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EDITORIAL

BANK AUDIT - EMERGING SCENARIO

Statutory audit

The audits of banks have been a significant professional opportunity for a large number of Chartered Accountants Firms. The Government of India has now in principle decided to withdraw the power of bank management to appoint statutory auditors. A committee consisting of nominees from Government of India and CAG, with an approval of Reserve Bank of India will appoint Central Statutory Auditors. The modus operandi and the criteria of selection are being finalized. The appointment of branch auditors is also being expected on the same lines.

The proposed system of appointment of statutory auditors of bank shall ensure transparency, fairness and equity.

Concurrent audit

The government of India has recommended that for all concurrent audits Chartered Accountant Firms should be appointed from the RBI Panel as per the gradation based on the size of the branch. The remuneration for concurrent auditors has been recommended to be enhanced adequately based on coverage of audit, quality of audit; skill set required, number of staff etc. **It has been noted by the government that the current fee scale paid for concurrent audit is too low and need rationalization to ensure quality.** It is also recommended by Reserve Bank of India that a larger number of branches need to be covered under the concurrent audit.

The profession has to prepare itself to address the needs of these assignments, to deliver its best and to ensure value addition in the process.

Risk Based Internal Audit

Reserve Bank of India as well as Government of India are of the view that risk based internal audit is the need of the hour and should be carried out in all branches uniformly between 9 months to 18 months depending on degree of risk involved. ICAI need to develop a framework and programme for banks and also train our professional CAs to effectively and efficiently undertake this.

Internal inspections

The government has also recommended that the internal inspection, risk management and surveillance department should be strengthened by appointing more and more chartered accountants and other financial professionals. This shall be a good employment opportunity for young CAs who wants to make banking as their forte.

Expectations from bank auditors

The government as well as RBI are very keen to ensure that the quality of statutory audit and its value addition to the banking sector should increase significantly. It should ensure proper financial discipline as well as risk management. The banks are making significant efforts to streamline centralized banking system (CBS) over a period of next few years so that the audit function can be rationalized meeting the requirements of the banks and ensuring adequate professional audit to ensure that a strong audit system and an effective internal audit mechanism work as a strong deterrent and preventive mechanism for fraud.

The Institute and the profession are fully committed and geared up to meet new challenges and opportunities and to tackle the changing scenario more effectively.

OPPORTUNITIES FOR YOUNG CHARTERED ACCOUNTANTS

In the backdrop of a big shortage of chartered accountants from 2001 onwards, the entry level of CA course was relaxed in 2006. As a result of direct entry after 12th std. examination and Common Proficiency Test (CPT), a large number of bright students joining the profession increased manifold resulting into a significant number of students qualifying CA Final Examination. The increased availability of Chartered Accountants have enabled a larger number of CA firms to employ chartered accountants, whereas arising out of slowdown in the economy, poor state of capital market and lesser demand from industry, the campus placement from the Institute have not been able to meet the expectations of a large number of young members joining the profession during last about one year.

It is very important for the profession to undertake a macro level study and undertake a fair assessment of chartered accountants needed by the industry, service sector, large businesses and of-course as practicing professionals.

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LATEST IN FINANCE

1.0 BANK FINANCE TO FACTORING COMPANIES

The Reserve bank of India (RBI) has said that an NBFC-Factor shall ensure that its financial assets in the factoring business constitute at least 75 percent of its total assets and its income derived from factoring business is not less than 75 percent of its gross income. Banks can henceforth extend financial assistance to support the factoring business of Factoring Companies.

Circular Reference: Circular No. RBI-2012-13/199 dated 11.09.2012, www.rbi.org.in

2.0 PPI GUIDELINES

The Reserve bank of India (RBI) has said that prepaid payment instruments (PPI) of upto ₹ 10000, upto ₹ 50000 permitted with facility of domestic money transfer from one PPI to another PPI. The non - bank entities issuing prepaid payment instruments are required to maintain the outstanding balance in an escrow account with any scheduled commercial bank.

Circular Reference: Circular No. RBI-2012-13/230 dated 01.10.2012, www.rbi.org.in

3.0 GOLD LC USANCE RESTRICTED

The Reserve Bank of India (RBI) has clarified that Suppliers' and Buyers' credit (trade credit) including the usance period of Letters of Credit opened for import of gold in any form including jewellery made of gold/ precious metals or/ and studded with diamonds/ semi precious / precious stones should not exceed 90 days, from the date of shipment.

Circular Refrence: A.P. (DIR Series) Circular No.33 dated 24.09.2012, www.rbi.org.in

4.0 CAPITAL GOODS IMPORT - ECB LIBERALISED

The Reserve bank of India (RBI) has decided to allow companies in the infrastructure sector, where "infrastructure" is as defined under the extant guidelines on External Commercial Borrowings (ECB) to avail of trade credit up to a maximum period of five years for import of capital goods as classified by DGFT subject to the following conditions: -

- The trade credit must be abinitio contracted for a period not less than fifteen months and should not be in the nature of short-term roll overs; and
- AD banks are not permitted to issue Letters of Credit/guarantees/Letter of Undertaking (LoU) /Letter of Comfort (LoC) in favour of overseas supplier, bank and financial institution for the extended period beyond three years.

The all-in-cost ceilings of trade credit will be as under:

Maturity period	All-in-cost ceilings over 6 mths LIBOR*
Up to one year	350 basis points
One to three years	
Three to five years	

* for the respective currency of credit or applicable benchmark

The all-in-cost ceilings include arranger fee, upfront fee, management fee, handling/ processing charges, out of pocket and legal expenses, if any.

Circular Reference: A.P. (DIR Series) Circular No.28 dated 11.09.2012, www.rbi.org.in

5.0 EXTERNAL COMMERCIAL BORROWINGS (ECB) POLICY - REPAYMENT OF RUPEE LOANS AND/OR FRESH RUPEE CAPITAL EXPENDITURE - USD 10 BILLION SCHEME

The Reserve Bank of India (RBI) has decided: -

- To enhance the maximum permissible limit of ECB that can be availed upto 75 per cent of the average foreign exchange earnings realized during the immediate past three financial years or 50 per cent of the highest foreign exchange earnings realized in any of the immediate past three financial years, whichever is higher;
- In case of Special Purpose Vehicles (SPVs), which have completed at least one year of existence from the date of incorporation and do not have sufficient track record/past performance for three financial years, the maximum permissible ECB that can be availed

of will be limited to 50 per cent of the annual export earnings realized during the past financial year; and

- The maximum ECB that can be availed by an individual company or group, as a whole, under this scheme will be restricted to USD 3 billion.

Circular Reference: A.P. (DIR Series) Circular No.26 dated 11.09.2012, www.rbi.org.in

6.0 MOBILE OPERATORS CAN'T OFFER 'WALLET' FACILITY: RBI

The Reserve Bank of India (RBI) has ruled out allowing mobile network operators from offering cash-out or mobile wallet facility unless they convert their services as banking business correspondents.

7.0 NO PERSONAL VERIFICATION REQUIRED FOR FIIs

The Securities and Exchange Board of India (SEBI) has relaxed the Know Your Clients (KYC) norms for various overseas entities including Foreign Institutional Investors (FIIs) and has done away with in person verification requirements for non-individual clients.

This would be applicable for Sovereign Wealth Fund, foreign governmental agency, international or multilateral organization and Central or State Government pension fund, among others.

8.0 ONE PER CENT INTEREST SUBSIDY FOR HOME LOAN

The Reserve bank of India (RBI) has asked banks to provide one per cent interest subsidy to home loans upto ₹ 15 lakhs as announced by the government. The limit of subsidy for an individual borrower would be ₹ 14,912 for a loan of ₹ 15 lakhs and ₹ 9,925 for a loan of ₹ 10 lakhs.

9.0 RBI MONEY DEAL REPORTING NORMS

The Reserve bank of India (RBI) has said in a notification that all the over the counter (OTC) call / notice / term money deals, currently being reported over negotiated dealing system (NDS) will be reported over the reporting platform of NDS- Call by the parties who are having NDS-Call membership from November 1, 2012.

10.0 CRR CUT BY 25 bps

Inflation uppermost on its mind, The Reserve Bank of India (RBI) refrained from lowering key rates and restricted itself to a token 25-basis-point cut in the amount of cash that banks need to park with it.

11.0 STATE BANK CUTS RATE

State bank of India cut its base rate by 25bps to 9.75% effective from September 20, 2012.

12.0 UNLIMITED BOND PURCHASES BY ECB

European Central Bank (ECB) president Mario Draghi has unveiled a long-awaited programme to buy up sovereign bonds and help bring down the borrowing costs of euro zone's struggling governments.

The plan envisions no set limit on the amount of bonds the ECB could buy, making the programme "a fully effective backstop".

13.0 COAL INDIA OKAYS COAL IMPORT FOR COs AGREEING TO COST-PLUS MODEL

Coal India's board has approved import of coal for power producers that are ready to accept it on a cost-plus basis until there is a consensus on the price cooling mechanism in which customers are charged a uniform average price for domestic and foreign fuel.

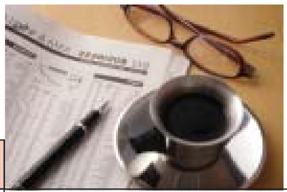
14.0 STANDARD CHARTERED SET TO SIGN PACT WITH NEW YORK REGULATOR

Standard Chartered, the British bank at the center of accusations that it illegally funneled money for Iranian banks and corporations, is expected to sign a settlement with New York's top banking regulator.

15.0 APEX COURT LIFTS MINING BAN ON 18 FIRMS IN KARNATAKA

The Supreme Court has directed resumption of operations by 18 mining companies in Karnataka on the basis of the recommendations of the Central Empowered Committee (CEC).

Last year, the court had banned all mining operations holding that right to life under Article 21 of the Constitution would include a pollution-free environment. It had also ordered a CBI probe into alleged illegal mining activities.



16.0 GUIDELINES ON SECURITISATION OF STANDARD ASSETS

Requirements to be met by originating NBFCs :-

1. All on-balance sheet standard assets are eligible for securitisation except followings :-
   - Revolving credit facilities (e.g. Credit Card Receivables).
   - Assets purchased from other entities.
   - Securitisation exposures (e.g. Mortgage-backed/asset backed securities).
   - Loans with bullet repayment of both principal & interest.
2. NBFCs can securitize loans only after these have been held by them for a minimum period in their books. The criteria for governing minimum Holding Period (MHP) is as follows:

Minimum Holding Period (MHP)

Type of Loan	Minimum number of Instalments to be paid before Securitisation			
	Repayment Frequency-Weekly	Repayment Frequency-Fortnightly	Repayment Frequency-Monthly	Repayment Frequency-Quarterly
Loans with Original maturity up to 2 yrs	Twelve	Six	Three	Two
Loans with original maturity of more than 2 yrs and up to 5 yrs	Eighteen	Nine	Six	Three
Loans with original maturity of more than 5 yrs	-	-	Twelve	Four

3. **Minimum Retention requirement**

   Minimum Retention Requirement at the Time of Securitisation

Type of Loan	MRR
Loans with original maturity of 24 months or less	5% of the book value of the loans being securitised
Loans with original maturity of more than 24 months	10% of the book value of the loans being securitised
Bullet repayment loans / receivables	10% of the book value of the loans being securitised

4. Total exposure of NBFCs to the loans securitised should not exceed 20% of the total securitised instruments issued (If an NBFC exceeds the above limit, the excess amount would be risk weighted at 667%).
5. Any profit arising on account of securitisation of loans should be amortised over the life of the securities issued or to be issued by the SPV.

Securitisation Activities/ Exposure not permitted

1. Re-securitisation of Assets: Re-securitisation means a securitisation exposure in which the risk associated with an underlying pool of exposures is trenched and at least one of the underlying exposures is a securitisation exposure.
2. Synthetic Securitisations: A synthetic securitisation is a structure with at least two different stratified risk positions or tranches that reflect different degrees of credit risk where credit risk of an underlying pool of exposures is transferred, in whole or in part, through the use of funded or unfunded credit derivatives or guarantees that serve to hedge the credit risk of the portfolio.
3. Securitisation with Revolving Structures: These involve exposures where the borrower is permitted to vary the drawn amount and repayments within an agreed limit under a line of credit (e.g. credit card receivables and cash credit facilities).

17.0 GOVT ASKS BANKS TO FOCUS ON REAL ESTATE PROJECTS

In a move that could give a further fillip to the economic reforms kick started by the Centre, the government has now told commercial banks

to fund partially completed residential projects, as well as projects in small towns on a priority basis.

18.0 UK REGULATOR PLANS MAJOR REFORM OF LIBOR SYSTEM

Britain's market regulator unveiled proposals for sweeping reforms of the much maligned London Interbank Offered Rate (LIBOR) but stopped short of recommending a replacement of the rate or basing it entirely on actual submissions by banks. The financial Services Authority, announced the 1 point reform plan to the rate used as a benchmark for the pricing of assets globally.

19.0 ECGC SCORECARD TO RATE OVERSEAS BUYERS

Export Credit Guarantee Corporation of India (ECGC) is developing a rating system to grade foreign importers for its insurance cover. The modified scorecard will be based on quantitative and qualitative scores and will look at turnovers, repayment history and defaults to rate the buyers.

FEMA

1.0 FDI - MOA SUBSCRIPTION AT PAR

The Reserve Bank of India (RBI) has decided that in cases, where non-residents (including NRIs) make investment in an Indian company in compliance with the provisions of the Companies Act, 1956, by way of subscription to Memorandum of Association, such investments may be made at face value subject to their eligibility to invest under the FDI scheme.

Circular Reference: Circular No. A.P. (DIR Series) Circular No. 36 dated 25.09.2012, www.rbi.org.in

2.0 FOREIGN COs OFFICE TO REPORT TO POLICE

The Reserve bank of India (RBI) has decided that n addition to the reporting prescribed to the Reserve Bank of India (RBI), all the new entities setting up LO/BO/PO shall also:

- Submit a report containing information as per Annex within five working days of the LO/BO/PO becoming functional to the Director General of Police (DGP).
- A copy of the report as per the form shall also be filed with the DGP concerned on annual basis
- A copy of report thus filed as above shall also be filed with AD by LO/BO/PO concerned.

Circular Reference: Circular No. A.P. (DIR Series) Circular No. 35 dated 25.09.2012, www.rbi.org.in

3.0 FOREIGN GOVT / NGO - INDIA OFFICES - APPROVAL

The Reserve bank of India (RBI) has clarified that permission to establish offices, in India by foreign Non-Government Organisations/ Non-Profit Organisations/ Foreign Government Bodies/ Departments, by whatever name called, are under the Government approval Route as specified in A. P. (DIR Series) Circular No. 23 dated December 30, 2009. Accordingly, such entities are required to apply to the Reserve Bank for prior permission to establish an office in India, whether Project Office or otherwise.

Circular Reference: Circular No. A.P. (DIR Series) Circular No. 31 dated 17.09.2012, www.rbi.org.in

4.0 FCNR(B) DERIVATIVE HEDGING PERMITTED

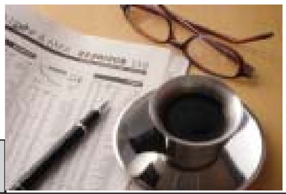
The Reserve bank of India (RBI) has decided to permit the use of cost reduction structures for hedging the exchange rate risk arising out of foreign currency loans availed of domestically against FCNR(B) deposits.

Circular Reference: Circular No. A.P. (DIR Series) Circular No. 30 dated 12.09.2012, www.rbi.org.in

5.0 MONEY CHANGING ACTIVITIES

The Reserve Bank of India (RBI) has clarified that for sale of foreign exchange to a person within his/her eligibility on single drawal, APs may receive payment only by crossed cheque drawn on the bank account of the applicant's firm / company sponsoring the visit of the applicant / Banker's cheque / Pay Order /Demand Draft / debit cards / credit cards / prepaid cards, if the rupee payment exceeds ₹ 50,000/-

Circular Reference: Circular No. A.P. (DIR Series) Circular No. 33 dated 24.09.2012, www.rbi.org.in



6.0 RECENT CHANGES IN FDI POLICIES IN INDIA

Sector	Present Position	Changes made in the Policy	Route
Aviation Sector	No foreign airlines were allowed to participate directly or indirectly in the equity of an Air transport Undertaking engaged in operating scheduled and non-scheduled air transport services EXCEPT cargo airlines	It has been decided to permit foreign airlines to invest in capital of Indian airline companies, operating scheduled and non- scheduled air transport services upto 49% of their paid up capital.	Approval
Broadcasting Sector	FDI in following items were permitted upto 49% • Direct to Home (DTH) • Cable networks • Teleports	FDI is allowed upto 74% in the following items: - • Direct to Home (DTH) • Cable networks • Teleports • MOBILE TV	FDI upto 49% through automatic route, approval route beyond 49% (upto 74%)
Multi Brand Retailing Sector	FDI in multi brand retail was prohibited	FDI upto 51% is allowed except in prohibited sectors subject to the following: - • Minimum amount required: $ 100 million • At least 50% FDI proceeds to be invested in "Back end Infrastructure" within 3 years • At least 30% of the products to be sourced from companies having total value of plant & machinery less than $ 1 million • Retail outlets to be set up in cities having population more than 1000000 • No retail trading with E-commerce	Approval; CA certificate to be furnished to comply with sour-cing requirements from MSME
Power Exchanges	FDI upto 100% permitted under automatic route in all power sectors except atomic energy	FDI upto 49% allowed in power exchanges registered with CERC (Power Market) Regulations, 2010. But no non resident should hold more than 5% in these companies.	26% FDI through approval route, 23% through automatic route
Single Brand Retail	FDI upto 100% is allowed but 30% of the sourcing was compulsory from MSME	The mandatory condition has been replaced with "Preferable option" for overseas retailers.	Approval; CA certificate to be furnished to comply with sour-cing requirements from MSME

AUDIT

1.0 SHORT TERM Fx-LOSS TO BE WRITTEN OFF

The corporate India would have to take their forex losses, if any, on short term foreign currency loans to their profit and loss account every quarter/ year. The centre has turned down industry request to extend an accounting relief granted to a long term debt to short term debt as well.

2.0 2 PERCENT INTEREST SUBVENTION AND 3 PERCENT ADDITIONAL SUBVENTION FOR SHORT-TERM CROP LOANS

The Reserve Bank of India (RBI) has said that the interest subvention scheme for providing short term loans to farmers at 7 per cent interest per annum will be continued in 2012-13. An additional subvention of three per cent will be available to prompt paying farmers. In addition, the same interest subvention on post harvest loans up to six months against negotiable warehouse receipt will also be available. This will encourage the farmers to keep their produce in warehouses.

Similar to the previous year (2011-12), the benefits of interest subvention will also be available to small and marginal farmers having Kisan Credit Card (KCC) for a further period of up to six months post harvest on the same rate as available to crop loan against negotiable warehouse receipt for keeping their produce in warehouses.

Circular Reference: Circular No. RBI-2012-13/228 dated 28.09.2012, www.rbi.org.in

3.0 LET RBI APPOINT AUDITORS OF PRIVATE BANKS, SAYS ICAI

Accounting Regulator the Institute of Chartered Accountants of India (ICAI) has urged the government to let the Reserve Bank of India appoint auditors of private banks, citing the inherent conflict of interest when auditors are chosen by the bank management. The institute had flagged the issue earlier as well pointing out that auditor independence is particularly relevant for banks as they raise deposits from public. The trigger for renewed request comes after the government has decided to select auditors for state run banks.

CORPORATE AND ECONOMIC LAWS

1.0 SC: FOREIGN ARBITRATION AWARDS CAN'T BE CHALLENGED IN INDIA

In a judgment that has far reaching implications for foreign arbitration awards, the Supreme Court ruled that **Indian courts have no jurisdiction to grant any relief or enforce an international arbitration award arrived at in a foreign country**.

Putting at rest an important issue, the apex court ruled only the courts of the country in which the seat of arbitration is located have the jurisdiction to entertain any matter relating to such arbitration. And it is only in the absence of choice of seat of arbitration that the country whose law is chosen by the parties has jurisdiction to entertain the matter.

2.0 SAT HIKES AP PAPER OPEN OFFER PRICE

Securities Appellate Tribunal has directed International Paper Company to pay the non compete fee of ₹ 130.73 a share to public share-holders in the AP Paper Mills open offer case.

INDIRECT TAXATION

1.0 E-PAYMENT NOW MANDATORY FOR CUSTOMS DUTY OF Rs. 1 LAKH OR MORE

Any importer paying customs duty of ₹ 1 lakh or more, will have to use electronic payment method compulsory from September 17, 2012.

FINANCIAL INDICATORS

	Current Rate* (in %)	Month Ago (in %)	3 Month Ago (in %)	6 Month Ago (in %)
3 Month LIBOR ($)	0.343	0.410	0.458	0.47
3 Month MIBOR ( )	8.7	8.87	9.35	10.57
SENSEX	18631	17767	17489	17243
NIFTY	5652	5364	5306	5244
CRR	4.50	4.75	4.75	4.75
REPO	8	8	8	8.5
REVERSE REPO	7	7	7	7.5
Gold (per 10 gm)	31456	31951	29465	28140
Silver (per kg)	62176	62065	52283	55554
Crude (USD/bbl)	114.33	1145.81	99.15	119.88
Rs. vs USD	53.05	55.52	55.81	51.20
Rs. vs Euro	68.21	70.85	68.59	67.16
Rs. vs Yen (₹ 100)	67.82	70.99	70.22	63.00
Rs. vs RMB	8.44	8.75	8.67	8.14
Rs. vs Pound	84.84	88.85	86.53	81.50
MCX Aluminium	105.65	114.00	105.45	105.00
MCX Copper	429.30	450.00	423.80	420.55

**As on 10th Oct. 2012* *(Sources: Bloomberg, NSE, BSE, RBI, MCX)*

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OPPORTUNITIES FOR YOUNG........

It is our responsibility to ensure that the entry level for chartered accountants at the level of Common Proficiency Test (CA entrance exam) as well as at the level of Integrated Professional Competence Course (CA Intermediate Course) are adequately tough and are of high level.

It is also important for us to ensure that the expectations of the industry and the businesses that the Chartered Accountants have expert level of domain knowledge is met. The skills of applying the domain knowledge is required to be adequately inculcated in all those who qualify CA Final Examination. This will ensure that the chartered accountants are able to get a high level of remuneration and a clear growth path.

The profession can also consider that the practical experience developed by training is periodically assessed by the Institute by written and oral viva process. Also the 30 days GMCS courses (2 slots of 15 days) is also followed by adequate evaluation process so as to ensure development of presentation and applied skills in respect of the profession of at least a high level. The IT training of advanced level ERP i.e. SAP, Oracle, Net-vision as well as advanced MS Excel and data base management skills are also need to be developed within the training period. ICAI has already made advance IT training by ICAI now mandatory for students.

A comprehensive 3 to 4 months residential or day scholar classroom teaching to CA Final students after training and before final examination also need to be mandated to ensure that the professionals of top level are developed by ICAI, which can compete with top MBA Institutes in India and overseas.

Efforts are being made for international recognition of Indian CA qualifications for employment as well as for practice in all developed and developing countries. MRAs have been signed with Australia, Canada, and England and with EU it is being negotiated. It is expected that such recognition in next 3 to 5 years will ensure a very large demand for Indian chartered accountants from various parts of the world.

In the long run, CA profession has a very bright future.

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