gandhi in 1985 as it led to large kickbacks being paid in defence deals. But in 2015, the Government of India made the use of middlemen in arms deal legal if they called themselves as 'company representatives' and in such cases, middlemen would be paid by the government for fixing the arms deal under the head 'legal fees

- Abhishek.S

Update – 194
Current fraud trends in financial sector

Global trends in fraud prevention and detection

In the globalized and liberalized business environment of the last few years, we face a drastically increasing volume of frauds, especially in the financial sectors in India. Fraud results in significant losses to the public exchequer, thus adversely affecting service delivery.

Financial fraud is big business, contributing to an estimated 20 billion USD in direct losses annually. Industry experts suspect that this figure is actually much higher, as firms cannot accurately identify and measure losses due to fraud. The worst effect of financial frauds is on FDI inflows into India.

Current Scenario :

Financial institutions are enhancing their processes, controls and fraud risk management frameworks to minimize the opportunities for fraud as well as reduce the time taken in their detection. Funding for fraud control initiatives, however, continues to compete with other business initiatives and is mostly challenged on a cost–benefit basis. Many financial institutions are thus implementing their fraud control and reporting frameworks to generate information in a way that the level of fraud identified, prevented and the actual losses incurred are identified. This approach has enabled the benefits of skilled resources and automated tools to be quantified more precisely.

The role of regulators :

Regulators and investigative agencies are trying to gear up for the changed environment. In 2012, the Central Bureau of Investigation (CBI) announced that it is developing a Bank Case Information System (BCIS) to curb banking frauds. This database contains the names of accused persons, borrowers and public servants compiled from the past records.

The RBI has released a new framework to check loan frauds by way of early warning signals for banks and red flagging of accounts where defaulters shall have no access to further banking finance. It also plans to set up a Central Fraud Registry that can be accessed by all Indian banks. In addition, the CBI and Central Economic Intelligence Bureau (CEIB) will share their databases with banks. Similarly, the IRDA is also in the process of setting up an insurance fraud repository in order to reduce monitoring costs, using advanced detection and prevention systems deployed at the industry level. The initiative is expected to identify fraudulent claims right at the processing stage, before the payment occurs, and is aimed to ensure better screening of proposals at the underwriting stage. This project aims at establishing an industry-wide single fraud database that will eliminate the need for individual insurers to do the same, and targets to ensure better flow of information among the insurers.

SEBI is in the process of getting its existing business intelligence gathering software, which is used for detecting fraudulent activities in capital markets, upgraded.

Top trends industry-wide :

- **Automated analysis tools:** Today, the industry is increasingly aware of the need for automated analysis tools that identify and report fraud attempts in a timely manner. Solution providers are providing real-time transaction screening, third-party screening as well as compliance solutions. In practice, organizations may develop large libraries of tests over time. The fraud specialist or auditor is often in the best position to understand a specific fraud risk given the underlying business process.

- **Sector-oriented bench-marking solutions:** Solutions aimed at assessing the fraud vulnerability of financial institutions are now available. They help in formulating a targeted and cost-effective action plan against fraud risks.
- **Data visualization tools:** These are being used to provide a visual representation of complex data patterns and outliers to translate multidimensional data into meaningful pictures or graphics.
- **Behavioural analytics:** This is helping businesses identify enemies disguised as customers. The data analytics implemented by the institutions to understand customer behaviour, preferences, etc are also helping in the detection of fraudulent activity either in real-time or postmortem. Behavioural analytics use machine learning to understand and anticipate behaviors at a granular level across each aspect of a transaction. The information is tracked in profiles that represent the behaviors of each individual, merchant, account and device. These profiles are updated with each transaction, in real time, in order to compute analytic characteristics that provide informed predictions of future behavior.
- **Deep learning:** Internet payment companies providing alternatives to traditional money transfer methods are using deep learning, a new approach to machine learning and artificial intelligence that is good at identifying complex patterns and characteristics of cyber-crime and online fraud.
- **The internal audit function:** This function is being altered to include fraud risk management in its scope. The changed technological landscape requires the old ways of internal auditing to give way to new, technologically equipped audit functions. Annual audit planning may no longer be fully effective and flexible audit plans are the need of the hour, as fraud risk assessments require extensive use of forensic and data analytics solutions.

-Ashwini.P.V

Update – 195
Internet of Things

The Internet of things (IoT) is the network of devices, vehicles, and home appliances that contain electronics, software, actuators, and connectivity which allows these things to connect, interact and exchange data. IoT involves extending Internet connectivity beyond standard devices, such as desktops, laptops, smartphones and tablets, to any range of traditionally dumb or non-internet-enabled physical devices and everyday objects.

Smart toasters, connected rectal thermometers and fitness collars for dogs are just some of the everyday "dumb items" being connected to the web as part of the Internet of Things (IoT). Connected machines and objects in factories offer the potential for a 'fourth industrial revolution', and experts predict more than half of new businesses will run on the IoT by 2020.

Real World Applications of IoT.

1. **Smart Home**

With IoT creating the buzz, 'Smart Home' is the most searched IoT associated feature on Google. But, what is a Smart Home?

A Smart Home is one that provides its home owners comfort, security, energy efficiency (low operating costs) and convenience at all times, regardless of whether anyone is home.

"Smart Home" is the term commonly used to define a residence that has appliances, lighting, heating, air conditioning, TVs, computers, entertainment audio & video systems, security, and camera systems that are capable of communicating with one another and can be controlled remotely by a time schedule, from any room in the home, as well as remotely from any location in the world by phone or internet.

Installation of smart products give the home and its occupants various benefits — the same benefits that technology and personal computing have brought to us over the past 30 years — convenience and savings of time, money and energy.

2. **Industrial Internet**

Industrial Internet is the new buzz in the industrial sector, also termed as Industrial Internet of Things (IIoT). It is empowering industrial engineering with sensors, software and big data analytics to create brilliant machines.

The first one is manufacturing. It is also the largest industry from an IoT spending (software, hardware, connectivity and services) perspective.

In 2016, manufacturing operations alone accounted for an IoT spend of $102.5 billion on a total of $178 billion, all IoT use cases in manufacturing combined.

The core focus in most Industrial Internet of Things deployments and in the majority of organizations de facto is still on operational efficiency, along with cost optimization

3. **Smart Cities**

Smart city is another powerful application of IoT generating curiosity among world's population. Smart surveillance, automated transportation, smarter energy management systems, water distribution, urban security and environmental monitoring all are examples of internet of things applications for smart cities.

IoT will solve major problems faced by the people living in cities like pollution, traffic congestion and shortage of energy supplies etc. Products like cellular communication enabled Smart Belly trash will send alerts to municipal services when a bin needs to be emptied.

By installing sensors and using web applications, citizens can find free available parking slots across the city. Also, the sensors can detect meter tampering issues, general malfunctions and any installation issues in the electricity system.

Public transportation is disrupted whenever there are road closures, bad weather, or equipment breakdowns.

4. Agriculture

With the continuous increase in world's population, demand for food supply is extremely raised. Governments are helping farmers to use advanced techniques and research to increase food production. Smart farming is one of the fastest growing field in IoT.

Farmers are using meaningful insights from the data to yield better return on investment. Sensing for soil moisture and nutrients, controlling water usage for plant growth and determining custom fertilizer are some simple uses of IoT.

So, what is smart farming? Smart farming is a capital-intensive and hi-tech system of growing food cleanly and sustainable for the masses. It is the application of modern ICT (Information and Communication Technologies) into agriculture.

In IoT-based smart farming, a system is built for monitoring the crop field with the help of sensors (light, humidity, temperature, soil moisture, etc.) and automating the irrigation system. The farmers can monitor the field conditions from anywhere. IoT-based smart farming is highly efficient when compared with the conventional approach.

5. Energy management

In terms of energy management, smart devices and integrated systems can enable businesses to better understand their energy usage and costs in real-time, identify malfunctioning equipment and overlay data sets to draw previously invisible insights that can increase efficiency and reduce operating costs.

With smart lighting, for instance, companies can achieve significant savings by analyzing what areas of the business are contributing most to energy costs and how performance varies throughout the day.

Moreover, IoT devices could even start to communicate with external devices, such as a smart electric grid. A smart grid might be able to understand the weather forecast and therefore anticipate electricity demand. In order to minimize strain on the system, a utility company could communicate with a building via IoT devices to accept a lower energy rate in exchange for less usage.

6. Healthcare

Connected healthcare yet remains the sleeping giant of the Internet of Things applications. The concept of connected healthcare system and smart medical devices bears enormous potential not just for companies, but also for the well-being of people in general.

The collected data will help in personalized analysis of an individual's health and provide tailor made strategies to combat illness. The video below explains how IoT can revolutionize treatment and medical help.

IoT for Patients - Devices in the form of wearables like fitness bands and other wirelessly connected devices like blood pressure and heart rate monitoring cuffs, glucometer etc. give patients access to personalized attention. These devices can be tuned to remind calorie count, exercise check, appointments, blood pressure variations and much more.

IoT for Physicians - By using wearables and other home monitoring equipment embedded with IoT, physicians can keep track of patients' health more effectively. They can track patients' adherence to treatment plans or any need for immediate medical attention. IoT enables healthcare professionals to be more watchful and connect with the patients proactively. Data collected from IoT devices can help physicians identify the best treatment process for patients and reach the expected outcomes.

Internal audit of IoT

IoT looks fancy from the outlook, but as an auditor, how do you go about auditing such a diverse concept which literally has no bounds.? Here are some of the steps following which you can successfully audit IoT.

1. **Determine audit subject**: This is easier said than done as IoT has no universally accepted definition. ISACA has defined IoT as anyone or anything carrying embedded software that enables interaction with other animate or inanimate objects across networks, including the Internet. The key is to consider all IoT devices in use at your enterprise and to determine the audit subject(s). You need to answer the key question: What are you auditing?

2. **Define Audit objective**: The technical risk can be further defined as:

   - Software updates and patches: The time for a patch to be released may be longer than the typical cycle for non-IoT devices.

   - Hardware lifespan: IoT devices have their own life cycle, often with built-in obsolescence. Components such as non-replaceable batteries in IoT devices require life cycle planning and asset management processes specific to IoT.

   - User IDs and passwords to control access either do not exist or are hard coded.

   - IoT devices can be hacked quickly but take days or weeks to rectify. The wider consequences remain unknown because it is difficult to know what has been seen, modified or stolen

   - Hackers can use IoT devices as an entry point to an enterprise's networks.

   - Hacking smart heating, ventilation and air conditioning (HVAC) systems and energy meters can destroy critical infrastructure by jamming and manipulating controls.

3. **Setting audit scope**: When the objectives of the audit have been defined, the scoping process should identify the actual IoT devices that need to be audited. In other words, what are the limits to the audit? This is easier said than done, as the devices are not just the sensors and include supporting infrastructure such as the connectivity and data collection methods, the cloud or other storage means, and the algorithms used for processing the data.

   - How will the device be used from a business perspective? What business processes are supported and what business value is expected to be generated?

   - What is the threat environment for the device? What threats are anticipated and how will they be mitigated?

- Who will have access to the device and how will their identities be established and proven?

- What is the process for updating the device in the event of a published attack or vulnerability?

- Who is responsible for monitoring for new attacks or vulnerabilities pertaining to the device? How will they perform that monitoring?

- Have all risk scenarios been evaluated and compared to anticipated business value?

- What personal information is collected, stored or processed by the IoT devices and systems?

- Do the individuals about whom the personal information applies know that their information is being collected and used? Have they given consent to such uses?

- With whom will the data be shared/disclosed?

4. **Determine audit procedures**: It is important to reiterate that IoT has no universally accepted definition; therefore, there are no universally accepted standards for quality, safety or durability. Similarly, there are no universally accepted audit/assurance programs.

It is, therefore, proposed to review the distinct aspects of IoT by considering

- **General baseline controls**—Minimum controls that need to be applied to all aspects of the technology

- **Data-related controls**—Such as controls that apply to the data forming a key part of IoT

- **Analysis and learning-related controls**—Applied to ensure that the analysis is ethical and enables trusted use of the data and that outcomes of analysis can be applied to business decision-making

- **Business and process alignment**—Related aspects which ensure that the IoT implementation is aligned to business needs and that business benefits are delivered as required

- Suhas.N

Update – 196
P2P Lending

TECHNOLOGY MEETS FINANCE

Today, Technology has solved many problems faced by people, bought more comfort and satisfaction in many things and now Fintech (Finance + Technology) is becoming a revolutionary thing in Finance Industry. It is solving many problems which were faced across Finance Industry (Like Transparency, Customers satisfaction etc.).

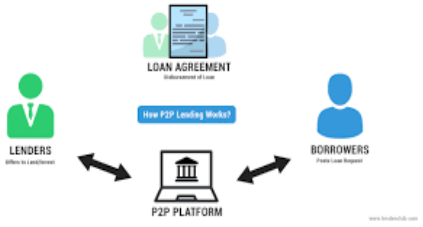
There are many Fintech's like Block Chain, Crowd Funding, P2P Lending etc.

Today, I would like discuss on one of the Fintech - P2P lending.

PEER TO PEER LENDING (P2P)

What is Peer to Peer Lending (P2P)

Peer-to-Peer(P2P) lending is a method of financing that enables individuals to borrow and lend money without the use of an official financial institution (E.g. Bank) as an intermediary. Lenders and Borrowers use a Peer to Peer Platforms (Platforms are normally websites created by NBFC-P2P Companies) to make their transactions. To Create a P2P Platform, one must get a certificate of registration (COR) as an NBFC-P2P from Reserve Bank of India.



RBI Prudential Norms for NBFC-P2P

To ensure that P2P lending platforms have enough "economic skin" in the game, the RBI has mandated a (INR 2 Cr) capital requirement for these companies. Additionally, NBFC-P2Ps will be required to:

- Maintain a leverage ratio of 2 to prevent these platforms from expanding indiscriminately.
- An individual lender can invest up to 20%, HNIs (High Net worth Individual's) up to 50% and institutional lenders upto 100% of the total loan amount requested by an individual borrower
- Ensure that the aggregate exposure of a lender to all borrowers at any point of time across all P2Ps does not exceed INR 10 Lakh.
- Ensure that the aggregate loans taken by a borrower at any point of time across all P2Ps remain less than INR 10 Lakh.
- Ensure that the exposure of a single lender to the same borrower across all P2Ps does not exceed INR 50,000.
- Obtain a certificate from the borrower or lender, as applicable, that the limits prescribed above are being adhered to.

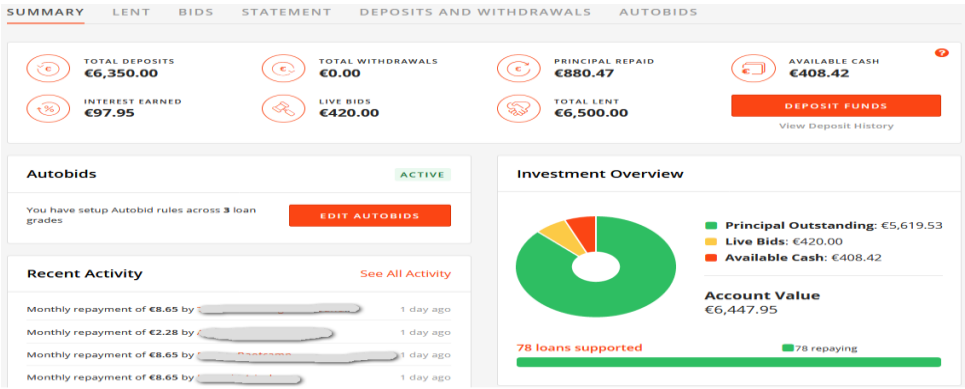
The Process of P2P for Borrower, Lender.

- **For Lender**

Lender have to follow a simple registration process, then pay the registration fee and provide required documents (E.g. Pan Card, Aadhar Card). Once the verification is complete, the lender has to pre-fund his lender Escrow account with the amount he wishes to invest.

After that he can start investing the amount by sending proposals to the borrowers. Loan Listing are available on the lender's dashboard with relevant financial, credit, and personal details of each borrower. Lender can use this information to make a good choice of investment and send a proposal.

Loan disbursal begins only after the official loan agreement has been signed and the borrower has provided the required number of Post-Dated Cheques towards security and repayment of the first EMI. After the loan is disbursed, the Lender will receive EMIs. If a borrower fails to pay an EMI within a stipulated time, a penalty is levied on the borrower which is payable directly to the lender.



- **For Borrower**

Borrowers have to follow a simple registration process, pay the registration fees and provide the required documents as mentioned on our site. As part of the verification process, the team gets in touch with the prospective borrowers. On the basis of these documents, every borrower will be identity-verified, credit-checked and risk-assessed and automated system will provide an indication about the Borrower's capability to efficiently repay the loan. The rate of interest ranges from 12% to 28% and the loan tenure from 6 months to 36 months.

Once the loan is listed, multiple lenders can view the listing and send proposals to fund it at the given interest rate. All proposals are accepted on first come first serve basis. Loan disbursal begins only after minimum 75% of the borrower's fund requirements have been fulfilled, Borrower has paid the relevant administrative fee to P2P Platform, he has signed the loan agreement with all the lenders and provided requisite number of post-dated cheques towards security and EMIs payable to each lender.

The borrower has to make all EMI payments by the due date of every month. Any failure to do so within the stipulated time invites a penal interest per lender

- **Agreement**

Once the lender and borrower have reached a mutual agreement, P2P Platform facilitates the signing of a legally-binding agreement between the borrower and the lenders.

They use a tech-enabled, paper-less and presence-less process wherein the borrower and lenders sign the legally-binding agreement online. The agreement is available online on the borrower and lender's account. They login to their respective accounts, read and understand the terms and conditions mentioned, and "digitally sign" the agreement

Advantages of P2P Lending for Borrowers

- Easy, fast online application process
- Loans available for most of your needs.
- Fixed interest rates and monthly payments with no hidden fees
- No prepayment penalty if you decide to pay off the loan before its due date

Advantages of P2P Lending for Lenders

- Lenders can be individuals or institutions
- High returns in the range of 12% to 36%
- Easy to open an investment account online
- Receive monthly payments of principal and interest as the borrowers repay their loans
- Diversify your risk across many different loans rather than making a single loan or investing only in stocks
- You can choose whether to reinvest the payments you receive or withdraw the funds from your P2P account

-

Disadvantages of P2P Lending for Borrowers

- It's not usually available for large amounts.
- If you have less than good credit, you'll get stuck with a high-interest rate, which will cost you more in the long run. It might be better to wait and improve your credit before you apply.

Disadvantages of P2P Lending for Lenders

- While lenders can make solid returns from P2P loans, those returns also come with a risk. The money that lenders issue on loans is usually uninsured, meaning that if the borrower defaults, the lender will face many problems (Court Case etc).
- Investors who are used to the stock market may find that P2P lending requires an adjustment period, as they can't just sell whenever they want. On the bright side, this helps lenders avoid one common investing issue – panic selling.

Conclusion

P2P lending is a new mechanism and if properly conducted can bring in a huge amount of unorganized lending and borrowing into its fold. Further, a large chunk of borrowers with no credit history can be catered to by these platforms.

For the benefit of this industry and the individual borrowers and lenders, the regulator needs to keep a close watch, track and take necessary action especially in the initial days to keep the unscrupulous activities out.

- Prathyush.M

Update – 197

RBI vs Government - Issues that drove Urjit out

In a shocking move, Reserve Bank of India (RBI) governor Urjit Patel resigned on 10th December 2018. Officially, his resignation letter cited personal reasons for the abrupt exit; unofficially, it is apparent that Patel was a victim of the messy face-off between RBI and the government.

In 2018, the RBI and the government developed differences over many major issues which turned into a full-fledged battle culminating in Patel's resignation. The issues of their confrontation are

Interest rates

The spat began with the government unhappy with the inflation-focused RBI for not cutting interest rates – and even raising them. However, it spilled over into regulation, something the RBI believes is its exclusive domain. What followed was a host of issues related to regulation where both the parties asserted against each other.

NPA classification

RBI's February 12 circular on classification of non-performing assets (NPAs) and norms of loan restructuring was the next flashpoint. The government saw it as overly harsh, and indeed it drove all but two state-run lenders into the red. As per the circular issued by RBI, banks have been asked to classify even one-day delay in debt servicing as default. The Feb. 12 guidelines essentially asked banks to take all large accounts above Rs 2,000 crore into bankruptcy if a resolution plan is not agreed upon in 180 days. . The RBI is planning to extend its February 12 circular dealing with resolution of stressed assets to Non Banking Financial Companies (NBFCs) as well. The government has been arguing that the power sector needs special forbearance due to the large number of stressed projects and low investor interest.

Nirav Modi scam

Around the same time, as the Nirav Modi scam broke, the government hit out at the RBI on supervision, drawing an almost-immediate rebuttal with Patel seeking more powers to oversee public sector banks so that they are at par with their private sector peers. Former RBI governor Y V Reddy has slammed the government for the multi-crore fraud at state-run Punjab National Bank (PNB) and said as the owner of public sector lenders, it is answerable to taxpayer losses rising out of such financial scams.

The sword of Section 7

The RBI and the government have been engaged in a bitter face-off for weeks over the central bank's autonomy as the centre sought to limit curbs on lending and gain access to RBI reserves. The friction came to light when RBI deputy governor Viral Acharya warned that compromising the central bank's independence could be "catastrophic". This was followed by Jaitley publicly accusing the central bank of sleeping on the job and for its failure to check indiscriminate lending by public sector banks between 2008 and 2014.

Matters worsened after the government issued three letters to Patel, threatening to invoke Section 7 of the Reserve Bank of India Act, 1934.

What does Section 7 state?

The RBI is an entity independent of the government as it takes its own decisions. However, in certain instances, it has to listen to the government. This provision in the RBI Act is contained in Section 7. The section empowers the government to issue directions in public interest to the central bank, which otherwise does not take orders from the government. When RBI under Patel stood its ground against the demands of the government, it was reported that the government could use its powers under section 7 to override Patel.

It is to be noted that Section 7 has not been exercised yet.

Payments regulator

A separate payments regulator has been another friction point with RBI stating its position publicly on why it did not support the move. The RBI went public with its resistance to the Centre's proposal to set up an independent Payment Regulatory Board (PRB) which will oversee all payment systems in the country stating that the proposed body "must remain with the Reserve Bank" and headed by the RBI Governor.

Manmohan Singh has been on both sides of the fence. He was RBI governor for a little over two years from 1982, before becoming Union finance minster. He then served as the prime minister for 10 years. Therefore his insights on this spat are invaluable than any others.

"We need a strong, independent Reserve Bank of India which has to work in close cooperation with the centre. So, I do hope that Reserve Bank and the central government would find ways and means to work in harmony with each other," Singh said.

So do we hope.

-Preetham.M

Update – 198
National Mathematics Day

"Without balance, like in mathematics, no equation in life is perfect"

Mathematics has become an inseparable part of our lives and whether we work in an office or spend most of our time at home, each one of us uses math as a part of our everyday life. No matter where we are as well as whatever we are doing, math is always there whether you notice it or not.

Today in India, 22nd December is celebrated as "**National Mathematics Day**". This declaration was made by **Dr. Manmohan Singh** to mark the 125th birth anniversary of **Srinivasa Ramanujan**. The Indian mathematical genius Srinivasa Ramanujan was born on 22nd December. It was in recognition of his contribution to mathematics the Government of India decided to celebrate Ramanujan's birthday as the National Mathematics Day every year.

India's greatest contributions have been their contributions in mathematics stretching far back from ancient history to the modern day. The Indian geniuses have made revolutionary changes in the world of mathematics and made advancements and specializations in the world today.

Here are few Great Indian Mathematicians and their contributions:

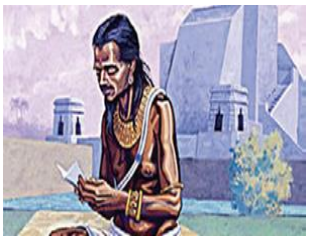
1. Srinivasa Ramanujan

Ramanujan the mathematical genius taught himself math after he dropped out of high school due to his failure in the English subject. He is most famously known for his contribution in **analytical theory of numbers, elliptic functions, continued fractions and infinite series**. He taught a greater valuable lesson, that failure isn't permanent as he did not let his failure bring him down and continued to teach himself mathematics, which he was passionate about. He has been the inspiration of many mathematicians, not just in India but all over the world.

2. Aryabhata

Aryabhata from ancient history was actually the first person to figure out that earth was spherical and revolved around the sun, thereby discovering the nine planets and calculating the **correct number of days in a year** were 365. It is said that he also discovered the number "**zero**". This remarkable man was a genius and continues to baffle many mathematicians of today. His works was then later adopted by the Greeks and then the Arabs.

3. Brahmagupta



He gave four methods of multiplication and his main contribution was the introduction of zero and the fact that **Zero** (0) stood for 'nothing' in the world of mathematics.

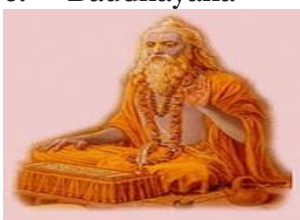
4. Bhāskara 1

Bhāskara - 1 was a 7th-century mathematician, who was the first to write numbers in the **Hindu decimal system** with a circle for the zero, and who gave a unique and remarkable rational approximation of the sine function in his commentary on Aryabhata's work.

5. Bhaskara – II

His work represented significant mathematical and astronomical knowledge. He is most known for his **work in calculus** and how it is applied to astronomical problems and computations. Not only did he deal with calculus but had vast knowledge over arithmetic, algebra, mathematics of planets and spheres.

6. Baudhāyana



Most of us have come across the term "**Pythagoras Theorem**". This was discovered by Baudhayana. Baudhayana listed Pythagoras theorem in his book called **Baudhāyana Śulbasûtra** (800 BCE).

7. Shakuntala Devi

The most famous female Indian mathematician of all time, Shakuntala Devi, was more commonly known as **The Human Computer**. She was so called because of her incredible talent to solve calculations without using any calculator. In Dallas she even competed with a computer to give the **cube root of 188138517** faster and she won! She went ahead to compete with UNIVAC the world's fastest computer to solve the **23rd root of a 201 digit number** and she won that too! A woman with outstanding talent and outrageous world records.

8. C. R. Rao

C. R. Rao is a mathematical statistician is most famous for **Theory of Estimation**. He achieved his masters in mathematics from Andhra University after which he graduated in statistics from Calcutta University. He is also known for his contribution in discovering **Cramer-Rao bound** and **the Rao-Blackwell theorem**.

9. Satyendra Nath Bose

Bose is one of the most famous Indian mathematician, specifically due to his association with the ingenious Albert Einstein. Bose sent his mathematical researches to Einstein and this lead to the discovery of the **Bose-Einstein condensate phenomenon**. He was rewarded by the Indian government for his contributions.

-N. Yash Jain

Update – 199
The Basics of Corporate Structure

"In an organization never follow a person follow the system"

CEOs, CFOs, presidents and vice presidents – what's the difference? With the changing corporate horizon, it has become increasingly difficult to keep track of what people do and where they stand on the corporate ladder. Should we be paying more attention to news relating to the CFO or the vice president? What exactly do they do?

Corporate governance is one of the main reasons that these terms exist. The evolution of public ownership has created a separation between ownership and management. Before the 20th century, many companies were small, family owned and family run. Today, many are large international conglomerates that trade publicly on one or many global exchanges.

In an attempt to create a corporation in which stockholders' interests are looked after, many firms have implemented a two-tier corporate hierarchy. On the first tier is the board of governors or directors: these individuals are elected by the shareholders of the corporation. On the second tier is the upper management: these individuals are hired by the board of directors. Further, there will be committees like an audit committee, an elections committee, a finance committee, a fundraising committee, a governance committee, and a program committee. Let's begin by taking a closer look at the board of directors and what its members do.

Understanding Corporate Structure

Board of Directors

Elected by the shareholders, the board of directors is made up of two types of representatives. The first type involves inside directors chosen from within the company. This can be a CEO, CFO, manager or any other person who works for the company daily. The other type of representative encompasses outside directors, which are chosen externally and are considered to be independent from the company. The role of the board is to monitor a corporation's management team, acting as an advocate for stockholders. In essence, the board of directors tries to make sure that shareholders' interests are well served.

Broad categories of Board members:

- **Chairman/Promoter:** Technically the leader of the corporation, the board chairman is responsible for running the board smoothly and effectively. His or her duties typically include maintaining strong communication with the chief executive officer and high-level executives, formulating the company's business strategy, representing management and the board to the general public and shareholders, and maintaining corporate integrity. The chairman is elected from the board of directors.
- **Inside Directors:** These directors are responsible for approving high-level budgets prepared by upper management, implementing and monitoring business strategy, and approving core corporate initiatives and projects. Inside directors are either shareholders or high-level managers from within the company. Inside directors help provide internal perspectives for other board members. These individuals are also referred to as executive directors if they are part of the company's management team.
- **Outside Directors:** While having the same responsibilities as the inside directors in determining strategic direction and corporate policy, outside directors, are different in that they are not directly part of the management team. The purpose of having outside directors is to provide unbiased and impartial perspectives on issues brought to the board.

Management Team

As the other tier of the company, the management team is directly responsible for the company's day-to-day operations and profitability.

- **Chief Executive Officer (CEO):** As the top manager, the CEO is typically responsible for the corporation's entire operations and reports directly to the chairman and the board of directors. It is the CEO's responsibility to implement board decisions and initiatives, as well as to maintain the smooth operation of the firm with senior management's assistance. Often, the CEO will also be designated as the company's president and therefore be one of the inside directors on the board (if not the chairman). However, it is highly suggested that a company's CEO should not also be the company's chairman to ensure the chairman's independence and clear lines of authority.
- **Chief Operations Officer (COO):** Responsible for the corporation's operations, the COO looks after issues related to marketing, sales, production and personnel. Often more hands-on than the CEO, the COO looks after day-to-day activities while providing feedback to the CEO. The COO is often referred to as a senior vice president.
- **Chief Financial Officer (CFO):** Also reporting directly to the CEO, the CFO is responsible for analyzing and reviewing financial data, reporting financial performance, preparing budgets, and monitoring expenditures and costs. The CFO is required to present this information to the board of directors at regular intervals and provide it to shareholders and regulatory bodies such as the Securities and Exchange Board of India (SEBI). Also usually referred to as a senior vice president, the CFO routinely checks the corporation's financial health and integrity.

The Bottom Line

Together, management and the board of directors have the ultimate goal of maximizing shareholder value. In theory, management looks after the day-to-day operations, and the board ensures that shareholders are adequately represented. But the reality is that many boards include members of the management team.

When you are researching a company, it's always a good idea to see if there is a good balance between internal and external board members. Other good signs are the separation of CEO and chairman roles and a variety of professional expertise on the board from accountants, lawyers and executives. It's not uncommon to see boards that consist of the current CEO (who is chairman), the CFO and the COO, along with the retired CEO, family members, etc. This does not necessarily signal that a company is a bad investment, but as a shareholder, you should question whether such a corporate structure is in your best interests.

Refer list of scandals in India:
https://en.wikipedia.org/wiki/List_of_scandals_in_India

-Sunil Kumar V. R

Update – 200
Patent

What is a Patent?

A patent is the granting of a property right by a sovereign authority to an inventor. This grant provides the inventor exclusive rights to the patented process, design, or invention for a designated period in exchange for a comprehensive disclosure of the invention. Government agencies typically handle and approve applications for patents.

Who handles patent related issues in India?

The Indian Patent Office is administered by the Office of the Controller General of Patents, Designs & Trade Marks (CGPDTM). This is a subordinate office of the Government of India and administers the Indian law of Patents, Designs and Trade Marks.

Did you know?

In February 1856, the Government of India promulgated legislation to grant what was then termed as "exclusive privileges for the encouragement of inventions of new manufactures". On March 3, 1856, a civil engineer, George Alfred DePenning of 7, Grant's Lane, Calcutta petitioned the Government of India for grant of exclusive privileges for his invention — "An Efficient Punkah Pulling Machine". On September 2, DePenning, submitted the Specifications for his invention along with drawings to illustrate its working. These were accepted and the invention was granted the first ever Intellectual Property protection in India.

Patent administration

The CGPDTM reports to the Department of Industrial Policy and Promotion (DIPP) under the Ministry of Commerce and Industry and has five main administrative sections:

- Patent Office
- Designs Registry
- Trademarks Registry
- Geographical indications Registry
- Rajiv Gandhi National Institute of Intellectual Property Management (NIIPM)
- Patent Information System

The patent office is headquartered at Kolkata with branches in Chennai, New Delhi and Mumbai, but the office of the CGPDTM is in Mumbai. The office of the Patent Information System and National Institute for Intellectual Property Management is at Nagpur. The Controller General (CG), who supervises the administration of the Patents Act, the Designs Act, and the Trade Marks Act, also advises the Government on matters relating to these subjects.

Patent Duration

Term of every patent in India is 20 years from the date of filing of patent application, irrespective of whether it is filed with provisional or complete specification. However, in case of applications filed under PCT the term of 20 years begins from International filing date.

Since the rights granted by an Indian Patent Office extends only throughout the territory of the India and ceases to have effect in a foreign country, an inventor who wishes patent protection in another country must apply for a patent in a specific country (according to its law) through PCT route.

What is PCT?

The Patent Cooperation Treaty (PCT) is an international patent law treaty, concluded in 1970. It provides a unified procedure for filing patent applications to protect inventions in each of its contracting states. A patent application filed under the PCT is called an international application, or PCT application.

A single filing of a PCT application is made with a Receiving Office (RO) in one language. It then results in a search performed by an International Searching Authority (ISA), accompanied by a written opinion regarding the patentability of the invention, which is the subject of the application. It is optionally followed by a preliminary examination, performed by an International Preliminary Examining Authority (IPEA). Finally, the relevant national or regional authorities administer matters related to the examination of application (if provided by national law) and issuance of patent.

A PCT application (also called "international patent application") has two phases. The first phase is the international phase in which patent protection is pending under a single patent application filed with the patent office of a contracting state of the PCT. The second phase is the national and regional phase which follows the international phase in which rights are continued by filing necessary documents with the patent offices of separate contracting states of the PCT. A PCT application, as such, is not an actual request that a patent be granted, and it is not converted into one unless and until it enters the "national phase".

https://en.wikipedia.org/wiki/Patent_Cooperation_Treaty#Subject_matter

Procedural steps for PCT-

- Filing applications
- International search
- International preliminary examination
- National and regional phase

Case Study

Ingenious Simplicity: Using Light to Clean Drinking Water in Developing Countries

Name: Dr. Ashok Gadgil

Country / Territory: India, United States of America

IP right(s): Patents

Background

The provision of safe drinking water has been one of the developing world's most fundamental challenges. This challenge is made even more difficult and pressing by natural disasters such as the 2004 Asian tsunami. With disease spreading during the post-tsunami period, survivors desperately needed access to safe drinking water. In some ravaged communities in Sri Lanka and the Southern Indian state of Tamil Nadu, emergency relief came in the shape of an innovative water disinfection unit, the UV Waterworks (UVW). This robust

device kills pathogenic bacteria, viruses and parasites in water from any source, using nothing more than ultraviolet (UV) light from an unshielded fluorescent lamp powered by a 40-watt power source.

The brains behind the UVW is Indian-born physicist Dr. Ashok Gadgil, who began searching for a way to purify water cheaply in developing countries after an outbreak of "Bengal cholera" which killed tens of thousands of individuals monthly in the summer of 1993 in North India. The application of the UVW has the potential to resolve the crisis of potable water that many developing countries have faced for ages.

Research and Development

Dr. Gadgil wanted to find a way to design a water disinfector that was both robust in performance, and efficient in operation. Based on his experience in India, Dr. Gadgil knew that although the problem of disinfecting water was complex, the solution needed to be simple and inexpensive. The treatment had to be quick, so it needed a fairly high flow rate. The maintenance had to be easy and low cost so even the poorest communities could use the device.

The ability of UV light to kill bacteria and viruses has been known to scientists since the early 1900s. However, UV technology was traditionally rather expensive, and only recently has it become affordable enough for disinfection on a large scale.

Dr. Gadgil thought that UV technology might have the potential to be used for his desired water treatment device. He observed that others who tried to develop a device using an immersed UV-generating lamp did not succeed, because of frequent lamp fouling, and complexity and cost of maintenance. Suspending the lamp above the surface of the water a novel elegant solution and attaching an aluminum reflector above the hanging light directed back the light that would otherwise be lost. As simple as it may appear, the development of the UVW took quite a number of trial-and-error processes, required working through the hydrodynamics and radiometry of the UV light, and laboratory testing with water seeded with E. Coli at different levels of turbidity. It took a couple of years in all.

The device developed by Dr. Gadgil can treat approximately 15 liters of water a minute. Each unit can deliver safe drinking water for a village of 2,000 for under US$2 per person per year, including amortized capital costs.

Patents

Initially Dr. Gadgil considered putting up his design on the internet for all to use freely, but his employer, the University of California/ Lawrence Berkeley National Lab (UC/LBNL) thought differently. LBNL's Technology Transfer Department (licensing and patent officers) convinced him of the advantages of patenting. He realized that even in the case that he does not want to benefit from his invention, patenting would protect against badly manufactured copies which would not be as functional as the genuine ones.

LBNL's patent attorneys also informed him about Patent Cooperation Treaty (PCT) system to protect the invention abroad. Following this guidance, the UVW PCT application was filed. In accordance with the conditions of Dr. Gadgil's employment contract, UC/LBNL owns the patent rights of the UVW. The invention is protected in many countries including the United States and the member countries of the European Patent Office.

Subsequently, Dr. Gadgil has filed international patent applications for a number other inventions.

Business Results

Hundreds of UVW systems are now being used around the world in some 15 countries including India, Mexico, and the Philippines. The systems developed by WHI are modular so they can be used in different ways, for example, as community water systems in remote villages; as water refilling stores, owned and operated by local entrepreneurs in urban centers; or as household systems, which can also provide water for hospitals or schools.

WHI is also making available, on a cost-recovery basis, UVW systems for tsunami relief. The emergency relief units costs US$10,000 and include UVW, tanks and pumps, multiple filters, electronic level indicators and electrical controls, shipping, installation, commissioning, training of local community, and parts and maintenance for five years. The invention has brought Dr. Gadgil numerous awards since developing the original technology in 1996. He received the 2004 Health Award from the Tech Museum of Innovation, California. In 2006, the Museum of Science and Industry in Chicago included Dr. Gadgil among 40 eminent artists and scientists whose work embodies the spirit and creativity of Leonardo da Vinci.

Success Based on a Bold Initiative and Business through IP Protection

Dr. Gadgil's research success was based on his courage to dream about an innovation with high aims. At the same time, together with UC/ LBNL, he has been able to turn the invention into a good business through the protection of its IP.

https://www.wipo.int/ipadvantage/en/details.jsp?id=2564

Insertion of new section 115BBF:

(1) Where the total income of an eligible assessee includes any income by way of royalty in respect of a patent developed and registered in India, the income-tax payable shall be the aggregate of—

(*a*) the amount of income-tax calculated on the income by way of royalty in respect of the patent at the rate of ten per cent; and

(*b*) the amount of income-tax with which the assessee would have been chargeable had his total income been reduced by the income referred to in clause (*a*).

(2) Notwithstanding anything contained in this Act, no deduction in respect of any expenditure or allowance shall be allowed to the eligible assessee under any provision of this Act in computing his income referred to in clause (*a*) of sub-section (1).

Explanation.—For the purposes of this section,—

(*a*) "developed" means at least seventy-five per cent of the expenditure incurred in India by the eligible assessee for any invention in respect of which patent is granted under the Patents Act, 1970 (39 of 1970) (herein referred to as the Patents Act);

(*b*) "eligible assessee" means a person resident in India and who is a patentee;

Prem Sai Srinivas. V

Update – 201
From Big 5 to Big 4

Today's topic is on one of the then leading audit firms "Arthur Andersen LLP".

"Rather fail with honor than succeed by fraud" - Sophocles

Arthur Anderson LLP was established in the year 1913 in Illinois, Chicago by Arthur Andersen and Clarence DeLany. Over a span of nearly 90 years, the Chicago accounting firm would become known as one of the "Big Five" largest accounting firms in the United States, together with the current "Big Four". Arthur Andersen's name was known for its integrity and ethics. Such values are crucial for a firm charged with independently auditing and confirming the financial statements of public corporations, whose accuracy investors depend on for investment decisions.

In its earlier days, Andersen set standards for the accounting profession and advanced new initiatives on the strength of its then undeniable integrity. One example of Andersen's leadership in the profession occurred in the late 1970s when companies began acquiring IBM's new 360-mainframe computer system, the most expensive new computer technology available at the time.

The lead up to Enron

Arthur Andersen LLP is famous for the closure of its business due to the effects of Enron, but it is not the only fraud committed by them. Arthur Andersen was part of numerous frauds and some of the major ones are:

1. **Baptist Foundation of Arizona**

In what would become the largest bankruptcy of a nonprofit charity in U.S history, the Baptist Foundation of Arizona (BFA), which Andersen served as auditor, lost $570 million of donor funds. BFA, an agency of the Arizona Southern Baptist Convention, was founded in 1948 to raise and manage endowments for church work in Arizona. It operated as a bank, paying interest on deposits that were used mostly to invest in Arizona real estate.

BFA invested heavily in real estate, a more speculative investment strategy than other Baptist foundations in the state traditionally used. Profits from investments were supposed to be used to fund the churches' ministries and numerous charitable causes. Problems began when the real estate market in Arizona suffered a downturn, and BFA's management came under pressure to show a profit. To do so, foundation officials allegedly concealed losses from investors beginning in 1986 by selling some properties at inflated prices to entities that had borrowed money from the foundation and were unlikely to pay for the properties unless the real estate market turned around. In what court documents would later dub as a Ponzi scheme, foundation officials allegedly took money from new investors to pay off existing investors in order to keep cash flowing. With obligations to investors mounting, the scheme eventually unraveled, leading to criminal investigations and investor lawsuits against BFA and Andersen.

The investor lawsuit against Andersen accused the auditing firm of issuing false and misleading approvals of BFA's financial statements, which allowed the foundation to perpetuate the fraud. The firm blamed BFA management for the collapse, arguing that it was given misleading information on which to conduct the audits. However, during nearly two years of investigation, reports surfaced that Andersen had been warned of possible fraudulent activity, and the firm eventually agreed to pay $217 million to settle the shareholder lawsuit.

2. Sunbeam

Andersen's troubles over Sunbeam Corp. began when its audits failed to address serious accounting errors that eventually led to a class-action lawsuit by Sunbeam investors. Boca Raton–based Sunbeam was the maker of such home appliance brands as Mr. Coffee, Mixmaster, Oster, Powermate, and others. Both the lawsuit and a civil injunction filed by the Securities and Exchange Commission accused Sunbeam of inflating earnings through fraudulent accounting strategies like recording revenue on contingent sales and accelerating sales from later periods into the present quarter. The company was also accused of using improper "bill and hold" transactions, which involves booking sales months ahead of actual shipment or billing, temporarily inflating revenue through accounts receivable, and artificially boosting quarterly net income. As a result, Sunbeam was forced to restate six quarters of financial statements. The Securities and Exchange Commission's injunction also accused Phillip Harlow, then a partner at Arthur Andersen, of authorizing clean or "unqualified" opinions on Sunbeam's 1996 and 1997 financial statements despite his awareness of many of Sunbeam's accounting and disclosure improprieties. In 2002, a federal judge approved a $141 million settlement in the case. In it, Andersen agreed to pay $110 million.

3. Waste Management

Andersen also found itself in court over questionable accounting practices with regard to $1.4 billion of overstated earnings at Waste Management. A complaint filed by the SEC charged Waste Management with perpetrating a "massive" financial fraud over a period of more than five years. According to the complaint, the company's senior management aided and abetted others' violations of antifraud, reporting, and recordkeeping provisions of federal securities laws, resulting in a loss to investors of more than $6 billion. Andersen was named in the case as having assisted in the fraud by repeatedly issuing unqualified audit opinions on Waste Management's materially misleading financial statements.

According to SEC documents, Waste Management capped the amount of fees it would pay for Andersen's auditing services, but it advised Andersen that it could earn additional fees through "special work." At first, Andersen identified improper accounting practices and presented them to Waste Management officials in a report called "Proposed Adjusting Journal Entries," which outlined entries that needed to be corrected to avoid understating Waste Management's expenses and overstating its earnings. However, Waste officials refused to make the corrections, and instead allegedly entered into a closed-door agreement with Andersen to write off the accumulated errors over a 10-year period and change its underlying accounting practices, but only in future periods. The SEC viewed this agreement as an attempt to cover up past frauds and to commit future frauds. The result of these cases was that Andersen paid some $220 million to Waste Management shareholders and $7 million to the SEC. Andersen, as part of its consent decree, was forced to promise not to sign off on spurious financial statements in the future or it would face disbarment from practicing before the SEC—a promise that it would later break with Enron.

The happening of these accounting frauds and errors lead to the introduction of the Sarbanes-Oxley Act, 2002.

-Srinidhi P Kumar

Update – 202
Microsoft

Microsoft.....the best company

Microsoft the world's largest software maker by revenue, and one of the world's most valuable companies. The word "Microsoft" is a portmanteau of "microcomputer" and "software". Microsoft was founded by Bill Gates and Paul Allen on April 4, 1975, to develop and sell BASIC interpreters for the Altair 8800

Let us know about the strategies of Microsoft in pursuing across cloud, enterprise IT, AI, gaming, and more to see how the company is positioning itself for the future. As the world's most valuable company, and with a current market cap around $780B, Microsoft may be the next company to reach the $1T threshold. While it may not grab as many headlines as its buzzier tech giant counterparts, the company is quietly adapting across its core business areas, led by a future-focused Satya Nadella. Since assuming the CEO role in 2014, Nadella has deprioritized the Windows offering that initially helped Microsoft become a household name, refocusing the company's efforts on implementing AI across all its products and services. That's not the only change in addition to an increased focus on AI, cloud and subscription services have become unifying themes across products. And to maintain its dominance in enterprise technology, Microsoft is expanding in new areas like gaming and personal computing that leverage the company's own cloud infrastructure.

Key Segments

- Productivity & Business Processes, which includes software products like Office 365, Skype, LinkedIn, Microsoft's ERP, CRM, and Dynamic 365.
- Intelligent Cloud which includes cloud platform Azure, the Visual Studio developer platform, and Windows Server, a version of Microsoft's proprietary operating system optimized for running in the cloud.
- Personal computing which includes products like Xbox, Microsoft surface

Investment arms

In addition to its in-house efforts, Microsoft has a number of initiatives that look to support promising young businesses. These include Microsoft's venture capital arm, M12, Microsoft's accelerator, Scale Up, and other initiatives like Microsoft for Startups.

Microsoft Ventures was renamed to M12 in April 2018, while Microsoft Accelerator was renamed as Microsoft Scale Up in February 2018.

Many of these investment initiatives report to the EVP of Business Development, Peggy Johnson. Johnson was responsible for most of these changes and has also introduced new initiatives to boost investment returns.

Leadership

Microsoft stock grows over 200% with Satya Nadella as CEO. This growth is due in part to recent leadership changes that prioritize key areas like cloud, AI, and gaming. In March 2018, Nadella announced leadership changes that resulted in major organizational developments which deprioritizing Windows, while prioritizing AI.

Once a core business for Microsoft, Windows now falls under the leadership of Rajesh Jha, EVP of Experiences & Devices, as one of the many products under Jha's purview. Meanwhile Microsoft's AI initiatives are now split between two executives, Scott Guthrie, EVP of Cloud & AI, and Harry Shum, EVP of AI & Research.

Investments

Microsoft has invested in cloud across a variety of entities, including its VC and accelerator arms as well as directly off Microsoft's corporate balance sheet.

Many of the companies backed by Microsoft look to support the Azure cloud directly, while other investments go towards potential well-capitalized cloud customers. (Microsoft typically offers free cloud credits to portfolio companies, hoping to facilitate early dependency on Azure's infrastructure, platforms, and services.)

Among its investment vehicles, Microsoft has backed companies ranging from container management platform Mesosphere, to private cloud infrastructure service Cloud Simple, to container developer tool CodeFresh.

However, Microsoft biggest investments in the cloud have been made internally — the most obvious being the company's investment in data center locations around the world.

Azure data centre are currently available in 44 regions globally, with plans for 10 more in the coming months and years, much more than cloud services competitors AWS and Google Cloud Platform (GCP)

Acquisitions

A few of Microsoft's recent notable acquisitions include cloud management platform Cloudyn, AI training platform Bonsai, and the $7.5B acquisition of source code management platform GitHub. The GitHub deal marked the largest enterprise software M&A exit in history.

Microsoft has been one of the most active acquirers of cloud-related technologies since 2013.

The company has been just as active as cloud competitors like Amazon Web Services and Google Cloud Platform. Since 2013, Microsoft has matched Google's cloud-related acquisition activity and more than doubled the activity of Amazon.

Product developments

At Microsoft, the Azure business encompasses hundreds of products and services. Few of the products are Virtual machines Cloud services, Web apps, HDinsight, Storage blobs and files, Machine learning, Backup, Mobile apps, Service fabric, Batch, data factory, API management, Event hubs, Storsimple, Remote app, Mobile engagement, etc.,

One of Azure's original offerings is its hybrid-cloud service, which acts as a primary growth driver and also gives the company one of its greatest competitive advantages. Hybrid-cloud computing is an infrastructure architecture that connects public cloud services to private, local area, or on-premise cloud services which provides scalability and flexibility of the public cloud while maintaining the security and control.

Azure data centres are currently available in 44 regions globally, with plans for 10 more in the coming months and years, much more than cloud services competitors AWS and Google Cloud Platform (GCP).

According to CFO Amy Hood, Microsoft's most recent quarterly revenue from Intelligent Cloud was "$8.6B, increasing 24%, better than anticipated, driven by demand for our hybrid offerings." Some companies use hybrid-cloud computing as an initial foray into public cloud, moving first to a hybrid architecture before going all-in on public cloud. Azure supports all use cases for hybrid-cloud systems. One hybrid customer is Inter Continental Hotels Group, which uses Azure's hybrid-storage, security, and management tools to support the IT needs of more than 5,200 properties in almost 100 countries.

Once there is demand for other peripheral cloud products and service, Azure already has a proven track record and a foot in the door.

Azure offers Serverless Architecture, which became publicly available in October 2016. Serverless computing is also a growing interest for cloud customers. Serverless is a new type of computing model that removes the need for developers or system admins to manage the infrastructure resources offered by cloud providers

Where IT'S going next

Microsoft's recent investments, acquisitions, product developments, and research activity suggests that the company will prioritize areas like edge computing and IoT as it relates to cloud computing

Earnings transcripts

Cloud computing is a major priority for Microsoft, which includes windows, Linkedin, MS office, Azure, Xbox, surface etc., The chart of their earnings is provided below:

Market sizing

The market for cloud is hard to size, given that the technology is ubiquitous and has the potential to improve operations across a wide variety of industries.

The CB Insights Market Sizing tool estimates that the cloud industry may reach $513B by 2022. Additionally, Microsoft's foray into the internet of things industry could tap into an estimated market by 2020. Hence Microsoft is the best company and will the best company to look for.

-Kiran.MG

Update – 203
Rice farming

"Farming is not just a job, it's a way of life."

National Farmers' Day (Kisan Diwas) 2018 was celebrated all over India on 23rd of December, Sunday. It is celebrated across the nation every year with the focus on the upliftment of the status of farmers. It is celebrated in the honour of Chaudhary Charan Singh who was the fifth Prime Minister of India. He served the country as Prime Minister for a very short tenure starting from 28th of July 1979 till 14th January 1980. He was a very simple-minded man and led an extremely simple life. During his tenure as the Prime Minister, he introduced many policies to improve the life of Indian farmers.

Introduction to Rice (Oryza sativa)
Rice (Oryza sativa) is one of the oldest cereal grains and believed to have been grown for at least 5000 years. It is the staple food of people from Southern and eastern parts of India. It is hence widely cultivated in India and other parts of Asia such as China, Japan, Indonesia, Bangladesh, Thailand, etc. Globally, China is the leading producer of rice with India being the next. As per statistics, West Bengal is the leading rice producer in India followed by Uttar Pradesh, Telangana, Andhra, Punjab, Odisha, Bihar, Chhattisgarh, Tamil Nadu, Assam and Haryana. Cultivating rice is indeed laborious and it needs a lot of water. Therefore, rice cultivation is practiced in those places wherein the labour cost is less and rainfall is high.

What is paddy?
Paddy or 'rough rice' is the individual rice kernels as they are in their natural and unprocessed state. Paddy is harvested from the rice fields and taken to a processing site or mill. The protective hull is removed in processing leaving the rice kernel available for consumption. The hull is removed as it is not edible. When rice is parboiled, it is done with the hull intact.

Raw Materials
The only raw material needed for commercial production of rice is the rice seed or seedlings. Additional use of herbicides, pesticides, and fertilizer can increase the likelihood of a larger yield.

Important Stages of Rice Cultivation
Rice cultivation is a complex activity that requires a series of processes to achieve the finished product.

<u>The basic stages of cultivation include</u>;

- **Seed selection:** Proper seed selection based on the cultivation environment is the first step towards ensuring that the highest possible yield is achieved.
- **Land preparation:** The main purpose of land preparation is to have the soil in optimum physical condition for growing rice.
- **Crop establishment:** Two main methods are used for introducing rice plants to the soil 1) Transplanting 2) Direct seeding
- **Water management:** 1) Proper creation and maintenance of field channels for water delivery 2) Land levelling that allows water to be evenly distributed and retained 3) Tilling operations that include rice field bund preparation, water puddling and maintenance.
- **Nutrient management:** Each growth stage of the rice plant has a different nutrient need. Keeping this in mind, farmers must ensure that the rice plant gets the proper nutrients at the right time.

- **Crop health management:** The rice plant can come under threat from different sources in the field. These include attack by rodents, insects, weeds and disease. Farmers use many different strategies to protect and maintain crop health.
- **Harvesting:** Harvesting is the process of collecting the mature rice crop (rice paddy or rough rice) from the field. Depending on the variety, a rice crop usually reaches maturity at around 115-120 days after crop establishment. Harvesting activity includes cutting, stacking, handling, threshing, cleaning, and hauling. Good harvesting methods help maximize grain yield and minimize grain damage and deterioration.
- **Post-harvest:** After harvest, the rice grain undergoes a number of processes depending on how it will be used. These steps include drying, storing, milling, and final processing.

Health benefits of Rice

- Good source of energy and cholesterol free food.
- Helps in blood pressure management.
- Helps in cancer prevention and preventing skin problems.
- Can also help in preventing chronic constipation.
- Bran oil supports cardiovascular health.
- Good source of niacin, vitamin D, calcium, iron, thiamine and riboflavin.

Local names of Rice in India

Akki (Kannada), Biyyamu/Vari (Telugu), Pacharisi (Tamil), Pachari (Malayalam), Chawal (Hindi), Chaal (Bengali), Taandul (Marathi), Thando (Konkani), Chaula (Oriya), Cavala (Panjabi), Dhana (Bangla), Cokha (Gujarati).

The Future

With one out of every three people on earth dependent on rice as a staple food in their diet and with 80-100 million new people to be fed annually, the importance of rice production to the worldwide human population is crucial. Scientists and farmers face the daunting task of increasing yield while minimizing rice farming's negative environmental effects. Organizations such as the International Rice Research Institute (IRRI) and the West African Rice Development Association (WARDA), and International Center for Tropical Agriculture (CIAT) are conducting research that will eventually lead to more productive varieties of rice and rice hybrids, use of less water during the growing season, decrease in the use of fresh organic fertilizer that contributes to greenhouse effect, and crops more resistant to disease and pests.

-Sunilkumar V.R

Update – 204
International Taxation

Ever wondered the process undertaken to review tax implication on payment?

When you see any transaction, few things that come to our mind on tax aspects -

1. Whether it is taxable in India? - Sec 4(Charging section)
2. Whether recipient is Resident or non-resident? - Sec 6
3. Any deeming fiction arises? - Sec 7 & 9
4. Withholding of Tax? – Sec 195

Let us assume that the payment is made to a Non-resident and such payment is taxable in India - Provisions of Section 195 will attract.

Sec 195 – "Any person responsible for paying to a non-resident, not being a company, or to a foreign company, any interest shall deduct income-tax thereon at the rates in force;… any sum, whether or not chargeable under the provisions of this Act, shall furnish the information relating to payment of such sum, in such form and manner, as may be prescribed…."

So Big deal?... we will deduct tax as applicable and pay off to Govt!!

When the payment is to a Non-resident, the transaction would generally be in Foreign currency, i.e., Government is worried about outflow of Foreign Currency. Once the money is remitted outside, it would be time consuming to look into the payment of tax liability. Hence, it has made a check post at payment juncture by way of Sec 195, r.w. Rule 37BB.

As per Rule 37BB r.w.s 195, following information in Form 15CA shall be furnished –

i. Part A - If amount of payment or aggregate payment during the FY doesn't exceed Rs. 5 Lakh
ii. Part B - For orders obtained u/s 195(2) & (3)
iii. Part C - after obtaining a certificate in Form No. 15CB from CA
iv. Part D - any sum which is not chargeable under the provisions of the Act

A Certificate from a Chartered Accountant in **Form 15CB** shall be furnished and verified electronically, with details of the payment, tax rate and withholding of tax deduction as per section 195 of the Income Tax Act, if any DTAA (Double Tax Avoidance Agreement) is applicable, and other details of nature & purpose of the remittance. Banks require these certificates before they make any remittance on your behalf to a non-resident.

<u>Let us see how practically we do analysis - Fees for Technical Service</u>

Eg: The Payment is made towards Audiovisual control system programming to the USA vendor. This would be in the nature of Fees for Technical Service as there is make available of technical knowledge.

<u>Analysis</u>

Income Tax Act

The payment made by India to USA will be governed by the provisions of Section 195 of the Act.

As per Explanation 3 to section 9(1)(vii) of the Act, it is hereby clarified that "fees for technical services" means any consideration (including any lump sum consideration) for the rendering of any managerial,

technical or consultancy services (including the provision of services of technical or other personnel)…. Salaries.

Services rendered by USA would be in the nature of FTS, the same would be covered under Section 9(1)(vii) of the ITA and withholding of tax as per ITA is 10.61% (includes 10%+2% surcharge+4% Health and Education cess – As per schedule 1, Part II of Fin Act. 2018)

India – USA DTAA

As per Article 12(4) of India-USA DTAA, "fees for included services" means payments of any kind to any person in consideration for the rendering of any technical or consultancy services (including through the provision of services of technical or other personnel) if such services :

a) are ancillary and subsidiary to the application or enjoyment of the right, property or information for which a payment described in paragraph 3 is received ; or
b) make available technical knowledge, experience, skill, know-how, or processes, or consist of the development and transfer of a technical plan or technical design.

The services to be rendered by USA would be in the nature of FTS and the same would cover under Royalties and Fees for Included Services as per Article 12(4)(b) of DTAA and withholding of tax as per DTAA 15.00%.

Now, what is the rate of withholding of tax – 10.61% or 15% ?

Sec 90(2) provides that in case there are DTAA with India, the provisions of Act shall apply to the extent they are more beneficial to that assessee and Sec 90(4) provides that to claim relief under DTAA, USA vendor has to obtain Tax Residency certificate (TRC) from its Govt.

Along with TRC, following declarations are to be provided by USA vendor:

i. Form 10F under Rule 21AB (Related to TRC)
ii. Under Rule 37BC – Relaxation from deduction of tax at higher rate under section 206AA
iii. PE declaration stating USA entity doesn't have PE in India

Conclusion

If the said documents are provided then the rate which is favourable to the assessee in this case the Income tax act rate (10.61%) would be applied. In case PAN is not available then Sec 206AA will get attracted and 20% tax shall be deducted at source.

-Sahana.V

Update – 205

Angel Tax - a boon or a tax terrorism scheme?

Today we are talking about Angel Tax, its objective and the downside of this provision in India's Growth policy.

The Angel Tax dates back to the Finance Budget of 2012. The taxation is a major thorn in the side for many ventures and has forced many angel investors to shy away from offering financial support to startup dreams.

Simply put, the angel tax is a 30.9% tax levied on investments made by external investors in startups or companies. To clarify, the entire investment is not taxed – only the amount that is considered above "fair value" valuations of the startup, classified as 'income from other sources' in the Income Tax Act of India. The problem arises because startups are often valued subjectively on the basis of discounted cash flows, without taking into account intangibles like goodwill. This can cause differing interpretations of "fair value" and leave startups vulnerable to unduly high taxes because the taxman feels the investment is too high over their valuation.

Wondering as to which provision are we talking about? Calm down, it is Sec. 56(2)(viib) of the Income Tax Act. It is indeed nowadays called as a draconian provision by today's entrepreneurs (or should we say stratuprenuers).

The adverse impact of these provisions are –

(i) Fund flows get affected as a considerable amount of investments ends up as close to 31% of the investments ends up in the pocket of department of Revenue.
(ii) During the course of assessments, taxmen pose a question on valuation of the company, and ends up creating an embarrassment for both the company and the investor.
(iii) It discourages the ideology behind start-up India concept.
& Many more to add.

Now, to make the clouds clear, Angel investors are those investors who fund companies at the initial stage, Infact at the infant stage of the business implementation, as VCs who are specifically excluded from such draconian tax come into picture at later point of time when the startup grows into a much stable business with a sustaining business plan.

As explained above, the taxation limits investors from putting their money and trust on fledgling and early-stage startups, which in effect stifles more people to come forward and start their own. The concern has been raised year after year by multiple entities, from entrepreneurs to angel investors. Many unlisted and early-stage startups rely heavily on funding from angel investors to build the groundwork necessary to get further funding from VC groups. Taxing this investment discourages and drives away angels, effectively stifling the much-needed flow of money to the fledgeling startups. For an economy like India, where startups have taken an lead role in building value addition to the society, such Tax policies discourages the entire motive of Indian Startup venture.

The issue takes a darker turn, with multiple incidents reported of entrepreneurs being shaken down by IT officials over alleged questions on the valuation of the funding. This brings to light the double standards of multiple governments who on one hand seek more and more individuals to take up the startup dream, only to crush these very dreams with something as harsh as the Angel Tax. While aimed to curb money laundering and check undisclosed income, in its enthusiasm, the government is likely doing more harm than good.

Interestingly, the intention for insertion of Sec.56(2)(viib) in the IT Act, was to curb generation and Proliferation of unaccounted funds into the economy. This section attempts to bring to tax the excessive securities premium received by a closely held company upon the issue of shares. Historically, when

unconnected persons were desirous of transferring value amongst themselves without any tax implications, a classic method was to infuse funds into a company for limited stake at a huge premium. This led to the unjust enrichment of existing shareholders without any tax consequences. Often, in such cases, the source of funds was also untraceable. Looks like the department is using these provisions to the contradictory of its intentions by targeting genuine investments made in startups.

Recent talks at CBDT Board levels after receiving representations from many trade organizations, CBDT has issued internal circulars and memorandums directing officers not to adopt coercive methodologies to recover tax from startups by making comments on the valuation made under the provisions of the Act.

An high level committee is set-up by the Board to relook into the matter pertaining to the provisions of the act which talks on tax on investments beyond fair market value.

The end of the day learning is that, as a growing country like India, Taxation policy must undergo constant change to sustain its overall objective in dynamic economy of the country.

Wishing you most and more... ,

-Chirag Solanki

Update – 206

McDonald's makes its first profit in India after 22 years

Let us have a thought regarding the global fast food chain McDonald's. A layman would think about it for its burgers and a person with business acumen would think about it as a profitable business.
Such has been the brand and impression McDonald's has created since 1996, its inception in the Indian market.
Even though the brand "McDonald's" is there on the tip of everyone's tongue, has it really been making profits? It would come as a surprise to anyone that such a big brand would book its first ever profit after 22 years of its business in India.

Detailed overview:

The company managed to earn a net profit of Rs 65.2 lakh in FY 17-18 (PY 305 Cr loss). The company's income earned through royalty also grew 8 per cent to Rs 119.6 crore (PY 111 Cr). This profit was after making a provision of Rs 198.2 crore in its financial statements is on account of diminution in value of investments in CPRL. The growth is mostly to do with the general growth seen in the quick-service restaurants and having more outlets. So far, the company has registered an accumulated loss of Rs 421 crore ever since it set footprints in India since 1996. "The company has not only been able to stem any further erosion of its net worth but has also been able to successfully reverse the trend of erosion through the infusion of fresh capital," McDonald's India said in its latest regulatory filing.

The Legal Battle (Background of the reasons for losses):

-
The company's operations in India were managed by the two companies - Connaught Plaza Restaurants (CPRL) and Westlife Development. The CPRL handled McDonald's north and east business. Westlife operated in south and west part of the country.

Background of the reasons for losses:

The legal battle between McDonald's and CPRL, which is owned by its India partner Vikram Bakshi, has been going on for five years. It began in 2013 after fast food giant removed Bakshi as the Managing Director of CPRL. Its northern and eastern business is still operated by Bakshi's company, despite the company terminating the franchise agreement of 169 outlets last year.

The National Company Law Tribunal later reinstated him and also refrained McDonald from interfering in the functioning of CPRL besides appointing an administrator to oversee the smooth functioning of CPRL. The battle gained momentum after Bakhshi's ouster turned ugly as McDonald's India terminated the franchise agreement of 169 outlets in August 2017. Both the parties are now fighting out their case in various legal forums including NCLT, NCLAT and Delhi high court.
Currently Hardcastle Restaurants Private Limited, led by Smita Jatia, handles its south and west India business through its wholly owned subsidiary Westlife Development Limited.

-Srinivasan Ananthan

Update – 207
Multilateral Instruments

Today's update is on **Multilateral Instruments**

The BEPS Project, launched during the 2008 financial crisis had the following goal: revising the international tax framework to align it with developments in the global economy, and ensure that profits are taxed where economic activities are carried out and value is created. BEPS refers to artificially shifting profits to low or no-tax locations where there is little or no economic activity, resulting in little or no overall corporate tax being paid. This is achieved by employing tax planning strategies that exploit gaps and mismatches in tax rules. Working together in the OECD/G20 BEPS Project, over 60 countries jointly developed 15 actions to tackle tax avoidance, improve the coherence of international tax rules and ensure a more transparent tax environment. The Multilateral Instrument (MLI) responds to this call for swift action by implementing the BEPS measures which require changes to tax treaties.

What is MLI?

The multilateral instrument is a treaty/ standard template, which is one element of the OECD BEPS project, designed to help implement the recommended measures to avoid tax treaty abuse. The objective of MLI is to modify the DTAs taking into account BEPS measures. To avoid negotiations between various countries with each other on a bilateral basis (which can take many years / decades), MLI has been considered. With one agreement, all the DTAs will be modified to the extent of agreement between the countries. Countries will be able to use MLI framework to implement some of the BEPS action plans relating to double tax treaties. The MLI offers concrete solutions for governments to close the gaps in existing international tax rules by transposing results from the OECD/G20 BEPS Project into bilateral tax treaties worldwide. On 7 June 2017, over 70 Ministers and other high-level representatives participated in the signing ceremony of the Multilateral Instrument.

Why MLI?

Abuse of tax treaties is an important source of BEPS. The MLI helps the fight against BEPS by implementing the tax treaty-related measures developed through the BEPS Project alongside existing bilateral tax treaties in a synchronized and efficient manner.

These measures help combat (a) treaty abuse, (b) improve dispute resolution, (c) prevent the artificial avoidance of permanent establishment status and (d) neutralize the effects of hybrid mismatch arrangements.

When a country signs MLI, whether all existing bilateral treaties would automatically stand to be modified/ superseded?

No. Upon coming into effect, the MLI will not replace the existing treaties completely. Instead it will apply alongside existing treaties and either modify, supersede, supplement, or complement their application so as to bring them in line with the measures to address base erosion. The MLI changes apply to "Covered Tax Agreements" (CTA) only. After the MLI comes into force, it will not automatically apply to all the treaties of a country that is a party to the MLI ("Party" / "Parties") but will apply only to those tax treaties where both Parties to such tax treaty have conveyed their intention (by way of a notification) for such treaty to be covered by the MLI, such treaties being referred to in the MLI as "Covered Tax Agreements" ("CTA"). In other words, the MLI will be applicable to a bilateral tax treaty only if both parties to such treaty notify it as a CTA. Under Art 2 of MLI, at the time of signature, India notified its existing DTAA with 93 countries as Covered Tax Agreements (CTAs).

How many Jurisdictions are involved?

MLI is developed by an Ad hoc Group of 100+ jurisdictions. This instrument is signed by developed and developing economies around the world and it is open for signature by any country. On 7 June 2017, a high-level signing ceremony took place in Paris. India also participated in this ceremony and became a signatory to MLI. This convention was signed by Arun Jaitley, Union Finance Minister for India, along with representatives of 65 countries.

Reservations with respect to Non-Mandatory provisions

A party to the MLI may reserve the right for provisions of the MLI to not apply:

a. to its covered tax treaties in their entirety; or

b. a subset of its covered tax treaties.

Where one of the Parties reserves the right for provisions of the MLI to not apply to a CTA, the relevant provisions of the MLI will not apply to the CTA irrespective of whether or not the Treaty Partner has made a similar reservation. Where a Party chooses to reserve the right for provisions of the MLI to not apply to a subset of its CTAs, such Party is required to provide a list of the existing provisions within the relevant sub—set which fall within the scope of the reservation.

Optional provisions

In certain instances, the MLI permits a Party to choose among alternative provisions intended to address the same issue. A Party is required to notify the Depositary of its choice. Unlike in the case of reservations, both Treaty Partners are required to choose the same option in order for such option to apply [Article 5 (Application of Methods of Elimination of Double Taxation) and Article 23 (Type of Arbitration process) are exceptions to this]. In the event that a one Treaty Partner chooses a particular option, and the other Treaty Partner chooses to apply a different option or no option at all, then none of the options will apply to the relevant CTA. For Example, Article 13 of the MLI which deals with "Artificial Avoidance of Permanent Establishment Status through the Specific Activity Exemptions" provides for Parties to opt for either Option A or Option B to modify their CTAs. One of the options will apply to a CTA only when both Treaty Partners have elected that option.

Highlights of positions/ reservations adopted by India at the time of signature of MLI

Together with the list of CTAs, India also submitted a provisional list of reservations and notifications (MLI positions) in respect of the various provisions of the MLI. The definitive MLI positions will be provided upon the deposit of its instrument of ratification of the MLI, later.

• India has opted for a wider scope of dependent agency Permanent Establishment (DAPE) to include activities of an agent playing a principal role in concluding contracts even though such contracts are formalized abroad or such activities of an agent who claims to be independent even though he is working exclusively or almost exclusively for closely-related enterprises (CREs).

• India adopts that the specific activity exemption from creating a PE is available, subject to fulfilment of preparatory or auxiliary conditions.

• India has also adopted the minimum standards prescribed under dispute resolution through mutual agreement procedure (MAP) to permit correlative adjustment arising on account of primary adjustment, to adopt a minimum time limit of three years for providing MAP access and to confer an obligation on competent authorities to resolve treaty interpretation and double taxation issues.

• Consistent with its earlier stand, India has not elected mandatory binding arbitration.

• India has chosen to additionally apply the simplified limitation of benefits (LOB) rule which provides an objective determination to deny treaty benefits, along with the mandatory minimum standard of the principal purpose test (PPT) to counter treaty shopping.

• While opting for substitution of the place of effective management (POEM) rule by the competent authority for resolving the issue of dual residency of non-individuals, India has not opted to implement changes related to the granting of treaty benefits to fiscally transparent entities.

Recents

• Due to the failure of MLI between India and USA relating to exchange of information between the countries, there is an implication on CbCR filings. As per Circular 9/2018 dtd 26.12.2018, as a one time measure, in respect of reporting accounting years ending upto February 28, 2018, the due date is extended to March 31, 2019.

The Notification G.S.R. 1217(E) dtd 18.12.2018 and the Circular 9/2018 dtd 26.12.2018 issued by CBDT and the article on analysis of its impact has been attached for your reference.

• The Government of India had issued a press release declaring its approval for signing and ratification of a protocol amending the 1994 India- China DTAA on 7 February 2018. Both India and China signed the OECD's Multilateral Instrument (MLI) on 7 June 2017 which was developed to incorporate the treaty related Base Erosion and Profit shifting (BEPS) measures into the existing tax treaties. However, while signing the MLI, though India had covered the 1994 DTAA, China had excluded it from being modified by the MLI. Due to such mismatch, the MLI was not expected to modify the 1994 DTAA. However, it is now being amended through bilateral negotiations between these two countries. The Government of India has lately issued a press release on 26 November 2018, announcing and signing of the protocol revising the 1994 DTAA between India and China (the Protocol).

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-Deeksha.A

Update – 208
New year, New beginning

Optimism is a faith that leads to achievement. Cheers to a new year and another chance for us to get it right.

HAVE hope
TRY new things
BE active
SEE the good
SAY "I Love you more"
CHALLENGE yourself
CHOOSE to be happy
EAT better
ENJOY today
FORGIVE more readily
READ more often
BECOME your best you

All the roads that lead to success have to pass through hard work boulevard at some point. Determination today leads to success tomorrow.

A hero is an ordinary individual who finds the strength to persevere and endure in spite of overwhelming obstacles.

India's first visually challenged CA-

CA Rajini Gopal was a visually impaired woman to become a Chartered Accountant. Several students with normal health, struggle to pass the examination despite the best of professional coaching and support from family.

Office boy who became a CA-

Students sometimes blame financial constraints, but this man CA Shailesh, who worked as an office boy in a private firm cleared CA examinations. Shailesh was a youngest son of a housemaid Nirmala and handloom worker Arun. He studied in Sarvajanik high school in Marathi medium and lived in a 12 X 25 room in a slum in Limbayat, Gujarat with a family of five.

"If you can't fly, then run,
If you can't run, then walk,
If you can't walk, then crawl,
But whatever you do,
You have to keep moving forward." – Martin Luther King Jr.

Prema Jayakumar, the 24 year old daughter of a migrant Tamilian Jayakumar, an auto rickshaw driver topped the CA Final examinations and even received award from Aishwarya Rai and Sachin Tendulkar, whom the whole country idolises.

Students lose interest after continuous failure. But here is a man Kailash Narayan Purohit of Jodhpur to pass CA after 32 attempts spread over a period of 20 years.

"It always seems impossible until it's done." – Nelson Mandela

Neha Bansali was confined to wheel chair when she hurt her spine. She secured 92% in her board exams and stood 10th in the CA Final examinations.

"You don't have to be great to start,
But you have to start to be great."

Chirag Chauhan, an average student who survived the serial bomb blasts on 11th of July, 2006 which claimed over 180 lives. He is now wheel chair bound who is a full-fledged CA working as a senior manager.

There have been people who tasted failure and then came back more stronger than ever.

- Nitin Gupta - Failed in CA Final May, 2010 but secured AIR 1 in Nov, 2010
- Sujoy K.N - Failed in CA Final Nov, 2009 & May, 2010 but secured rank in Nov, 2010
- Sonia Rakheja - Failed in CA Final Nov, 2009 & May, 2010 but secured rank in Nov, 2010

These people have crossed the barriers that aren't in your luxurious lifestyle. Why can't you? Is it fear? Is it loss of hope? Or are you just a coward to not take the risks?

Sometimes you try so hard which is so often, sometimes you can resolve, so prepared, but still fail. And every time you fail, it's so painful, cause the sadness and dis-appointment.

It's often said a man's character is not judged when he celebrates his victory but by what he does behind the back is against the war. So no matter how they set back, how severe the failure is, you never give up!

You never give up, you pick yourself up and you brush yourself up and you push forward and you move on!!! You attempt, you have the courage… that is what it needs.

"Whenever you have a goal in mind or something that you want to achieve, that picture will usually be a little hazy. Why is it hazy? Because it is not in your hand. Since it is not in your hand, you cannot see it clearly.

Create something behind yourself that will make you wake up every day on time (One may visualize them to be the lions chasing you all the time). That will put a discipline in your life. That will put you to routine in your life and that element of hard work which is required.

At the end of the day, those lions will wake you up on time, make you work out, make you spend time with your team, enjoy life with your family and keep ever day a most important day in your life.

These lions are not your friends any more, nor you feed them. You let them roar, keep them hungry and let them keep on running behind you. Simultaneously keep on creating more and more milestones (goals) and keep on jumping where ever you want to.

There shall also be failures on the way, it's not that every time you jump where you want to. But that's the way you learn."

Rejection should never stop you.
Failure is not a problem at all.
People who reject you know nothing.
Believing in yourself is the key to success in life.

Remember, the two powerful letters 'CA' will add more weight to your name and goodwill.

Your success and happiness lies in you. Resolve to keep happy, and your joy and you shall form an invincible host against difficulties.

This year let's be structured enough for success and achievement and flexible enough for creativity and fun. Well, it's that time again—time to start rolling out the New Year's resolutions. You make your new year resolutions because accomplishing them makes you happy. Always remember how happy you will be and don't give upon it!

One can resolve to –

- Think positively
- Find joy in each day
- Improve upon bad habits
- Believe in myself
- Seek new adventures
- Be true and kind
- Practice forgiveness
- Essential first, email second
- Resolve to find your purpose
- Resolve to support a cause
- Resolve to invent more choices
- Resolve to get outside your jar
- Resolve to be the creator
- Plan vacations

Always wake up with a renewed mind and spirit, ready to take on the world.

I wish you a very bright year ahead. Happy New Year, 2019

-Ashwini.P.V

Update – 209
Write off of export bills

Today's update is on **Write off of export bills** as per RBI guidelines

An exporter who has not been able to realize the outstanding export dues despite best efforts, may either self-write off or approach the AD Category – I banks, who had handled the relevant shipping documents, with appropriate supporting documentary evidence with a request for write off of the unrealized portion subject to the fulfilment of stipulations regarding surrender of incentives prior to "write-off" adduced. This is mentioned in the A.P. (DIR Series) Circular No. 03 dated 22 July 2010. After liberalizing and simplifying the procedure, the limits prescribed for "write-offs" of unrealized export bills are as under:

- Self "write-off" by an exporter
- (Other than Status Holder Exporter) 5%*
- Self "write-off" by Status Holder Exporters 10%*
- 'Write-off" by Authorized Dealer Bank- 10%*

of the total export proceeds realized during the previous calendar year.

1. The above limits will be related to total export proceeds realized during the previous calendar year and will be cumulatively available in a year.

2. The above "write-off" will be subject to conditions that the relevant amount has remained outstanding for more than one-year, satisfactory documentary evidence is furnished in support of the exporter having made all efforts to realize the dues, and the case falls under any of the undernoted categories:

- The overseas buyer has been declared insolvent and a certificate from the official liquidator indicating that there is no possibility of recovery of export proceeds has been produced.
- The overseas buyer is not traceable over a reasonably long period of time.
- The goods exported have been auctioned or destroyed by the Port / Customs / Health authorities in the importing country.
- The unrealized amount represents the balance due in a case settled through the intervention of the Indian Embassy, Foreign Chamber of Commerce or similar Organization;
- The unrealized amount represents the undrawn balance of an export bill (not exceeding 10% of the invoice value) remaining outstanding and turned out to be unrealizable despite all efforts made by the exporter;
- The cost of resorting to legal action would be disproportionate to the unrealized amount of the export bill or where the exporter even after winning the Court case against the overseas buyer could not execute the Court decree due to reasons beyond his control;
- Bills were drawn for the difference between the letter of credit value and actual export value or between the provisional and the actual freight charges, but the amounts have remained unrealized consequent on dishonor of the bills by the overseas buyer and there are no prospects of realization.

3. The exporter has to surrender proportionate export incentives, if any, availed of in respect of the relative shipments. The AD Category – I banks should obtain documents evidencing surrender of export incentives availed of before permitting the relevant bills to be written off.

4. In case of self-write-off, the exporter should submit to the concerned AD bank, a Chartered Accountant's certificate, indicating the export realization in the preceding calendar year and also the amount of write-off already availed of during the year, if any, the relevant EDF to be written off, Bill No., invoice value, commodity exported, country of export. The CA certificate may also indicate that the export benefits, if any, availed of by the exporter have been surrendered.

5. However, the following would not qualify for the "write off" facility:

- Exports made to countries with externalization problem i.e. where the overseas buyer has deposited the value of export in local currency, but the amount has not been allowed to be repatriated by the central banking authorities of the country.
- EDF which are under investigation by agencies like, Enforcement Directorate, Directorate of Revenue Intelligence, Central Bureau of Investigation, etc. as also the outstanding bills which are subject matter of civil / criminal suit.

6. The respective AD banks may forward a statement in form EBW, in the enclosed format, to the Regional Office of Reserve Bank under whose jurisdiction they are functioning, indicating details of write-offs allowed under this circular.

7. AD banks are advised to put in place a system under which their internal inspectors or auditors (including external auditors appointed by authorized dealers) should carry out random sample check / percentage check of "write-off" outstanding export bills.

8. Cases not covered by the above instructions / beyond the above limits, may be referred to the concerned Regional Office of Reserve Bank of India.

-Rekha.A

Update – 210
Demystifying Term sheet

What is a term sheet??

A term sheet is a bulleted list, prepared by any of the proposing parties to a deal, enumerating all of the features as well as the terms and conditions of a contemplated business agreement relating to funding, M&A, etc.

Term sheet may be binding or non-binding:

If it is binding, and subject to preparation of formal legal documentation, then the term sheet should be detailed and as far as is possible all the clauses should be included.

If it is non-binding then there may be another principle agreement of the parties in relation to fundamental terms apart from the term sheet and the term sheet need not be in detail.

The following are the few clauses of the term sheet:

Drag Along Rights

Drag along rights benefit the majority shareholders cum promoters. An incoming investor might wish to acquire full control over the company. Minority shareholders may not wish to tag along and wish to stay with the limited ownership in the hope that share prices may rise. Majority shareholders/Promoters, therefore, include "drag along rights" provision in the term sheet/shareholders agreement that gives them the power to compel the minority shareholders to sell off their shares at a price determined for majority selling shareholders on the same terms and conditions.

Tag Along Rights

It is also known as co-sale rights. It gives a minority shareholder the right to have his shares bought on the same terms as the majority shareholders.

If a shareholder wishes to dispose off shares that are the subject of a co-sale or tag along right, the other shareholders who benefit from the right can insist that the potential purchaser agrees to purchase an equivalent percentage of their shares, at the same price and under the same terms and conditions.

Anti-Dilution Clause

It protects investors in the event a company issues further equity at a lower valuation than in previous rounds.

Shares, options and convertible securities are adjusted so that the holder of these securities receives additional securities in such cases.

It gives the right to the shareholder to receive such additional shares, without any cost at the same price on which the shares were issued to the other person so as to reduce the price per share held by him.

Right of first refusal (ROFR)

If the shareholder wants to sell any of the shares to an outsider or to a third party, the right of first refusal requires them to give the investors the first offer to purchase the shares on the terms offered by the third party.

In case there is more than one investor, if the investor exercises their right of refusal, each investor may participate in the purchase on pro rata basis on the number of shares held by them. If the investors forego their right of first refusal, then the shareholder may sell his shares to a third party.

Pre-Emptive Rights

It requires the company to first offer any newly issued shares to existing shareholders on pro-rata basis. This gives the investor the right to participate in subsequent financing rounds to the extent that is required to protect their percentage equity stake.

It simply allows investors to ensure that they have the ability to hold on to their shareholding on a pro-rata basis and without being diluted.

Equity Vesting

Lets understand this clause with an example. Say, Company A acquires Company B and founders of Company B will be given a stake in Company A as purchase consideration. In this case, such stake will be given to the founders only after certain conditions have been satisfied, such as to remain in the company for a minimum period of time or achieving revenue targets or number of users.

The vesting period is typically between 3-5 years, the purpose is to ensure that the founders have legitimately earned their shares by contributing to the growth of the company post the transaction. Based on the achievements/milestones, the convertible instruments (issued at the time of acquisition) shall be converted into equity shares based on pre-agreed conversion ratio.

-Namratha.LR

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