

FINAL COURSE
(UNDER REVISED SCHEME OF
EDUCATION AND TRAINING)
GROUP – I

REVISION TEST PAPERS
NOVEMBER, 2020



BOARD OF STUDIES
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
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New Delhi

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REVISION TEST PAPER, NOVEMBER, 2020 – OBJECTIVE & APPROACH

(Students are advised to go through the following paragraphs carefully to derive maximum benefit out of this RTP)

I Objective of Revision Test Paper

Revision Test Papers are one among the many educational inputs provided by the Board of Studies (BOS) to its students. Popularly referred to as RTP by the students, it is one of the very old publications of the BOS whose significance and relevance from the examination perspective has stood the test of time.

RTPs provide glimpses of not only the desirable ways in which examination questions are to be answered but also of the professional quality and standard of the answers expected of students in the examination. Further, aspirants can assess their level of preparation for the examination by answering various questions given in the RTP and can also update themselves with the latest developments in the various subjects relevant from the examination point of view.

The primary objectives of the RTP are:

- To help students get an insight of their preparedness for the forthcoming examination;
- To provide an opportunity for a student to find all the latest developments relevant for the forthcoming examination at one place;
- To supplement earlier studies;
- To enhance the confidence level of the students adequately; and
- To leverage the preparation of the students by giving guidance on how to approach the examinations.

RTPs contain the following:

- (i) Planning and preparing for examination
- (ii) Subject-wise guidance – An overview
- (iii) Updates applicable for a particular exam in the relevant subjects
- (iv) Topic-wise questions and detailed answers thereof in respect of each paper
- (v) Relevant announcement applicable for the particular examination

Students must bear in mind that the RTP contains a variety of questions based on different sections of the syllabi and thus a comprehensive study of the entire syllabus is a pre-requisite before answering the questions of the RTP. In other words, in order to derive maximum benefit out of the RTPs, it is advised that before proceeding to solve the questions given in the RTP, students ought to have thoroughly read the Study Materials.

The topics on which the questions are set herein have been carefully selected and meticulous attention has been paid in framing different types of questions. Detailed answers are provided to enable the students to do a self-assessment and have a focused approach for effective preparation.

Students are welcome to send their suggestions for fine tuning the RTP to the Director, Board of Studies, The Institute of Chartered Accountants of India, A-29, Sector-62, Noida 201 309 (Uttar Pradesh). RTP is also available on the Institute's website www.icai.org under the BOS knowledge portal in students section for downloading.

II. Planning and preparing for examination

Ideally, when the RTP reaches your hand, you must have finished reading the relevant Study Materials of all the subjects. Make sure that you have read the Study Materials thoroughly as they cover the syllabus comprehensively. Get a good grasp of the concepts/ provisions discussed therein. Solve each and every question/illustration given therein to understand the application of the concepts and provisions.

After reading the Study Materials thoroughly, you should go through the Updates provided in the RTP and then proceed to solve the questions given in the RTP on your own. RTP is an effective tool to revise and refresh the concepts and provisions discussed in the Study Material. RTPs are provided to you to help you assess your level of preparation. Hence you must solve the questions given therein on your own and thereafter compare your answers with the answers given therein.

Examination tips

How well a student fares in the examination depends upon the level and depth of his preparation. However, there are certain important points which can help a student better his performance in the examination. These useful tips are given below:

- Reach the examination hall well in time.
- As soon as you get the question paper, read it carefully and thoroughly. You are given separate 15 minutes for reading the question paper.
- Plan your time so that appropriate time is awarded for each question. Keep sometime for checking the answers as well.
- First impression is the last impression. The question which you can answer in the best manner should be attempted first.
- Always attempt to do all questions. Therefore, it is important that you must finish each question within allocated time.
- Read the question carefully more than once before starting the answer to understand very clearly as to what is required.

- Answer all parts of a question one after the other; do not answer different parts of the same question at different places.
- Write in a neat and legible hand-writing.
- Always be concise and write to the point and do not try to fill pages unnecessarily.
- There must be logical expression of the answer.
- In case a question is not clear, you may state your assumptions and then answer the question.
- Check your answers carefully and underline important points before leaving the examination hall.

III. Subject-wise Guidance – An Overview

PAPER 1: FINANCIAL REPORTING

For Paper 1 : Financial Reporting Revised August, 2019 edition of the study material is applicable. The syllabus of Financial Reporting primarily focuses on Ind AS with two contemporary topics. The Study Material has been divided into four modules for ease of handling by students.

For understanding the coverage of syllabus, it is important to read the Study Material along with the reference to Study Guidelines. It contains the detailed topic-wise exclusions from the syllabus. The Study Guidelines is given as part of “Applicability of Standards/Guidance Notes/Legislative Amendments etc. for November, 2020 – Final Examination” appended at the end of this Revision Test Paper.

You have to read the Study Material (alongwith the corrigendum and the modified chapters, uploaded on the website) thoroughly to attain conceptual clarity. Tables, diagrams and flow charts have been extensively used to facilitate easy understanding of concepts. Examples and Illustrations given in the Study Material would help you understand the application of concepts. Thereafter, work out the questions at the end of each chapter to hone your problem solving skills. Compare your answers with the answers given to test your level of understanding.

Thereafter, solve the questions given in this RTP independently and compare the same with the answers given to assess your level of preparedness for the examination. The Revisionary Test Paper (RTP) of Financial Reporting contains twenty questions and their answers.

Answers to the questions have been given in detail along with the working notes for easy understanding and comprehending the steps in solving the problems. The answers to the questions have been presented in the manner which is expected from the students in the examination. The students are expected to solve the questions under examination conditions and then compare their solutions with the solutions given in the Revisionary Test Paper and further strategize their preparation for scoring more marks in the examination.

Students may also note that the relevant amendments including relevant Notifications / Circulars / Rules issued by the Companies Act, 2013 and other relevant legislations up to 30th April, 2020 will be applicable for November, 2020 Examination. Reference of the same is also given in the Study Guidelines appended at the end of this Revision Test Paper.

PAPER 2: STRATEGIC FINANCIAL MANAGEMENT

Basically, the subject of Strategic Financial Management is to acquire the ability to apply financial management theories and techniques in strategic decision making. The major topics from which numerical questions are normally asked are as follows:

- Risk Management
- Security Analysis & Valuation
- Portfolio Management
- Mutual Funds
- Derivatives
- Foreign Exchange Exposure and Risk Management
- International Financial Management
- Interest Rate Risk Management
- Corporate Valuation
- Mergers and Acquisitions

Accordingly, the detail of the topics, on which questions in this Revisionary Test Paper are based, is as follows:

Question No.	Topic
1	Security Valuation
2	Security Valuation

3	Portfolio Management
4	Portfolio Management
5	Mutual Fund
6	Derivatives
7	Derivatives
8	Foreign Exchange Exposure and Risk Management
9	Foreign Exchange Exposure and Risk Management
10	International Financial Management
11	Interest Rate Risk Management
12	Corporate Valuation
13	Mergers and Acquisitions and Valuation of Business.
14	A blend of questions requiring a straight forward answer 'what it is' in short paragraph or a sequence of sentences explaining each other.
15	A blend of questions requiring a straight forward answer 'what it is' in short paragraph or a sequence of sentences explaining each other.

PAPER 3: ADVANCED AUDITING AND PROFESSIONAL ETHICS

RTP is a tool to refresh your knowledge which you have acquired while doing conceptual study from Study Material and other modes of knowledge like student journal, bare acts etc.

This RTP of Advanced Auditing and Professional Ethics is relevant for November 2020 Examination. Total 20 Questions consisting of integrated case scenario based multiple choice questions, independent multiple choice questions and descriptive questions have been taken from the entire syllabus divided into eighteen chapters along with Engagement and Quality Control Standards, Statements, Guidance Notes, etc. (Chapter on Audit Reports and Certificate for Special purpose Engagement and Chapter on Special Audit Assignments has been excluded from the syllabus).

These 20 questions are taken from different topics like Engagement and Quality Control Standards, Statements and Guidance Notes, Company Audit, Audit Reports, Audit Committee and Corporate Governance, Audit under Fiscal Laws (including Audits under direct tax laws as well as indirect tax laws), Audit of Banks, NBFCs and Insurance Companies, Due Diligence, Investigation and Forensic Audit, Professional Ethics, Peer Review and Quality Review etc. of different level. Some of the questions given in the RTP are descriptive i.e. direct theory questions (knowledge and Comprehension) based whereas some of them are practical case studies based i.e., application-oriented theory question (Application and Analysis / Evaluation and Synthesis). The name of the chapter is clearly indicated before each question.

This RTP of Advanced Auditing and Professional Ethics has been divided into two parts viz Part I – Legislative Amendments / Notifications / Circulars / Rules / Guidelines issued by Regulating Authority relevant for November 2020 examination and Part II – Questions and Answers.

The relevant notified sections of the Companies Act, 2013 and legislative amendments including relevant Notifications / Circulars / Rules / Guidelines issued by Regulating Authority up to 30th April 2020 are applicable for November 2020 Examination. The questions have been answered in this RTP keeping in view latest amendments as per above mentioned dates.

PAPER 4: CORPORATE AND ECONOMIC LAWS

In the paper of Corporate and Economic Laws, students should be able to emphasise on the legal point or issue involved in any problem and synchronize the same with the relevant legal provisions in a clear and logical manner. Students needs to focus on the presentation of answer to enhance the quality of the answer. This can be improved by writing the answers under examination conditions and also undertaking self-assessment by going through Revision Test Papers (RTP).

RTP is divided into two parts:

Part I : Relevant amendments applicable for November 2020 examinations.

Part II : Multiple Choice Questions with their correct options and Descriptive Questions with detailed answers

Part I talks about the applicability of relevant amendments made vide Circulars, Notifications, Regulations issued by concerned departments for November 2020 examinations.

The relevant legislative amendments including relevant Notifications / Circulars / Rules / Guidelines issued by Regulating Authority up to 30th April, 2020 are applicable for November 2020 Examination. The questions have been answered in this RTP keeping in view latest amendments as per above mentioned dates.

Part II contains 24 Questions (Including Integrated Case Scenario / Independent MCQs and Descriptive) with their answers. Integrated Case Scenario are followed by the Multiple Choice Questions of the application based nature. Whereas independent Multiple Choice Questions may be of Application or comprehensive or knowledge based. Some questions are divided into sub parts. The topics amongst which these questions are divided are as follows:

Question No.	Topic
1	The Companies Act, 2013
2	The Companies Act, 2013

3	The Companies Act, 2013
4	The Companies Act, 2013
5	The Companies Act, 2013
6	The Companies Act, 2013
7	The Companies Act, 2013
8	The Companies Act, 2013
9	The Companies Act, 2013
10	The Companies Act, 2013
11	The SARFAESI Act, 2002
12	The Prevention of Money Laundering Act, 2002
13	Foreign Contribution Regulation Act, 2010
14	The Arbitration and Conciliation Act, 1996
15	The Insolvency and Bankruptcy Code, 2016
16	The Companies Act, 2013
17	The Companies Act, 2013
18	The Companies Act, 2013
19	Securities Contracts (Regulation) Act, 1956
20	SEBI (LODR) Regulations, 2015
21	The Prevention of Money Laundering Act, 2002
22	The Insolvency and Bankruptcy Code, 2016
23	Foreign Contribution Regulation Act, 2010
24	The Prevention of Money Laundering Act, 2002

Guidance on Sections and Case Laws: It is imperative for Final students to remember major section numbers and relevant case laws. Extra efforts are to be made in this direction. If by any chance, students do not remember the Section numbers and Case Law while answering any question in the examination paper on the subject, they may not lose heart on this score. They may otherwise strengthen their answer by appropriate reasoning and examples. However, they may desist from citing wrong Section numbers or irrelevant Case laws.

PAPER –1: FINANCIAL REPORTING

QUESTIONS

Analysis of Financial Statements

1. Deepak started a new company Softbharti Pvt. Ltd. with Iktara Ltd. wherein investment of 55% is done by Iktara Ltd. and rest by Deepak. Voting powers are to be given as per the proportionate share of capital contribution. The new company formed was the subsidiary of Iktara Ltd. with two directors, and Deepak eventually becomes one of the directors of company. A consultant was hired and he charged ₹ 30,000 for the incorporation of company and to do other necessary statutory registrations. ₹ 30,000 is to be charged as an expense in the books after incorporation of company. The company, Softbharti Pvt. Ltd. was incorporated on 1st April 2019.

The financials of Iktara Ltd. are prepared as per Ind AS.

An accountant who was hired at the time of company's incorporation, has prepared the draft financials of Softbharti Pvt. Ltd. for the year ending 31st March, 2020 as follows:

Statement of Profit and Loss

Particulars	Amount (₹)
Revenue from operations	10,00,000
Other Income	<u>1,00,000</u>
Total Revenue (a)	<u>11,00,000</u>
Expenses:	
Purchase of stock in trade	5,00,000
(Increase)/Decrease in stock in trade	(50,000)
Employee benefits expense	1,75,000
Depreciation	30,000
Other expenses	<u>90,000</u>
Total Expenses (b)	<u>7,45,000</u>
Profit before tax (c) = (a)-(b)	<u>3,55,000</u>
Current tax	1,06,500
Deferred tax	<u>6,000</u>
Total tax expense (d)	<u>1,12,500</u>
Profit for the year (e) = (c) – (d)	<u>2,42,500</u>

Balance Sheet

Particulars	Amount (₹)
EQUITY AND LIABILITIES	
(1) Shareholders' Funds	
(a) Share Capital	1,00,000
(b) Reserves & Surplus	2,27,500
(2) Non-Current Liabilities	
(a) Long Term Provisions	25,000
(b) Deferred tax liabilities	6,000
(3) Current Liabilities	
(a) Trade Payables	11,000
(b) Other Current Liabilities	45,000
(c) Short Term Provisions	<u>1,06,500</u>
TOTAL	<u>5,21,000</u>
ASSETS	
(1) Non Current Assets	
(a) Property, plant and equipment (net)	1,00,000
(b) Long-term Loans and Advances	40,000
(c) Other Non Current Assets	50,000
(2) Current Assets	
(a) Current Investment	30,000
(b) Inventories	80,000
(c) Trade Receivables	55,000
(d) Cash and Bank Balances	1,15,000
(e) Other Current Assets	<u>51,000</u>
TOTAL	<u>5,21,000</u>

Additional information of Softbharti Pvt Ltd.:

- i. Deferred tax liability of ₹ 6,000 is created due to following temporary difference:
Difference in depreciation amount as per Income tax and Accounting profit
- ii. There is only one property, plant and equipment in the company, whose closing balance as at 31st March, 2020 is as follows:

Asset description	As per Books	As per Income tax
Property, plant and equipment	₹ 1,00,000	₹ 80,000

- iii. Pre incorporation expenses are deductible on straight line basis over the period of five years as per Income tax. However, the same are immediately expensed off in the books.
- iv. Current tax is calculated at 30% on PBT - ₹ 3,55,000 without doing any adjustments related to Income tax. The correct current tax after doing necessary adjustments of allowances / disallowances related to Income tax comes to ₹ 1,25,700.
- v. After the reporting period, the directors have recommended dividend of ₹ 15,000 for the year ending 31st March, 2020 which has been deducted from reserves and surplus. Dividend payable of ₹ 15,000 has been grouped under 'other current liabilities' alongwith other financial liabilities.
- vi. There are 'Government statutory dues' amounting to ₹ 15,000 which are grouped under 'other current liabilities'.
- vii. The capital advances amounting to ₹ 50,000 are grouped under 'Other non-current assets'.
- viii. Other current assets of ₹ 51,000 comprise Interest receivable from trade receivables.
- ix. Current investment of ₹ 30,000 is in shares of a company which was done with the purpose of trading; current investment has been carried at cost in the financial statements. The fair value of current investment in this case is ₹ 50,000 as at 31st March, 2020.
- x. Actuarial gain on employee benefit measurements of ₹ 1,000 has been omitted in the financials of Softbharti private limited for the year ending 31st March, 2020.

The financial statements for financial year 2019-2020 have not been yet approved.

You are required to ascertain that whether the financial statements of Softbharti Pvt. Ltd. are correctly presented as per the applicable financial reporting framework. If not, prepare the revised financial statements of Softbharti Pvt. Ltd. after the careful analysis of mentioned facts and information.

Ind AS 28

2. On 1st April 2019, Investor Ltd. acquires 35% interest in another entity, XYZ Ltd. Investor Ltd. determines that it is able to exercise significant influence over XYZ Ltd. Investor Ltd. has paid total consideration of ₹ 47,50,000 for acquisition of its interest in XYZ Ltd. At the date of acquisition, the book value of XYZ Ltd.'s net assets was

₹ 90,00,000 and their fair value was ₹ 1,10,00,000. Investor Ltd. has determined that the difference of ₹ 20,00,000 pertains to an item of property, plant and equipment (PPE) which has remaining useful life of 10 years.

During the year, XYZ Ltd. made a profit of ₹ 8,00,000. XYZ Ltd. paid a dividend of ₹ 12,00,000 on 31st March, 2020. XYZ Ltd. also holds a long-term investment in equity securities. Under Ind AS, investment is classified as at FVTOCI in accordance with Ind AS 109 and XYZ Ltd. recognized an increase in value of investment by ₹ 2,00,000 in OCI during the year. Ignore deferred tax implications, if any.

Calculate the closing balance of Investor Ltd.'s investment in XYZ Ltd. as at 31st March, 2020 as per the relevant Ind AS.

Ind AS 20

- Entity A is awarded a government grant of ₹60,000 receivable over three years (₹40,000 in year 1 and ₹10,000 in each of years 2 and 3), contingent on creating 10 new jobs and maintaining them for three years. The employees are recruited at a total cost of ₹30,000, and the wage bill for the first year is ₹ 1,00,000, rising by ₹10,000 in each of the subsequent years. Calculate the grant income and deferred income to be accounted for in the books for year 1, 2 and 3.

Ind AS 12 and Ind AS 103

- On 1 January 2020, entity H acquired 100% share capital of entity S for ₹15,00,000. The book values and the fair values of the identifiable assets and liabilities of entity S at the date of acquisition are set out below, together with their tax bases in entity S's tax jurisdictions. Any goodwill arising on the acquisition is not deductible for tax purposes. The tax rates in entity H's and entity S's jurisdictions are 30% and 40% respectively.

Acquisitions	Book values ₹'000	Tax base ₹'000	Fair values ₹'000
Land and buildings	600	500	700
Property, plant and equipment	250	200	270
Inventory	100	100	80
Accounts receivable	150	150	150
Cash and cash equivalents	130	130	130
Accounts payable	(160)	(160)	(160)
Retirement benefit obligations	(100)	-	(100)

You are required to calculate the deferred tax arising on acquisition of Entity S. Also calculate the Goodwill arising on acquisition.

Ind AS 12, Ind AS 37 & Accounting for Expenditure on Corporate Social Responsibility Activities

5. In order to encourage companies and organisations to generously contribute to the Government's COVID-19 relief fund, taxation laws have been amended to reckon these contributions as deductible for the financial year ending 31st March, 2020 even if the contributions are made after the year end but within three months after year end. Government of India issued the notification on 31st March, 2020 by way of an Ordinance. Such contributions to COVID-19 funds are considered for compliance with annual spends on corporate social responsibility (CSR) for the current accounting year under the Companies Act, 2013. In this scenario, whether the contributions to COVID-19 Relief Funds made subsequent to reporting date of the current accounting period can be provided for as expenses of the current accounting period? Also show its impact on deferred tax, if any.

Ind AS 115

6. A contractor enters into a contract with a customer to build an asset for ₹ 1,00,000, with a performance bonus of ₹ 50,000 that will be paid based on the timing of completion. The amount of the performance bonus decreases by 10% per week for every week beyond the agreed-upon completion date. The contract requirements are similar to those of contracts that the contractor has performed previously, and management believes that such experience is predictive for this contract. The contractor concludes that the expected value method is most predictive in this case.

The contractor estimates that there is a 60% probability that the contract will be completed by the agreed-upon completion date, a 30% probability that it will be completed one week late, and a 10% probability that it will be completed two weeks late.

Determine the transaction price.

Ind AS 34

7. An entity's accounting year ends is 31st December, but its tax year end is 31st March. The entity publishes an interim financial report for each quarter of the year ended 31st December, 2019. The entity's profit before tax is steady at ₹10,000 each quarter, and the estimated effective tax rate is 25% for the year ended 31st March, 2019 and 30% for the year ended 31st March, 2020.

How the related tax charge would be calculated for the year 2019 and its quarters.

Ind AS 24

8. Mr. X owns 95% of entity A and is its director. He is also beneficiary of a trust that owns 100% of entity B, of which he is a director.

Whether entities A and B are related parties?

Would the situation be different if:

- (a) Mr. X resigned as a director of entity A, but retained his 95% holding?
- (b) Mr. X resigned as a director of entities A and B and transferred the 95% holding in entity A to the trust?

Ind AS 41 & Ind AS 113

9. Entity A purchased cattle at an auction on 30th June 2019

Purchase price at 30 th June 2019	₹ 1,00,000
Costs of transporting the cattle back to the entity's farm	₹ 1,000
Sales price of the cattle at 31 st March, 2020	₹ 1,10,000

The company would have to incur similar transportation costs if it were to sell the cattle at auction, in addition to an auctioneer's fee of 2% of sales price. The auctioneer charges 2% of the selling price, from both, the buyer as well as the seller.

Calculate the amount at which cattle is to be recognised in books on initial recognition and at year end 31st March, 2020.

Ind AS 36

10. The UK entity with a sterling functional currency has a property located in US, which was acquired at a cost of US\$ 1.8 million when the exchange rate was £1 = US\$ 1.60. The property is carried at cost. At the balance sheet date, the recoverable amount of the property (as a result of an impairment review) amounted to US\$ 1.62 million, when the exchange rate £1 = US\$ 1.80. Compute the amount which is to be reported in Profit & Loss of UK entity as a result of impairment, if any. Ignore depreciation. Also analyse the total impairment loss on account of change in value due to impairment component and exchange component.

Ind AS 109 & Ind AS 21

11. An Indian entity, whose functional currency is rupees, purchases USD dominated bond at its fair value of USD 1,000. The bond carries stated interest @ 4.7% p.a. on its face value. The said interest is received at the year end. The bond has maturity period of 5 years and is redeemable at its face value of USD 1,250. The fair value of the bond at the end of year 1 is USD 1,060. The exchange rate on the date of transaction and at the end of year 1 are USD 1 = ₹ 40 and USD 1 = ₹ 45, respectively. The weighted average exchange rate for the year is 1 USD = ₹ 42.

The entity has determined that it is holding the bond as part of an investment portfolio whose objective is met both by holding the asset to collect contractual cash flows and selling the asset. The purchased USD bond is to be classified under the FVTOCI category.

The bond results in effective interest rate (EIR) of 10% p.a.

Calculate gain or loss to be recognised in Profit & Loss and Other Comprehensive Income for year 1. Also pass journal entry to recognise gain or loss on above. (Round off the figures to nearest rupees)

Ind AS 2

12. A company normally produced 1,00,000 units of a high precision equipment each year over past several years. In the current year, due to lack of demand and competition, it produced only 50,000 units. Further information is as follows:

Material = ₹ 200 per unit;

Labour = ₹ 100 per unit;

Variable manufacturing overhead = ₹ 100 per unit;

Fixed factory production overhead = ₹ 1,00,00,000;

Fixed factory selling overhead = ₹ 50,00,000;

Variable factory selling overhead = ₹ 150 per unit.

Calculate the value of inventory per unit in accordance with Ind AS 2. What will be the treatment of fixed manufacturing overhead?

Ind AS 10

13. In one of the plant of PQR Ltd., fire broke out on 10.05.2020 in which the entire plant was damaged. PQR Ltd. estimated the loss of ₹ 40,00,000 due to fire. The company filed a claim with the insurance company and expects recovery of ₹ 27,00,000 from the claim. The financial statements for the year ending 31.03.2020 were approved by the Board of Directors on 12th June, 2020. Discuss the accounting treatment of the above situation.

Ind AS 38

14. ABC Pvt. Ltd., recruited a player. As per the terms of the contract, the player is prohibited from playing for any other entity for coming 5 years and have to in the employment with the company and cannot leave the entity without mutual agreement. The price the entity paid to acquire this right is derived from the skills and fame of the said player. The entity uses and develops the player through participation in matches. State whether the cost incurred to obtain the right regarding the player can be recognised as an intangible asset as per Ind AS 38?

Ind AS 16

15. Entity X has a warehouse which is closer to factory of Entity Y and vice versa. The factories are located in the same vicinity. Entity X and Entity Y agree to exchange their warehouses. The carrying value of warehouse of Entity X is ₹ 1,00,000 and its fair value is ₹ 1,25,000. It exchanges its warehouse with that of Entity Y, the fair value of which is ₹ 1,20,000. It also receives cash amounting to ₹ 5,000. How should Entity X account for the exchange of warehouses?

Ind AS 27

16. A company, AB Ltd. holds investments in subsidiaries and associates. In its separate financial statements, AB Ltd. wants to elect to account its investments in subsidiaries at cost and the investments in associates as financial assets at fair value through profit or loss (FVTPL) in accordance with Ind AS 109, Financial Instruments. Whether AB Limited can carry investments in subsidiaries at cost and investments in associates in accordance with Ind AS 109 in its separate financial statements?

Ind AS 116

17. Entity X (lessee) entered into a lease agreement ('lease agreement') with Entity Y (lessor) to lease an entire floor of a shopping mall for a period of 9 years. The annual lease rent of ₹ 70,000 is payable at year end. To carry out its operations smoothly, Entity X simultaneously entered into another agreement ('facilities agreement') with Entity Y for using certain other facilities owned by Entity Y such as passenger lifts, DG sets, power supply infrastructure, parking space etc., which are specifically mentioned in the agreement, for annual service charges amounting to ₹ 1,00,000. As per the agreement, the ownership of the facilities shall remain with Entity Y. Lessee's incremental borrowing rate is 10%.

The facilities agreement clearly specifies that it shall be co-existent and coterminous with 'lease agreement'. The facility agreement shall stand terminated automatically on termination or expiry of 'lease agreement'.

Entity X has assessed that the stand-alone price of 'lease agreement' is ₹ 1,20,000 per year and stand-alone price of the 'facilities agreement' is ₹ 80,000 per year. Entity X has not elected to apply the practical expedient in paragraph 15 of Ind AS 116 of not to separate non-lease component (s) from lease component(s) and accordingly it separates non-lease components from lease components.

How will Entity X account for lease liability as at the commencement date?

Ind AS 7

18. During the financial year 2019-2020, Akola Limited have paid various taxes & reproduced the below mentioned records for your perusal:
- Capital gain tax of ₹ 20 crore on sale of office premises at a sale consideration of ₹ 100 crore.
 - Income Tax of ₹ 3 crore on Business profits amounting ₹ 30 crore (assume entire business profit as cash profit).
 - Dividend Distribution Tax of ₹ 2 crore on payment of dividend amounting ₹ 20 crore to its shareholders.
 - Income tax Refund of ₹ 1.5 crore (Refund on taxes paid in earlier periods for business profits).

You need to determine the net cash flow from operating activities, investing activities and financing activities of Akola Limited as per relevant Ind AS.

Ind AS 103

19. Veera Limited and Zeera Limited are both in the business of manufacturing and selling of Lubricant. Veera Limited and Zeera Limited shareholders agree to join forces to benefit from lower delivery and distribution costs. The business combination is carried out by setting up a new entity called Meera Limited that issues 100 shares to Veera Limited's shareholders and 50 shares to Zeera Limited's shareholders in exchange for the transfer of the shares in those entities. The number of shares reflects the relative fair values of the entities before the combination. Also respective company's shareholders gets the voting rights in Meera Limited based on their respective shareholding.

Determine the acquirer by applying the principles of Ind AS 103 'Business Combinations'.

Ind AS 40

20. Shaurya Limited owns Building A which is specifically used for the purpose of earning rentals. The Company has not been using the building A or any of its facilities for its own use for a long time. The company is also exploring the opportunities to sell the building if it gets the reasonable amount in consideration.

Following information is relevant for Building A for the year ending 31st March, 2020:

Building A was purchased 5 years ago at the cost of ₹10 crore and building life is estimated to be 20 years. The company follows straight line method for depreciation.

During the year, the company has invested in another Building B with the purpose to hold it for capital appreciation. The property was purchased on 1st April, 2019 at the cost of ₹ 2 crore. Expected life of the building is 40 years. As usual, the company follows straight line method of depreciation.

Further, during the year 2019-2020, the company earned / incurred following direct operating expenditure relating to Building A and Building B:

Rental income from Building A	=	₹ 75 lakh
Rental income from Building B	=	₹ 25 lakh
Sales promotion expenses	=	₹ 5 lakh
Fees & Taxes	=	₹ 1 lakh
Ground rent	=	₹ 2.5 lakh
Repairs & Maintenance	=	₹ 1.5 lakh
Legal & Professional	=	₹ 2 lakh
Commission and brokerage	=	₹ 1 lakh

The company does not have any restrictions and contractual obligations against buildings - A and B. For complying with the requirements of Ind AS, the management sought an independent report from the specialists so as to ascertain the fair value of buildings A and B. The independent valuer has valued the fair value of property as per the valuation model recommended by International valuation standards committee. Fair value has been computed by the method by streamlining present value of future cash flows namely, discounted cash flow method.

The other key inputs for valuation are as follows:

The estimated rent per month per square feet for the period is expected to be in the range of ₹ 50 - ₹ 60. It is further expected to grow at the rate of 10 percent per annum for each of 3 years. The weighted discount rate used is 12% to 13%.

Assume that the fair value of properties based on discounted cash flow method is measured at ₹ 10.50 crore on 31st March, 2020.

What would be the treatment of Building A and Building B in the balance sheet of Shaurya Limited? Provide detailed disclosures and computations in line with relevant Indian accounting standards. Treat it as if you are preparing a separate note or schedule, of the given assets in the balance sheet.

SUGGESTED ANSWERS

1. If Ind AS is applicable to any company, then Ind AS shall automatically be made applicable to all the subsidiaries, holding companies, associated companies, and joint ventures of that company, irrespective of individual qualification of set of standards on such companies.

In the given case it has been mentioned that the financials of Iktara Ltd. are prepared as per Ind AS. Accordingly, the results of its subsidiary Softbharti Pvt. Ltd. should also have been prepared as per Ind AS. However, the financials of Softbharti Pvt. Ltd. have been presented as per accounting standards (AS).

Hence, it is necessary to revise the financial statements of Softbharti Pvt. Ltd. as per Ind AS after the incorporation of necessary adjustments mentioned in the question.

The revised financial statements of Softbharti Pvt. Ltd. as per Ind AS and Division II to Schedule III of the Companies Act, 2013 are as follows:

STATEMENT OF PROFIT AND LOSS for the year ended 31st March, 2020

Particulars	Amount (₹)
Revenue from operations	10,00,000

Other Income (1,00,000 + 20,000) (refer note -1)	1,20,000
Total Revenue	<u>11,20,000</u>
Expenses:	
Purchase of stock in trade	5,00,000
(Increase) / Decrease in stock in trade	(50,000)
Employee benefits expense	1,75,000
Depreciation	30,000
Other expenses	90,000
Total Expenses	<u>7,45,000</u>
Profit before tax	<u>3,75,000</u>
Current tax	1,25,700
Deferred tax (W.N.1)	4,800
Total tax expense	<u>1,30,500</u>
Profit for the year (A)	<u>2,44,500</u>
OTHER COMPREHENSIVE INCOME	
Items that will not be reclassified to Profit or Loss:	
Remeasurements of net defined benefit plans	1,000
Tax liabilities relating to items that will not be reclassified to Profit or Loss	
Remeasurements of net defined benefit plans (tax) [1000 x 30%]	<u>(300)</u>
Other Comprehensive Income for the period (B)	<u>700</u>
Total Comprehensive Income for the period (A+B)	<u>2,45,200</u>

BALANCE SHEET**as at 31st March, 2020**

Particulars	(₹)
ASSETS	
Non-current assets	
Property, plant and equipment	1,00,000
Financial assets	
Other financial assets (Long-term loans and advances)	40,000
Other non-current assets (capital advances) (refer note-2)	50,000

Current assets	
Inventories	80,000
Financial assets	
Investments (30,000 + 20,000) (refer note -1)	50,000
Trade receivables	55,000
Cash and cash equivalents/Bank	1,15,000
Other financial assets (Interest receivable from trade receivables)	51,000
TOTAL ASSETS	5,41,000
EQUITY AND LIABILITIES	
Equity	
Equity share capital	1,00,000
Other equity	2,45,200
Non-current liabilities	
Provision (25,000 – 1,000)	24,000
Deferred tax liabilities (4800 + 300)	5,100
Current liabilities	
Financial liabilities	
Trade payables	11,000
Other financial liabilities (Refer note 5)	15,000
Other current liabilities (Govt. statutory dues) (Refer note 3)	15,000
Current tax liabilities	1,25,700
TOTAL EQUITY AND LIABILITIES	5,41,000

STATEMENT OF CHANGES IN EQUITYFor the year ended 31st March, 2020**A. EQUITY SHARE CAPITAL**

	Balance (₹)
As at 31 st March, 2019	-
Changes in equity share capital during the year	<u>1,00,000</u>
As at 31 st March, 2020	<u>1,00,000</u>

B. OTHER EQUITY

	Reserves & Surplus
	Retained Earnings (₹)
As at 31 st March, 2019	-
Profit for the year	2,44,500
Other comprehensive income for the year	700
Total comprehensive income for the year	2,45,200
Less: Dividend on equity shares (refer note – 4)	-
As at 31 st March, 2020	<u>2,45,200</u>

DISCLOSURE FORMING PART OF FINANCIAL STATEMENTS:

Proposed dividend on equity shares is subject to the approval of the shareholders of the company at the annual general meeting and not recognized as liability as at the Balance Sheet date. (refer note-4)

Notes:

1. Current investment are held for the purpose of trading. Hence, it is a financial asset classified as FVTPL. Any gain in its fair value will be recognised through profit or loss. Hence, ₹ 20,000 (50,000 – 30,000) increase in fair value of financial asset will be recognised in profit and loss. However, it will attract deferred tax liability on increased value (Refer W.N).
2. Assets for which the future economic benefit is the receipt of goods or services, rather than the right to receive cash or another financial asset, are not financial assets.
3. Liabilities for which there is no contractual obligation to deliver cash or other financial asset to another entity, are not financial liabilities.
4. As per Ind AS 10, 'Events after the Reporting Period', If dividends are declared after the reporting period but before the financial statements are approved for issue, the dividends are not recognized as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with Ind AS 1, Presentation of Financial Statements.
5. Other current financial liabilities:

	(₹)
Balance of other current liabilities as per financial statements	45,000
Less: Dividend declared for FY 2019 - 2020 (Note – 4)	(15,000)

Reclassification of government statutory dues payable to 'other current liabilities'	<u>(15,000)</u>
Closing balance	<u>15,000</u>

Working Note:

Calculation of deferred tax on temporary differences as per Ind AS 12 for financial year 2019 - 2020

Item	Carrying amount (₹)	Tax base (₹)	Difference (₹)	DTA / DTL @ 30% (₹)
Property, Plant and Equipment	1,00,000	80,000	20,000	6,000-DTL
Pre-incorporation expenses	Nil	24,000	24,000	7,200-DTA
Current Investment	50,000	30,000	20,000	<u>6,000-DTL</u>
			Net DTL	<u>4,800-DTL</u>

2. Calculation of Investor Ltd.'s investment in XYZ Ltd. under equity method:

	₹	₹
Acquisition of investment in XYZ Ltd.		
Share in book value of XYZ Ltd.'s net assets (35% of ₹ 90,00,000)	31,50,000	
Share in fair valuation of XYZ Ltd.'s net assets [35% of (₹ 1,10,00,000 – ₹ 90,00,000)]	7,00,000	
Goodwill on investment in XYZ Ltd. (balancing figure)	<u>9,00,000</u>	
Cost of investment		47,50,000
Profit during the year		
Share in the profit reported by XYZ Ltd. (35% of ₹ 8,00,000)	2,80,000	
Adjustment to reflect effect of fair valuation [35% of (₹ 20,00,000/10 years)]	<u>(70,000)</u>	
Share of profit in XYZ Ltd. recognised in income by Investor Ltd.		2,10,000
Long term equity investment		
FVTOCI gain recognised in OCI (35% of ₹ 2,00,000)		70,000
Dividend received by Investor Ltd. during the year [35% of ₹ 12,00,000]		<u>(4,20,000)</u>
Closing balance of Investor Ltd.'s investment in XYZ Ltd.		<u>46,10,000</u>

3. The income of ₹ 60,000 should be recognised over the three year period to compensate for the related costs.

Calculation of Grant Income and Deferred Income:

Year	Labour Cost	Grant Income		Deferred Income	
	₹	₹		₹	
1	1,30,000	21,667	$60,000 \times (130/360)$	18,333	$(40,000 - 21,667)$
2	1,10,000	18,333	$60,000 \times (110/360)$	10,000	$(50,000 - 21,667 - 18,333)$
3	<u>1,20,000</u>	<u>20,000</u>	$60,000 \times (120/360)$	-	$(60,000 - 21,667 - 18,333 - 20,000)$
	<u>3,60,000</u>	<u>60,000</u>			

Therefore, Grant income to be recognised in Profit & Loss for years 1, 2 and 3 are ₹ 21,667, ₹ 18,333 and ₹ 20,000 respectively.

Amount of grant that has not yet been credited to profit & loss i.e; deferred income is to be reflected in the balance sheet. Hence, deferred income balance as at year end 1, 2 and 3 are ₹ 18,333, ₹ 10,000 and Nil respectively.

4. **Calculation of Net assets acquired (excluding the effect of deferred tax liability):**

Net assets acquired	Tax base ₹'000	Fair values ₹'000
Land and buildings	500	700
Property, plant and equipment	200	270
Inventory	100	80
Accounts receivable	150	150
Cash and cash equivalents	130	130
Total assets	1,080	1,330
Accounts payable	(160)	(160)
Retirement benefit obligations	-	(100)
Net assets before deferred tax liability	920	1,070

Calculation of deferred tax arising on acquisition of entity S and goodwill

	₹'000	₹'000
Fair values of S's identifiable assets and liabilities (excluding deferred tax)		1,070
Less: Tax base		(920)
Temporary difference arising on acquisition		150
Net deferred tax liability arising on acquisition of entity S (₹150,000 @ 40%)		60
Purchase consideration		1,500
Less: Fair values of entity S's identifiable assets and liabilities (excluding deferred tax)	1,070	
Deferred tax liability	(60)	(1,010)
Goodwill arising on acquisition		490

Note: Since, the tax base of the goodwill is nil, taxable temporary difference of ₹4,90,000 arises on goodwill. However, no deferred tax is recognised on the goodwill. The deferred tax on other temporary differences arising on acquisition is provided at 40% and not 30%, because taxes will be payable or recoverable in entity S's tax jurisdictions when the temporary differences will be reversed.

5. According to paragraph 14 of Ind AS 37, a provision shall be made if:
- an entity has a present obligation (legal or constructive) as a result of a past event;
 - it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
 - a reliable estimate can be made of the amount of the obligation. If these conditions are not met as of reporting date, no provision shall be recognised for that financial year.

Government of India issued the notification on 31st March, 2020 by way of an Ordinance and hence, it is most unlikely for any entity to have a present obligation on 31st March, 2020, for such a commitment. As these conditions are not met as of reporting date of financial year 2019 - 2020, no provision should be recognised in the financial statements for that financial year.

In the fact pattern given above, the accounting implications for the financial year 2019-2020 is as follows:

- Do not recognize expense / liability for the contribution to be made subsequent to the year ended 31st March, 2020 as it does not meet the criteria of a present obligation as at the balance sheet date. However, the expected spend may be explained in the

notes to the accounts as the same will also be considered in measurement of deferred tax liability.

- If the entity claims a deduction in the Income Tax return for the financial year 2019 - 2020 for that contribution made subsequent to 31st March, 2020, recognise Deferred Tax Liability as there would be a tax saving in financial year 2019 - 2020 for a spend incurred in subsequent year.
6. The transaction price should include management's estimate of the amount of consideration to which the entity will be entitled for the work performed.

Probability-weighted	Consideration
₹1,50,000(fixed fee plus full performance bonus) x 60%	₹90,000
₹1,45,000 (fixed fee plus 90% of performance bonus) x 30%	₹43,500
₹1,40,000 (fixed fee plus 80% of performance bonus) x 10%	₹14,000
Total probability-weighted consideration	₹1,47,500

The total transaction price is ₹ 1,47,500, based on the probability-weighted estimate. The contractor will update its estimate at each reporting date.

7. **Table showing computation of tax charge:**

	Quarter ending 31 st March, 2019	Quarter ending 30 th June, 2019	Quarter ending 30 th September, 2019	Quarter ending 31 st December, 2019	Year ending 31 st December, 2019
	₹	₹	₹	₹	₹
Profit before tax	10,000	10,000	10,000	10,000	40,000
Tax charge	(2,500)	(3,000)	(3,000)	(3,000)	(11,500)
	7,500	7,000	7,000	7,000	28,500

Since an entity's accounting year is not same as the tax year, more than one tax rate might apply during the accounting year. Accordingly, the entity should apply the effective tax rate for each interim period to the pre-tax result for that period.

8. Entities A and B are related parties, because the director (Mr. X) controls entity A and is a member of the key management personnel of entity B.

Answers to different given situations would be as under:

(a) Mr. X resigned as a director of entity A, but retained his 95% holding

Mr. X continues to control entity A through his 95% holding even though he is not (nominally) a director of the entity. Entities A and B are related if Mr. X controls the trust. Mr. X controls entity A and also, through the trust, controls entity B. Entities A and B are controlled by the same person, and so they are related parties.

Mr. X might still be a member of 'key management personnel' even though he is not (nominally) a director of entity A. Key management personnel includes, but is not restricted to, directors, which include those who are executive 'or otherwise' provided they had authority and responsibility for planning, directing and controlling the activities of the entity. There could be two reasons why entities A and B would continue to be related parties: Mr. X being a member of 'Key management personnel' of entity A and Mr. X controlling entity A.

(b) Mr. X resigned as a director of entities A and B and transferred the 95% holding in entity A to the trust.

If Mr. X controls the trust, he controls entities A and B through the trust, so they will be related parties (see reason in (a) above)

Mr. X is a member of 'key management personnel' of the two entities (see (a) above) if, as seems likely, he continues to direct their operating and financial policies. The substance of the relationship and not merely the legal form should be considered. If Mr X is regarded as a member of the key management personnel of, say, entity A, entity B is a related party, because he exercises control or significant influence over entity B by virtue of his control over the trust.

9. Initial recognition of cattle

	₹
Fair value less costs to sell ($₹1,00,000 - ₹1,000 - ₹2,000$)	97,000
Cash outflow ($₹1,00,000 + ₹1,000 + ₹2,000$)	1,03,000
Loss on initial recognition	6,000
<i>Cattle Measurement at year end</i>	
Fair value less costs to sell ($₹1,10,000 - 1,000 - (2\% \times 1,10,000)$)	1,06,800

At 31st March, 2020, the cattle is measured at fair value of ₹ 1,09,000 less the estimated auctioneer's fee of ₹ 2,200). The estimated transportation costs of getting the cattle to the auction of ₹ 1,000 are deducted from the sales price in determining fair value.

10. Ignoring depreciation, the loss that would be reported in the Profit and Loss as a result of the impairment is as follows:

	£
*Carrying value at balance sheet date-US\$ 16,20,000 @ £ 1.8 =	9,00,000
Historical cost- US\$ 18,00,000 @ £ 1.6 =	11,25,000
Impairment loss recognised in profit and loss	(2,25,000)
The components of the impairment loss can be analysed as follows:	
Change in value due to impairment = US\$ 1,80,000 @ £ 1.8 =	(1,00,000)

Exchange component of change = US\$ 18,00,000 @ 1.8 – US\$ 18,00,000 @ ₹ 1.6	(1,25,000)
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*Recoverable amount being less than cost becomes the carrying value.

11. Computation of amounts to be recognized in the P&L and OCI:

Particulars	USD	Exchange rate	₹
Cost of the bond	1,000	40	40,000
Interest accrued @ 10% p.a.	100	42	4,200
Interest received (USD 1,250 x 4.7%)	(59)	45	(2,655)
Amortized cost at year-end	1,041	45	46,845
Fair value at year end	1,060	45	47,700
Interest income to be recognized in P & L			4,200
Exchange gain on the principal amount [1,000 x (45-40)]			5,000
Exchange gain on interest accrual [100 x (45 - 42)]			300
Total exchange gain/loss to be recognized in P&L			5,300
Fair value gain to be recognized in OCI [45 x (1,060 - 1,041)]			855

Journal entry to recognize gain/loss

Bond (₹ 47,700 – ₹ 40,000)	Dr.	7,700	
Bank (Interest received)	Dr.	2,655	
To Interest Income (P & L)			4,200
To Exchange gain (P & L)			5,300
To OCI (fair value gain)			855

12. Calculation of Inventory value per unit as per Ind AS 2:

Particulars	Value per unit (₹)
Raw material	200
Labour	100
Variable manufacturing overhead	100
Fixed production overhead (1,00,00,000/1,00,000)	100
	500

Fixed overheads are absorbed based on normally capacity level, i.e.; 1,00,000 units, rather than on the basis of actual production, i.e.; 50,000 units. Therefore, fixed manufacturing overhead on 50,000 units, will be absorbed as inventory value. The

remaining fixed manufacturing overhead ₹ 50,00,000 (1,00,00,000 - 50,00,000) will be charged to P&L.

Note: Selling costs are excluded from the cost of inventories and recognised as expense in the period in which they are incurred.

13. Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity for issue.

Two types of events can be identified:

- (a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and
- (b) those that are indicative of conditions that arose after the reporting period (non adjusting events after the reporting period).

An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting period. In the instant case, since fire took place after the end of the reporting period, it is a non-adjusting event. However, in accordance with para 21 of Ind AS 10, disclosures regarding non-adjusting event should be made in the financial statements, i.e., the nature of the event and the expected financial effect of the same.

With regard to going concern basis followed for preparation of financial statements, the company needs to determine whether it is appropriate to prepare the financial statements on going concern basis, since there is only one plant which has been damaged due to fire. If the effect of deterioration in operating results and financial position is so pervasive that management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so, preparation of financial statements for the financial year 2019-2020 on going concern assumption may not be appropriate. In that case, the financial statements may have to be prepared on a basis other than going concern.

However, if the going concern assumption is considered to be appropriate even after the fire, no adjustment is required in the financial statements for the year ending 31.03.2020.

14. As per Ind AS 38, for an item to be recognised as an intangible asset, it must meet the definition of an intangible asset, i.e., identifiability, control over a resource and existence of future economic benefits and also recognition criteria.

With regard to establishment of control, paragraph 13 of Ind AS 38 states that an entity controls an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits. The capacity of an entity to control the future economic benefits from an intangible asset would normally stem from legal rights that are enforceable in a court of law. In the absence of legal rights, it is more difficult to demonstrate control. However, legal enforceability of a

right is not a necessary condition for control because an entity may be able to control the future economic benefits in some other way.

Further, paragraph 15 of Ind AS 38 provides that an entity may have a team of skilled staff and may be able to identify incremental staff skills leading to future economic benefits from training. The entity may also expect that the staff will continue to make their skills available to the entity. However, an entity usually has insufficient control over the expected future economic benefits arising from a team of skilled staff and from training for these items to meet the definition of an intangible asset. For a similar reason, specific management or technical talent is unlikely to meet the definition of an intangible asset, unless it is protected by legal rights to use it and to obtain the future economic benefits expected from it, and it also meets the other parts of the definition.

Since the right in the instant case is contractual, identifiability criterion is satisfied. Based on the facts provided in the given case, the player is prohibited from playing in other teams by the terms of the contract which legally binds the player to stay with ABC Ltd for 5 years.

Accordingly, in the given case, the company would be able to demonstrate control. Future economic benefits are expected to arise from use of the player in matches. Further, cost of obtaining rights is also reliably measurable. Hence, it can recognise the costs incurred to obtain the right regarding the player as an intangible asset. However, careful assessment of relevant facts and circumstances of each case is required to be made.

15. Paragraph 24 of Ind AS 16, inter alia, provides that when an item of property, plant and equipment is acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets, the cost of such an item of property, plant and equipment is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

Further as per paragraph 25 of Ind AS 16, an entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. An exchange transaction has commercial substance if:

- (a) the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred; or
- (b) the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and
- (c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

In the given case, the transaction lacks commercial substance as the company's cash flows are not expected to significantly change as a result of the exchange because the factories are located in the same vicinity i.e. it is in the same position as it was before the transaction.

Hence, Entity X will have to recognise the assets received at the carrying amount of asset given up, i.e., ₹ 1,00,000 being carrying amount of existing warehouse of Entity X and ₹ 5,000 received will be deducted from the cost of property, plant and equipment. Therefore, the warehouse of Entity Y is recognised as property, plant and equipment with a carrying value of ₹ 95,000 in the books of Entity X.

16. Paragraph 10 of Ind AS 27, Separate Financial Statements inter-alia provides that, when an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either at cost, or in accordance with Ind AS 109, Financial Instruments in its separate financial statements. Further, the entity shall apply the same accounting for each category of investments.

It may be noted that although the 'category' is used in number of Standards, it is not defined in any of the Ind AS. It seems that subsidiaries, associates and joint ventures would qualify as separate categories. Thus, the same accounting policies are applied for each category of investments - i.e. each of subsidiaries, associates and joint ventures. However, paragraph 10 of Ind AS 27 should not be read to mean that, in all circumstances, all investments in associates are one 'category' of investment and all investments in joint ventures or an associate are one 'category' of investment. These categories can be further divided into sub-categories provided the sub-category can be defined clearly and objectively and results in information that is relevant and reliable. For example, an investment entity parent can have investment entity subsidiary (at fair value through profit or loss) and non-investment entity subsidiary (whose main purpose is to provide services that relate to the investment entity's investment activities) as separate categories in its separate financial statements. In the present case, investment in subsidiaries and associates are considered to be different categories of investments. Further, Ind AS 27 requires to account for the investment in subsidiaries, joint ventures and associates either at cost, or in accordance with Ind AS 109 for each category of Investment. Thus, AB Limited can carry its investments in subsidiaries at cost and its investments in associates as financial assets in accordance with Ind AS 109 in its separate financial statements.

17. Entity X identifies that the contract contains lease of premises and non-lease component of facilities availed. As Entity X has not elected to apply the practical expedient as provided in paragraph 15, it will separate the lease and non-lease components and allocate the total consideration of ₹ 1,70,000 to the lease and non-lease components in the ratio of their relative stand-alone selling prices as follows:

Particulars	Stand-alone Prices	% of total Stand-alone Price	Allocation of consideration
	₹		₹
Building rent	1,20,000	60%	1,02,000
Service charge	80,000	40%	68,000
Total	2,00,000	100%	1,70,000

As Entity X's incremental borrowing rate is 10%, it discounts lease payments using this rate and the lease liability at the commencement date is calculated as follows:

Year	Lease Payment (A)	Present value factor @ 10% (B)	Present value of lease payments (A X B = C)
Year 1	1,02,000	.909	92,718
Year 2	1,02,000	.826	84,252
Year 3	1,02,000	.751	76,602
Year 4	1,02,000	.683	69,666
Year 5	1,02,000	.621	63,342
Year 6	1,02,000	.564	57,528
Year 7	1,02,000	.513	52,326
Year 8	1,02,000	.467	47,634
Year 9	1,02,000	.424	43,248
Lease Liability at commencement date			5,87,316

Further, ₹ 68,000 allocated to the non-lease component of facility used will be recognised in profit or loss as and when incurred.

18. Para 36 of Ind AS 7 inter alia states that when it is practicable to identify the tax cash flow with an individual transaction that gives rise to cash flows that are classified as investing or financing activities the tax cash flow is classified as an investing or financing activity as appropriate. When tax cash flows are allocated over more than one class of activity, the total amount of taxes paid is disclosed.

Accordingly, the transactions are analysed as follows:

Particulars	Amount (in crore)	Activity
Sale Consideration	100	Investing Activity
Capital Gain Tax	(20)	Investing Activity
Business profits	30	Operating Activity
Tax on Business profits	(3)	Operating Activity
Dividend Payment	(20)	Financing Activity
Dividend Distribution Tax	(2)	Financing Activity
Income Tax Refund	<u>1.5</u>	Operating Activity
Total Cash flow	<u>86.5</u>	

Activity wise	Amount (in crore)
Operating Activity	28.5
Investing Activity	80

Financing Activity	(22)
Total	<u>86.5</u>

19. As per para B15 of Ind AS 103, in a business combination effected primarily by exchanging equity interests, the acquirer is usually the entity that issues its equity interests. However, in some business combinations, commonly called 'reverse acquisitions', the issuing entity is the acquiree.

Other pertinent facts and circumstances shall also be considered in identifying the acquirer in a business combination effected by exchanging equity interests, including:

The relative voting rights in the combined entity after the business combination -

The acquirer is usually the combining entity whose owners as a group retain or receive the largest portion of the voting rights in the combined entity.

Based on above mentioned para, acquirer shall be either of the combining entities (i.e. Veera Limited or Zeera Limited), whose owners as a Group retain or receive the largest portion of the voting rights in the combined entity.

Hence, in the above scenario Veera Limited's shareholder gets 66.67% share ($100 / 150 \times 100$) and Zeera Limited's shareholder gets 33.33% share in Meera Limited. Hence, Veera Limited is acquirer as per the principles of Ind AS 103.

20. Investment property is held to earn rentals or for capital appreciation or both. Ind AS 40 shall be applied in the recognition, measurement and disclosure of investment property. An investment property shall be measured initially at its cost. After initial recognition, an entity shall measure all of its investment properties in accordance with the requirement of Ind AS 16 for cost model.

The measurement and disclosure of Investment property as per Ind AS 40 in the balance sheet would be depicted as follows:

INVESTMENT PROPERTIES:

Particulars	Period ended 31 st March, 2020 (₹ in crore)
Gross Amount:	
Opening balance (A)	10.00
Additions during the year (B)	<u>2.00</u>
Closing balance (C) = (A) + (B)	<u>12.00</u>
Depreciation:	
Opening balance (D)	2.50
Depreciation during the year (E) (0.5 + 0.05)	<u>0.55</u>

Closing balance (F) = (D) + (E)	<u>3.05</u>
Net balance (C) - (F)	<u>8.95</u>

The changes in the carrying value of investment properties for the year ended 31st March, 2020 are as follows:

Amount recognised in Profit and Loss with respect to Investment Properties

Particulars	Period ending 31 st March, 2020 (₹ in crore)
Rental income from investment properties (0.75 + 0.25)	1.00
Less: Direct operating expenses generating rental income (5+1+2.5+1.5+2+1)	<u>(0.13)</u>
Profit from investment properties before depreciation and indirect expenses	0.87
Less: Depreciation	<u>(0.55)</u>
Profit from earnings from investment properties before indirect expenses	<u>0.32</u>

Disclosure Note on Investment Properties acquired by the entity

The investment properties consist Property A and Property B. As at 31st March, 2020, the fair value of the properties is ₹10.50 crore. The valuation is performed by independent valuers, who are specialists in valuing investment properties. A valuation model as recommended by International Valuation Standards Committee has been applied. The Company considers factors like management intention, terms of rental agreements, area leased out, life of the assets etc. to determine classification of assets as investment properties.

The Company has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

Description of valuation techniques used and key inputs to valuation on investment properties:

Valuation technique	Significant unobservable inputs	Range (Weighted average)
Discounted cash flow (DCF) method	<ul style="list-style-type: none"> - Estimated rental value per sq. ft. per month - Rent growth per annum - Discount rate 	<ul style="list-style-type: none"> - ₹ 50 to ₹ 60 - 10% every 3 years - 12% to 13%

PAPER – 2: STRATEGIC FINANCIAL MANAGEMENT
QUESTIONS

Security Valuation

1. Today being 1st January 2019, Ram is considering to purchase an outstanding Corporate Bond having a face value of ₹ 1,000 that was issued on 1st January 2017 which has 9.5% Annual Coupon and 20 years of original maturity (i.e. maturing on 31st December 2027). Since the bond was issued, the interest rates have been on downside and it is now selling at a premium of ₹ 125.75 per bond.

Determine the prevailing interest on the similar type of Bonds if it is held till the maturity which shall be at Par.

PV Factors:

	1	2	3	4	5	6	7	8	9
6%	0.943	0.890	0.840	0.792	0.747	0.705	0.665	0.627	0.592
8%	0.926	0.857	0.794	0.735	0.681	0.630	0.583	0.540	0.500

2. The following data is available for NNTC bond:

Face value: ₹ 1000

Coupon rate: 7.50%

Years to maturity: 8 years

Redemption Value: ₹ 1000

YTM: 8%

Calculate:

- (i) The current market price, duration and volatility of the bond.
(ii) The expected market price if there is a decrease in required yield by 50 bps.

Portfolio Management

3. A study by a Mutual fund has revealed the following data in respect of three securities:

Security	σ (%)	Correlation with Index, P_m
A	20	0.60
B	18	0.95
C	12	0.75

The standard deviation of market portfolio (BSE Sensex) is observed to be 15%.

- (i) What is the sensitivity of returns of each stock with respect to the market?
 - (ii) What are the covariances among the various stocks?
 - (iii) What would be the risk of portfolio consisting of all the three stocks equally?
 - (iv) What is the beta of the portfolio consisting of equal investment in each stock?
 - (v) What is the total, systematic and unsystematic risk of the portfolio in (iv) ?
4. Mr. Abhishek is interested in investing ₹ 2,00,000 for which he is considering following three alternatives:
- (i) Invest ₹ 2,00,000 in Mutual Fund X (MFX)
 - (ii) Invest ₹ 2,00,000 in Mutual Fund Y (MFY)
 - (iii) Invest ₹ 1,20,000 in Mutual Fund X (MFX) and ₹ 80,000 in Mutual Fund Y (MFY)

Average annual return earned by MFX and MFY is 15% and 14% respectively. Risk free rate of return is 10% and market rate of return is 12%.

Covariance of returns of MFX, MFY and market portfolio Mix are as follow:

	MFX	MFY	Mix
MFX	4.800	4.300	3.370
MFY	4.300	4.250	2.800
Mix	3.370	2.800	3.100

You are required to calculate:

- (i) variance of return from MFX, MFY and market return,
- (ii) portfolio return, beta, portfolio variance and portfolio standard deviation,
- (iii) expected return, systematic risk and unsystematic risk; and
- (iv) Sharpe ratio, Treynor ratio and Alpha of MFX, MFY and Portfolio Mix

Mutual Fund

5. There are two Mutual Funds viz. D Mutual Fund Ltd. and K Mutual Fund Ltd. Each having close ended equity schemes.

NAV as on 31-12-2019 of equity schemes of D Mutual Fund Ltd. is ₹ 70.71 (consisting 99% equity and remaining cash balance) and that of K Mutual Fund Ltd. is 62.50 (consisting 96% equity and balance in cash).

Following is the other information:

Particular	Equity Schemes	
	D Mutual Fund Ltd.	K Mutual Fund Ltd.
Sharpe Ratio	2	3.3
Treynor Ratio	15	15
Standard deviation	11.25	5

There is no change in portfolios during the next month and annual average cost is ₹ 3 per unit for the schemes of both the Mutual Funds.

If Share Market goes down by 5% within a month, calculate expected NAV after a month for the schemes of both the Mutual Funds.

For calculation, consider 12 months in a year and ignore number of days for particular month.

Derivatives

6. Mr. SG sold five 4-Month Nifty Futures on 1st February 2020 for ₹ 9,00,000. At the time of closing of trading on the last Thursday of May 2020 (expiry), Index turned out to be 2100. The contract multiplier is 75.

Based on the above information calculate:

- The price of one Future Contract on 1st February 2020.
- Approximate Nifty Sensex on 1st February 2020 if the Price of Future Contract on same date was theoretically correct. On the same day Risk Free Rate of Interest and Dividend Yield on Index was 9% and 6% p.a. respectively.
- The maximum Contango/ Backwardation.
- The pay-off of the transaction.

Note: Carry out calculation on month basis.

7. A Rice Trader has planned to sell 22000 kg of Rice after 3 months from now. The spot price of the Rice is ₹ 60 per kg and 3 months Future on the same is trading at ₹ 59 per kg. Size of the contract is 1000 kg. The price is expected to fall as low as ₹ 56 per kg, 3 months hence.

Required:

- to interpret the position of trader in the Cash Market.
- to advise the trader the trader should take in Future Market to mitigate its risk of reduced profit.

- (iii) to demonstrate effective realized price for its sale if he decides to make use of future market and after 3 months, spot price is ₹ 57 per kg and future contract price for closing the contract is ₹ 58 per kg.

Foreign Exchange Exposure and Risk Management

8. Citi Bank quotes JPY/ USD 105.00 -106.50 and Honk Kong Bank quotes USD/JPY 0.0090- 0.0093.
- Are these quotes identical if not then how they are different?
 - Is there a possibility of arbitrage?
 - If there is an arbitrage opportunity, then show how would you make profit from the given quotation in both cases if you are having JPY 1,00,000 or US\$ 1,000.
9. (a) Given:
- US\$ 1 = ¥ 107.31
- £ 1 = US\$ 1.26
- A\$ 1 = US\$ 0.70
- Calculate the cross rate for Pound in Yen terms
 - Calculate the cross rate for Australian Dollar in Yen terms
 - Calculate the cross rate for Pounds in Australian Dollar terms
- (b) The current spot exchange rate is \$1.35/£ and the three-month forward rate is \$1.30/£. According to your analysis of the exchange rate, you are quite confident that the spot exchange rate will be \$1.32/£ after 3 months.
- Suppose you want to speculate in the forward market then what course of action would be required and what is the expected dollar Profit (Loss) from this speculation?
 - What would be your Profit (Loss) in Dollar terms on the position taken as per your speculation if the spot exchange rate turns out to be \$1.26/£.

Assume that you would like to buy or sell £1,000,000.

International Financial Management

10. Suppose you are a treasurer of XYZ plc in the UK. XYZ have two overseas subsidiaries, one is based in Amsterdam and another in Switzerland. The surplus position of funds in hand is as follows which it does not need for the next three months but will be needed at the end of that period (91 days).

Holding Company	£ 150,000
Swiss Subsidiary	CHF 1,996,154
Dutch Subsidiary	€ 1,450,000

Exchange Rate as on date are as follows:

Spot Rate (€)	£0.6858 - 0.6869
91 day Pts	0.0037 0.0040
Spot Rate (£)	CHF 2.3295 - 2.3326
91 day Pts	0.0242 0.0228

91-Day Interest rates on p.a. basis on the Deposits in Money Market are as follows:

Amount of Currency	£	€	CHF
0 – 200,000	1.00	0.25	Nil
200,001 – 1,000,000	2.00	1.50	0.25
1,000,001 – 2,000,000	4.00	2.00	0.50
Over 2,000,000	5.38	3.00	1.00

You have been approached by your banker wherein the above-mentioned surplus was lying, requesting you to swap the surplus lying with other two subsidiaries and place them in deposit with them.

Determine the minimum interest rate per annum (upto 3 decimal points) that should be offered by the bank to your organization so that your organization is ready to undertake such swap arrangement.

Note: Consider 360 days a year.

Interest Rate Risk Management

11. Two companies ABC Ltd. and XYZ Ltd. approach the DEF Bank for FRA (Forward Rate Agreement). They want to borrow a sum of ₹ 100 crores after 2 years for a period of 1 year. Bank has calculated Yield Curve of both companies as follows:

Year	XYZ Ltd.	ABC Ltd.*
1	3.86	4.12
2	4.20	5.48
3	4.48	5.78

*The difference in yield curve is due to the lower credit rating of ABC Ltd. compared to XYZ Ltd.

- You are required to calculate the rate of interest DEF Bank would quote under 2V3 FRA, using the company's yield information as quoted above.
- Suppose bank offers Interest Rate Guarantee for a premium of 0.1% of the amount of loan, you are required to calculate the interest payable by XYZ Ltd. if interest rate in 2 years turns out to be

(a) 4.50%

(b) 5.50%

Corporate Valuation

12. Following information is given in respect of WXY Ltd., which is expected to grow at a rate of 20% p.a. for the next three years, after which the growth rate will stabilize at 8% p.a. normal level, in perpetuity.

	For the year ended March 31, 2014
Revenues	₹ 7,500 Crores
Cost of Goods Sold (COGS)	₹ 3,000 Crores
Operating Expenses	₹ 2,250 Crores
Capital Expenditure	₹ 750 Crores
Depreciation (included in Operating Expenses)	₹ 600 Crores

During high growth period, revenues & Earnings before Interest & Tax (EBIT) will grow at 20% p.a. and capital expenditure net of depreciation will grow at 15% p.a. From year 4 onwards, i.e. normal growth period revenues and EBIT will grow at 8% p.a. and incremental capital expenditure will be offset by the depreciation. During both high growth & normal growth period, net working capital requirement will be 25% of revenues.

The Weighted Average Cost of Capital (WACC) of WXY Ltd. is 15%.

Corporate Income Tax rate will be 30%.

Required:

Estimate the value of WXY Ltd. using Free Cash Flows to Firm (FCFF) & WACC methodology.

The PVIF @ 15 % for the three years are as below:

Year	t_1	t_2	t_3
PVIF	0.8696	0.7561	0.6575

Mergers, Acquisitions and Corporate Restructuring

13. The following is the Balance-sheet of Grape Fruit Company Ltd as at March 31st, 2019.

Liabilities	(₹ in lakhs)	Assets	(₹ in lakhs)
Equity shares of ₹ 100 each	600	Land and Building	200
14% preference shares of ₹ 100/- each	200	Plant and Machinery	300
13% Debentures	200	Furniture and Fixtures	50
Debenture interest accrued and payable	26	Inventory	150

Loan from bank	74	Sundry debtors	70
Trade creditors	340	Cash at bank	130
		Preliminary expenses	10
		Cost of issue of debentures	5
		Profit and Loss account	525
	1440		1440

The Company did not perform well and has suffered sizable losses during the last few years. However, it is felt that the company could be nursed back to health by proper financial restructuring. Consequently the following scheme of reconstruction has been drawn up :

- (i) Equity shares are to be reduced to ₹ 25/- per share, fully paid up;
- (ii) Preference shares are to be reduced (with coupon rate of 10%) to equal number of shares of ₹ 50 each, fully paid up.
- (iii) Debenture holders have agreed to forgo the accrued interest due to them. In the future, the rate of interest on debentures is to be reduced to 9 percent.
- (iv) Trade creditors will forego 25 percent of the amount due to them.
- (v) The company issues 6 lakh of equity shares at ₹ 25 each and the entire sum was to be paid on application. The entire amount was fully subscribed by promoters.
- (vi) Land and Building was to be revalued at ₹ 450 lakhs, Plant and Machinery was to be written down by ₹ 120 lakhs and a provision of ₹15 lakhs had to be made for bad and doubtful debts.

Required:

- (i) Show the impact of financial restructuring on the company's activities.
- (ii) Prepare the fresh balance sheet after the reconstructions is completed on the basis of the above proposals.

Theoretical Questions

14. (a) Explain key decisions that fall within the scope of financial strategy.
 (b) What is Financial Risk? How it can be evaluated from point of views.
 (c) Explain various "Market Indicators".
15. (a) Discuss briefly the problems faced in the growth of Securitization of Instruments in Indian context.
 (b) Explain the methods in which a Startup firm can bootstrap.
 (c) Explain the difference between Forward and Future Contract.

SUGGESTED ANSWERS/HINTS

1. To determine the prevailing rate of interest for the similar type of Bonds we shall compute the YTM of this Bond using IRR method as follows:

$$M = ₹ 1000$$

$$\text{Interest} = ₹ 95 (0.095 \times ₹ 1000)$$

$$n = 9 \text{ years}$$

$$V_0 = ₹ 1125.75 (₹ 1,000 + ₹ 125.75)$$

YTM can be determined from the following equation

$$₹ 95 \times \text{PVIFA} (\text{YTM}, 9) + ₹ 1000 \times \text{PVIF} (\text{YTM}, 9) = ₹ 1125.75$$

Let us discount the cash flows using two discount rates 8% and 10% as follows:

Year	Cash Flows	PVF@6%	PV@6%	PVF@8%	PV@8%
0	-1125.75	1	-1125.75	1	-1125.75
1	95	0.943	89.59	0.926	87.97
2	95	0.890	84.55	0.857	81.42
3	95	0.840	79.80	0.794	75.43
4	95	0.792	75.24	0.735	69.83
5	95	0.747	70.97	0.681	64.70
6	95	0.705	66.98	0.630	59.85
7	95	0.665	63.18	0.583	55.39
8	95	0.627	59.57	0.540	51.30
9	1095	0.592	648.24	0.500	547.50
			112.37		-32.36

Now we use interpolation formula

$$6.00\% + \frac{112.37}{112.37 - (-32.36)} \times 2.00\%$$

$$6.00\% + \frac{112.37}{144.73} \times 2.00\% = 6.00\% + 1.553\%$$

$$\text{YTM} = 7.553\% \text{ say } 7.55\%$$

Thus, prevailing interest rate on similar type of Bonds shall be approx. 7.55%.

2. (i) Current Market Price of Bond shall be computed as follows:

Year	Cash Flows	PVF@ 8%	PV@8%
1	75	0.926	69.45
2	75	0.857	64.28
3	75	0.794	59.55
4	75	0.735	55.13
5	75	0.681	51.08
6	75	0.630	47.25
7	75	0.583	43.73
8	1075	0.540	580.50
			970.97

Thus, the current market price of the Bond shall be ₹ 970.97.

Alternatively, using the Short-cut method the Market Price of Bond can also be computed as follows:

Interest+(Discount/Premium)/ Years to maturity

(Face Value + market Value)/2

Let market price be X

$$0.08 = \frac{75 + (1000 - X)/8}{(1000 + X)/2}$$

Thus, Value of X i.e. the price of Bond shall be ₹ 969.70

For the duration of the bond, we have to see the future cash flow and discount them as follows:

Year	CF	PV@8%	DCF	Proportion	Prop* Time (Yrs)
1	75	0.926	69.45	0.071	0.071
2	75	0.857	64.28	0.066	0.132
3	75	0.794	59.55	0.061	0.183
4	75	0.735	55.13	0.057	0.228
5	75	0.681	51.08	0.053	0.265
6	75	0.630	47.25	0.049	0.294
7	75	0.583	43.73	0.045	0.315
8	1075	0.540	580.50	0.598	4.784
		Total	970.97	1.000	6.272

Volatility of the bond = Duration / (1 + Yield) = 6.272/1.08 = 5.81

- (ii) If there is decrease in required yield by 50 bps the expected market price of the Bond shall be increased by:

$$= ₹ 970.97 \times 0.50 (5.81/100) = ₹ 28.21$$

Hence expected market price is ₹ 970.97 + ₹ 28.21 = ₹ 999.18

Alternatively, this portion using Bond Price as per Short-cut method can also be computed as follows:

$$= ₹ 969.70 \times 0.50 (5.81/100) = ₹ 28.17$$

then the market price will be = ₹ 969.70 + ₹ 28.17 = ₹ 997.87

3. (i) Sensitivity of each stock with market is given by its beta.

Standard deviation of market Index = 15%

Variance of market Index = 0.0225

Beta of stocks = $\sigma_i r / \sigma_m$

$$A = 20 \times 0.60/15 = 0.80$$

$$B = 18 \times 0.95/15 = 1.14$$

$$C = 12 \times 0.75/15 = 0.60$$

- (ii) Covariance between any 2 stocks = $\beta_1 \beta_2 \sigma_m^2$

Covariance matrix

Stock/Beta	0.80	1.14	0.60
A	400.000	205.200	108.000
B	205.200	324.000	153.900
C	108.000	153.900	144.000

- (iii) Total risk of the equally weighted portfolio (Variance) = $400(1/3)^2 + 324(1/3)^2 + 144(1/3)^2 + 2(205.20)(1/3)^2 + 2(108.0)(1/3)^2 + 2(153.900)(1/3)^2 = 200.244$

- (iv) β of equally weighted portfolio = $\beta_p = \sum \beta_i / N = \frac{0.80 + 1.14 + 0.60}{3}$

$$= 0.8467$$

- (v) Systematic Risk $\beta_p^2 \sigma_m^2 = (0.8467)^2 (15)^2 = 161.303$

Unsystematic Risk = Total Risk – Systematic Risk

$$= 200.244 - 161.303 = 38.941$$

4. (i) Variance of Returns

$$\text{Cor}_{i,j} = \frac{\text{Cov}(i,j)}{\sigma_i \sigma_j}$$

Accordingly, for MFX

$$1 = \frac{\text{Cov}(X,X)}{\sigma_X \sigma_X}$$

$$\sigma_X^2 = 4.800$$

Accordingly, for MFY

$$1 = \frac{\text{Cov}(Y,Y)}{\sigma_Y \sigma_Y}$$

$$\sigma_Y^2 = 4.250$$

Accordingly, for Market Return

$$1 = \frac{\text{Cov}(M,M)}{\sigma_M \sigma_M}$$

$$\sigma_M^2 = 3.100$$

(ii) Portfolio return, beta, variance and standard deviation

$$\text{Weight of MFX in portfolio} = \frac{1,20,000}{2,00,000} = 0.60$$

$$\text{Weight of MFY in portfolio} = \frac{80,000}{2,00,000} = 0.40$$

Accordingly Portfolio Return

$$0.60 \times 15\% + 0.40 \times 14\% = 14.60\%$$

Beta of each Fund

$$\beta = \frac{\text{Cov}(\text{Fund}, \text{Market})}{\text{Variance of Market}}$$

$$\beta_X = \frac{3.370}{3.100} = 1.087$$

$$\beta_Y = \frac{2.800}{3.100} = 0.903$$

Portfolio Beta

$$0.60 \times 1.087 + 0.40 \times 0.903 = 1.013$$

Portfolio Variance

$$\begin{aligned}\sigma_{XY}^2 &= w_X^2 \sigma_X^2 + w_Y^2 \sigma_Y^2 + 2 w_X w_Y \text{Cov}_{X,Y} \\ &= (0.60)^2 (4.800) + (0.40)^2 (4.250) + 2(0.60) (0.40) (4.300) \\ &= 4.472\end{aligned}$$

Or Portfolio Standard Deviation

$$\sigma_{XY} = \sqrt{4.472} = 2.115$$

(iii) Expected Return, Systematic and Unsystematic Risk of Portfolio

$$\text{Portfolio Return} = 10\% + 1.013 (12\% - 10\%) = 12.03\%$$

$$\text{MF X Return} = 10\% + 1.087(12\% - 10\%) = 12.17\%$$

$$\text{MF Y Return} = 10\% + 0.903(12\% - 10\%) = 11.81\%$$

$$\text{Systematic Risk} = \beta^2 \sigma^2$$

Accordingly,

$$\text{Systematic Risk of MFX} = (1.087)^2 \times 3.10 = 3.663$$

$$\text{Systematic Risk of MFY} = (0.903)^2 \times 3.10 = 2.528$$

$$\text{Systematic Risk of Portfolio} = (1.013)^2 \times 3.10 = 3.181$$

$$\text{Unsystematic Risk} = \text{Total Risk} - \text{Systematic Risk}$$

Accordingly,

$$\text{Unsystematic Risk of MFX} = 4.80 - 3.663 = 1.137$$

$$\text{Unsystematic Risk of MFY} = 4.250 - 2.528 = 1.722$$

$$\text{Unsystematic Risk of Portfolio} = 4.472 - 3.181 = 1.291$$

(iv) Sharpe and Treynor Ratios and Alpha

Sharpe Ratio

$$\text{MFX} = \frac{15\% - 10\%}{\sqrt{4.800}} = 2.282$$

$$\text{MFY} = \frac{14\% - 10\%}{\sqrt{4.250}} = 1.94$$

$$\text{Portfolio} = \frac{14.6\% - 10\%}{2.115} = 2.175$$

Treynor Ratio

$$\text{MFX} = \frac{15\% - 10\%}{1.087} = 4.60$$

$$\text{MFY} = \frac{14\% - 10\%}{0.903} = 4.43$$

$$\text{Portfolio} = \frac{14.6\% - 10\%}{1.013} = 4.54$$

Alpha

$$\text{MFX} = 15\% - 12.17\% = 2.83\%$$

$$\text{MFY} = 14\% - 11.81\% = 2.19\%$$

$$\text{Portfolio} = 14.6\% - 12.03\% = 2.57\%$$

5. Working Notes:

- (i) Decomposition of Funds in Equity and Cash Components

	D Mutual Fund Ltd.	K Mutual Fund Ltd.
NAV on 31.12.19	₹ 70.71	₹ 62.50
% of Equity	99%	96%
Equity element in NAV	₹ 70	₹ 60
Cash element in NAV	₹ 0.71	₹ 2.50

- (ii) Calculation of Beta

- (a) D Mutual Fund Ltd.

$$\text{Sharpe Ratio} = 2 = \frac{E(R) - R_f}{\sigma_D} = \frac{E(R) - R_f}{11.25}$$

$$E(R) - R_f = 22.50$$

$$\text{Treynor Ratio} = 15 = \frac{E(R) - R_f}{\beta_D} = \frac{22.50}{\beta_D}$$

$$\beta_D = 22.50/15 = 1.50$$

(b) K Mutual Fund Ltd.

$$\text{Sharpe Ratio} = 3.3 = \frac{E(R) - R_f}{\sigma_K} = \frac{E(R) - R_f}{5}$$

$$E(R) - R_f = 16.50$$

$$\text{Treynor Ratio} = 15 = \frac{E(R) - R_f}{\beta_K} = \frac{16.50}{\beta_K}$$

$$\beta_K = 16.50/15 = 1.10$$

(iii) Decrease in the Value of Equity

	D Mutual Fund Ltd.	K Mutual Fund Ltd.
Market goes down by	5.00%	5.00%
Beta	1.50	1.10
Equity component goes down	7.50%	5.50%

(iv) Balance of Cash after 1 month

	D Mutual Fund Ltd.	K Mutual Fund Ltd.
Cash in Hand on 31.12.19	₹ 0.71	₹ 2.50
Less: Exp. Per month	₹ 0.25	₹ 0.25
Balance after 1 month	₹ 0.46	₹ 2.25

NAV after 1 month

	D Mutual Fund Ltd.	K Mutual Fund Ltd.
Value of Equity after 1 month		
70 x (1 - 0.075)	₹ 64.75	-
60 x (1 - 0.055)	-	₹ 56.70
Cash Balance	0.46	2.25
	65.21	58.95

6. (i) The price of one Future Contract

Let X be the Price of Future Contract. Accordingly,

$$5 = \frac{₹9,00,000}{X}$$

$$X \text{ (Price of One Future Contract)} = ₹ 1,80,000$$

(ii) Current Future price of the index = $\frac{₹1,80,000}{75} = 2400$

Let Y be the current Nifty Index (on 1st February 2020) then

Accordingly, $Y + Y(0.09 - 0.06) \frac{4}{12} = 2400$

and $Y = \frac{2400}{1.01} = 2376.24$

Hence Nifty Index on 1st February 2020 shall be approximately 2376.

- (iii) To determine whether the market is in Contango/ Backwardation first we shall compute Basis as follows:

$$\text{Basis} = \text{Spot Price} - \text{Future Price}$$

If Basis is negative the market is said to be in Contango and when it is positive the market is said to be Backwardation.

Since current Spot Price is 2400 and Nifty Index is 2376, the Basis is negative and hence there is Contango Market and maximum Contango shall be 24 (2400 – 2376).

- (iv) Pay off on the Future transaction shall be [(2400-2100) x 375] ₹ 112500

The Future seller gains if the Spot Price is less than Futures Contract price as position shall be reversed at same Spot price. Therefore, Mr. SG has gained ₹ 1,12,500/- on the Short position taken.

7. (i) Since trader has planned to sell after 3 months now it implies, he is in Long Position in Cash or Spot Market.
- (ii) Since the trader is in Long Position in Cash Market, he can mitigate its risk of reduced profit by hedging his position by selling Rice Futures i.e. Short Position in Future Market.
- (iii) The gain on futures contract

$$= (₹ 59 - ₹ 58) \times 22,000 \text{ kg.} = ₹ 22,000$$

Revenue from the sale of Rice

$$= 22,000 \times ₹ 57 = ₹ 12,54,000$$

$$\text{Total Cash Flow} = ₹ 12,54,000 + ₹ 22,000 = ₹ 12,76,000$$

$$\text{Cash Flow per kg. of Rice} = \frac{₹ 12,76,000}{22,000} = ₹ 58$$

8. (a) No, while Citi Bank's quote is a Direct Quote for JPY (i.e. for Japan) the Hong Kong Bank quote is a Direct Quote for USD (i.e. for USA).
- (b) Since Citi Bank quote imply USD/ JPY 0.0094 - 0.0095 and both rates exceed those offered by Hong Kong Bank, there is an arbitrage opportunity.

Alternatively, it can also be said that Hong Kong Bank quote imply JPY/ USD 107.53 – 111.11 and both rates exceed quote by Citi Bank, there is an arbitrage opportunity.

- (c) Let us how arbitrage profit can be made.

- (i) Convert US\$ 1,000 into JPY by buying from Hong Kong Bank JPY 1,07,530
 Sell these JPY to Citi Bank at JPY/ USD 106.50
 and convert in US\$ US\$ 1009.67
 Thus, arbitrage gain (US\$ 1009.67 - US\$ 1000.00) US\$ 9.67
- (ii) Convert JPY 1,00,000 into USD by buying from
 Citi Bank at JPY/ USD 106.50 US\$ 938.97
 Sell these US\$ to Hong Kong Bank at
 JPY/ USD 107.53 and convert in US\$ JPY 100967.44
 Thus, arbitrage gain (JPY 1,00,967.44 - JPY 1,00,000) JPY 967.44

9. (a) (i) Calculate the cross rate for Pounds in Yen terms

$$1\text{£} = ? \text{¥}$$

$$\text{US\$}1 = \text{¥} 107.31$$

$$\text{£} 1 = \text{US\$} 1.26$$

$$\frac{\text{¥}}{\text{\$}} \times \frac{\text{\$}}{\text{£}} = \frac{\text{¥}}{\text{£}}$$

$$\frac{\text{¥}}{\text{£}} = 107.31 \times 1.26$$

$$\text{£}1 = \text{¥} 135.21$$

- (ii) Calculate the cross rate for Australian Dollar in Yen terms

$$\text{A\$}1 = \text{¥} ?$$

$$\text{US\$}1 = \text{¥} 107.31$$

$$\text{A\$} 1 = \text{US\$} 0.70$$

$$\frac{¥}{\$} \times \frac{\$}{A\$} = \frac{¥}{A\$}$$

$$\frac{¥}{A\$} = 107.31 \times 0.70$$

$$A\$ 1 = ¥ 75.12$$

(iii) Calculate the cross rate for Pounds in Australian Dollar terms

$$£ 1 = A\$?$$

$$A\$ 1 = US\$ 0.70$$

$$US\$ 1 = A\$ 1.4286$$

$$£ 1 = US\$ 1.26$$

$$\frac{A\$}{\$} \times \frac{\$}{£} = \frac{A\$}{£}$$

$$\frac{A\$}{£} = 1.4286 \times 1.26 = 1.80$$

$$£ 1 = A\$ 1.80$$

- (b) (i) If you believe the spot exchange rate will be \$ 1.32/£ in three months, you should buy £ 1,000,000 forward for \$1.30/£ and sell at \$ 1.32/£ 3 months hence.

Your expected profit will be: £1,000,000 x (\$1.32 - \$1.30) = \$20,000

- (ii) If the spot exchange rate turns out to be \$1.26/£ in three months, your loss from the long position in Forward Market will be: -

$$£ 1,000,000 \times (\$ 1.26 - \$1.30) = \$ 40,000$$

10. XYZ plc shall be ready to undertake this swap arrangement only if it receives the interest on the surplus funds if invested on individual basis as follows:

	Interest	Amt. after 91 days	Conversion in £
Holland € 1,450,000 x 0.02 x 91/360 =	€ 7,330.56	€ 1,457,330.56	£1,004,829.42 (1,457,330.56 x 0.6895)
Switzerland CHF 1,996,154 x 0.005 x 91/360 =	CHF 2,522.92	CHF 1,998,676.92	£865,303.02 (1,998,676.92 ÷ 2.3098)

UK			
£ 150,000 x 0.01 x 91/360 =	£ 379.17	£ 150,379.17	£ 150,379.17
Total GBP at 91 days			£ 2,020,511.61

Swap to Sterling

Sell € 1,450,000 (Spot at 0.6858) buy £	£ 994,410.00
Sell CHF 1,996,154 (Spot at 2.3326) buy £	£ 855,763.53
Independent GBP amount	£ 150,000.00
	£ 2,000,173.53
Amount accrued on Individual Basis (Principal + Interest)	£ 2,020,511.61
Interest Required	£ 20,338.08
Required Interest Rate on Per Annum Basis	4.023%
$\frac{20,338.08}{2,000,173.53} \times \frac{360}{91} \times 100$	

Thus, the minimum rate that should be offered is 4.023%.

11. (i) DEF Bank will fix interest rate for 2V3 FRA after 2 years as follows:

XYZ Ltd.

$$(1+r) (1+0.0420)^2 = (1+0.0448)^3$$

$$(1+r) (1.0420)^2 = (1.0448)^3$$

$$r = 5.04\%$$

Bank will quote 5.04% for a 2V3 FRA.

ABC Ltd.

$$(1+r) (1+0.0548)^2 = (1+0.0578)^3$$

$$(1+r) (1.0548)^2 = (1.0578)^3$$

$$r = 6.38\%$$

Bank will quote 6.38% for a 2V3 FRA.

- (ii)

		4.50% Allow to Lapse	5.50% Exercise
Interest	₹ 100 crores X 4.50%	₹ 4.50 crores	-
	₹ 100 crores X 5.04%	-	₹ 5.04 crores

Premium (Cost of Option)	₹ 100 crores X 0.1%	₹ 0.10 crores	₹ 0.10 crores
		4.60 crores	5.14 crores

12. Determination of forecasted Free Cash Flow of the Firm (FCFF)

(₹ in crores)

	Yr. 1	Yr. 2	Yr 3	Terminal Year
Revenue	9000.00	10800.00	12960.00	13996.80
COGS	3600.00	4320.00	5184.00	5598.72
Operating Expenses	1980.00*	2376.00	2851.20	3079.30
Depreciation	720.00	864.00	1036.80	1119.74
EBIT	2700.00	3240.00	3888.00	4199.04
Tax @30%	810.00	972.00	1166.40	1259.71
EAT	1890.00	2268.00	2721.60	2939.33
Capital Exp. – Dep.	172.50	198.38	228.13	-
Δ Working Capital	375.00	450.00	540.00	259.20
Free Cash Flow (FCF)	1342.50	1619.62	1953.47	2680.13

*Excluding Depreciation.

Present Value (PV) of FCFF during the explicit forecast period is:

FCFF (₹ in crores)	PVF @ 15%	PV (₹ in crores)
1342.50	0.8696	1167.44
1619.62	0.7561	1224.59
1953.47	0.6575	1284.41
		3676.44

PV of the terminal, value is:

$$\frac{2680.13}{0.15 - 0.08} \times \frac{1}{(1.15)^3} = ₹ 38287.57 \text{ Crore} \times 0.6575 = ₹ 25174.08 \text{ Crore}$$

The value of the firm is :

$$₹ 3676.44 \text{ Crores} + ₹ 25174.08 \text{ Crores} = ₹ 28,850.52 \text{ Crores}$$

13. Impact of Financial Restructuring

(i) Benefits to Grape Fruit Ltd.

(a) *Reduction of liabilities payable*

	₹ in lakhs
Reduction in equity share capital (6 lakh shares x ₹75 per share)	450
Reduction in preference share capital (2 lakh shares x ₹ 50 per share)	100
Waiver of outstanding debenture Interest	26
Waiver from trade creditors (₹340 lakhs x 0.25)	<u>85</u>
	661
(b) <i>Revaluation of Assets</i>	
Appreciation of Land and Building (₹450 lakhs - ₹200 lakhs)	<u>250</u>
Total (A)	<u>911</u>

- (ii) Amount of ₹ 911 lakhs utilized to write off losses, fictitious assets and over-valued assets.

Writing off profit and loss account	525
Cost of issue of debentures	5
Preliminary expenses	10
Provision for bad and doubtful debts	15
Revaluation of Plant and Machinery (₹300 lakhs – ₹180 lakhs)	120
Total (B)	<u>675</u>
Capital Reserve (A) – (B)	236

- (ii) Balance sheet of Grape Fruit Ltd as at 31st March 2019 (after re-construction)

(₹ in lakhs)

Liabilities	Amount	Assets	Amount
12 lakhs equity shares of ₹ 25/- each	300	Land & Building	450
10% Preference shares of ₹ 50/- each	100	Plant & Machinery	180
Capital Reserve	236	Furnitures & Fixtures	50
9% Debentures	200	Inventory	150
Loan from Bank	74	Sundry debtors	70
Trade Creditors	255	Prov. for Doubtful Debts	<u>-15</u>
		Cash-at-Bank (Balancing figure)*	280
	1165		1165

*Opening Balance of ₹130/- lakhs + Sale proceeds from issue of new equity shares ₹150/- lakhs.

14. (a) The key decisions falling within the scope of financial strategy are as follows:
1. **Financing decisions:** These decisions deal with the mode of financing or mix of equity capital and debt capital.
 2. **Investment decisions:** These decisions involve the profitable utilization of firm's funds especially in long-term projects (capital projects). Since the future benefits associated with such projects are not known with certainty, investment decisions necessarily involve risk. The projects are therefore evaluated in relation to their expected return and risk.
 3. **Dividend decisions:** These decisions determine the division of earnings between payments to shareholders and reinvestment in the company.
 4. **Portfolio decisions:** These decisions involve evaluation of investments based on their contribution to the aggregate performance of the entire corporation rather than on the isolated characteristics of the investments themselves.
- (b) Financial Risk is referred as the unexpected changes in financial conditions such as prices, exchange rate, Credit rating, and interest rate etc. Though political risk is not a financial risk in direct sense but same can be included as any unexpected political change in any foreign country may lead to country risk which may ultimately result in financial loss.
- The financial risk can be evaluated from different point of views as follows:
- (a) From stakeholder's point of view: Major stakeholders of a business are equity shareholders and they view financial gearing i.e. ratio of debt in capital structure of company as risk since in event of winding up of a company they will be least prioritized.
Even for a lender, existing gearing is also a risk since company having high gearing faces more risk in default of payment of interest and principal repayment.
 - (b) From Company's point of view: From company's point of view if a company borrows excessively or lend to someone who defaults, then it can be forced to go into liquidation.
 - (c) From Government's point of view: From Government's point of view, the financial risk can be viewed as failure of any bank or (like Lehman Brothers) down grading of any financial institution leading to spread of distrust among society at large. Even this risk also includes willful defaulters. This can also be extended to sovereign debt crisis.
- (c) The various market indicators are as follows:
- (i) **Breadth Index:** It is an index that covers all securities traded. It is computed by dividing the net advances or declines in the market by the number of issues traded. The breadth index either supports or contradicts the movement of the Dow Jones Averages. If it supports the movement of the Dow Jones Averages,

this is considered sign of technical strength and if it does not support the averages, it is a sign of technical weakness i.e. a sign that the market will move in a direction opposite to the Dow Jones Averages. The breadth index is an addition to the Dow Theory and the movement of the Dow Jones Averages.

- (ii) **Volume of Transactions:** The volume of shares traded in the market provides useful clues on how the market would behave in the near future. A rising index/price with increasing volume would signal buy behaviour because the situation reflects an unsatisfied demand in the market. Similarly, a falling market with increasing volume signals a bear market and the prices would be expected to fall further. A rising market with decreasing volume indicates a bull market while a falling market with dwindling volume indicates a bear market. Thus, the volume concept is best used with another market indicator, such as the Dow Theory.
- (iii) **Confidence Index:** It is supposed to reveal how willing the investors are to take a chance in the market. It is the ratio of high-grade bond yields to low-grade bond yields. It is used by market analysts as a method of trading or timing the purchase and sale of stock, and also, as a forecasting device to determine the turning points of the market. A rising confidence index is expected to precede a rising stock market, and a fall in the index is expected to precede a drop in stock prices. A fall in the confidence index represents the fact that low-grade bond yields are rising faster or falling more slowly than high grade yields. The confidence index is usually, but not always a leading indicator of the market. Therefore, it should be used in conjunction with other market indicators.
- (iv) **Relative Strength Analysis:** The relative strength concept suggests that the prices of some securities rise relatively faster in a bull market or decline more slowly in a bear market than other securities i.e. some securities exhibit relative strength. Investors will earn higher returns by investing in securities which have demonstrated relative strength in the past because the relative strength of a security tends to remain undiminished over time.

Relative strength can be measured in several ways. Calculating rates of return and classifying those securities with historically high average returns as securities with high relative strength is one of them. Even ratios like security relative to its industry and security relative to the entire market can also be used to detect relative strength in a security or an industry.

- (v) **Odd - Lot Theory:** This theory is a contrary - opinion theory. It assumes that the average person is usually wrong and that a wise course of action is to pursue strategies contrary to popular opinion. The odd-lot theory is used primarily to predict tops in bull markets, but also to predict reversals in individual securities.

15. (a) Following are main problems faced in growth of Securitization of instruments especially in Indian context:

(i) **Stamp Duty:** Stamp Duty is one of the obstacle in India. Under Transfer of Property Act, 1882, a mortgage debt stamp duty which even goes upto 12% in some states of India and this impeded the growth of securitization in India. It should be noted that since pass through certificate does not evidence any debt only able to receivable, they are exempted from stamp duty.

Moreover, in India, recognizing the special nature of securitized instruments in some states has reduced the stamp duty on them.

(ii) **Taxation:** Taxation is another area of concern in India. In the absence of any specific provision relating to securitized instruments in Income Tax Act experts' opinion differ a lot. Some are of opinion that SPV as a trustee is liable to be taxed in a representative capacity then others are of view that instead of SPV, investors will be taxed on their share of income. Clarity is also required on the issues of capital gain implications on passing payments to the investors.

(iii) **Accounting:** Accounting and reporting of securitized assets in the books of originator is another area of concern. Although securitization is slated to be an off-balance sheet instrument but in true sense receivables are removed from originator's balance sheet. Problem arises especially when assets are transferred without recourse.

(iv) **Lack of standardization:** Every originator following his own format for documentation and administration having lack of standardization is another obstacle in the growth of securitization.

(v) **Inadequate Debt Market:** Lack of existence of a well-developed debt market in India is another obstacle that hinders the growth of secondary market of securitized or asset backed securities.

(vi) **Ineffective Foreclosure laws:** For many years efforts are on for effective foreclosure but still foreclosure laws are not supportive to lending institutions and this makes securitized instruments especially mortgaged backed securities less attractive as lenders face difficulty in transfer of property in event of default by the borrower.

- (b) Here are some of the methods in which a startup firm can bootstrap:

(i) *Trade Credit:* When a person is starting his business, suppliers are reluctant to give trade credit. They will insist on payment of their goods supplied either by cash or by credit card. However, a way out in this situation is to prepare a well-

crafted financial plan. The next step is to pay a visit to the supplier's office. If the business organization is small, the owner can be directly contacted. On the other hand, if it is a big firm, the Chief Financial Officer can be contacted and convinced about the financial plan.

Communication skills are important here. The financial plan has to be shown. The owner or the financial officer has to be explained about the business and the need to get the first order on credit in order to launch the venture. The owner or financial officer may give half the order on credit and balance on delivery. The trick here is to get the goods shipped and sell them before paying to them. One can also borrow to pay for the good sold. But there is interest cost also. So trade credit is one of the most important ways to reduce the amount of working capital one needs. This is especially true in retail operations.

- (ii) *Factoring*: This is a financing method where accounts receivable of a business organization is sold to a commercial finance company to raise capital. The factor then got hold of the accounts receivable of a business organization and assumes the task of collecting the receivables as well as doing what would've been the paperwork. Factoring can be performed on a non-notification basis. It means customers may not be told that their accounts have been sold.

In addition to reducing internal costs of a business, factoring also frees up money that would otherwise be tied to receivables. This is especially true for businesses that sell to other businesses or to government; there are often long delays in payment that this would offset. This money can be used to generate profit through other avenues of the company. Factoring can be a very useful tool for raising money and keeping cash flowing.

- (iii) *Leasing*: Another popular method of bootstrapping is to take the equipment on lease rather than purchasing it. It will reduce the capital cost and also help lessee (person who take the asset on lease) to claim tax exemption. So, it is better to take a photocopy machine, an automobile or a van on lease to avoid paying out lump sum money which is not at all feasible for a startup organization.

- (c) Difference between forward and future contract is as follows:

S. No.	Features	Forward	Futures
1.	Trading	Forward contracts are traded on personal basis or on telephone or otherwise.	Futures Contracts are traded in a competitive arena.

2.	Size of Contract	Forward contracts are individually tailored and have no standardized size	Futures contracts are standardized in terms of quantity or amount as the case may be
3.	Organized exchanges	Forward contracts are traded in an over the counter market.	Futures contracts are traded on organized exchanges with a designated physical location.
4.	Settlement	Forward contracts settlement takes place on the date agreed upon between the parties.	Futures contracts settlements are made daily via. Exchange's clearing house.
5.	Delivery date	Forward contracts may be delivered on the dates agreed upon and in terms of actual delivery.	Futures contracts delivery dates are fixed on cyclical basis and hardly takes place. However, it does not mean that there is no actual delivery.
6.	Transaction costs	Cost of forward contracts is based on bid – ask spread.	Futures contracts entail brokerage fees for buy and sell orders.
7.	Marking to market	Forward contracts are not subject to marking to market	Futures contracts are subject to marking to market in which the loss on profit is debited or credited in the margin account on daily basis due to change in price.
8.	Margins	Margins are not required in forward contract.	In futures contracts every participants is subject to maintain margin as decided by the exchange authorities
9.	Credit risk	In forward contract, credit risk is born by each party and, therefore, every party has to bother for the creditworthiness.	In futures contracts the transaction is a two way transaction, hence the parties need not to bother for the risk.

PAPER – 3 : ADVANCED AUDITING AND PROFESSIONAL ETHICS

PART – I ACADEMIC UPDATE

(Legislative Amendments / Notifications / Circulars / Rules / Guidelines issued by Regulating Authority)

Chapter 5: Company Audit

1. Definition of "Government company" [Section 2(45)]: In this section, the following explanation has been inserted in the definition. Explanation.- For the purposes of this clause, the "paid up share capital" shall be construed as "total voting power", where shares with differential voting rights have been issued.] [insertion on page no. 5.4 of Study Material as per notification dated 2-3-2020 by way of Exemptions to Government Companies under section 462 with effect from 3-3-2020]

2. "The auditor of the company shall, in his report under section 143, make a statement as to whether the remuneration paid by the company to its directors is in accordance with the provisions of this section, whether remuneration paid to any director is in excess of the limit laid down under this section and give such other details as may be prescribed" (as per section 197(16) of the Companies Act, 2013)

As per Advisory issued by ICAI, the aforesaid reporting requirement for auditors of public companies needs to be covered in auditor's report under the Section "Report on Other Legal and Regulatory Requirements". Accordingly, auditors of public companies are advised to comply with the aforesaid reporting requirements in their auditor's reports. (in) (insertion in point no 4 on page no 5.32 of Study Material.)

3. In section 132—

- (i) after sub-section (1), the following sub-section shall be inserted, namely:—
“(1A) The National Financial Reporting Authority shall perform its functions through such divisions as may be prescribed.”;
[Amendment to be incorporated on Pg 5.47 of SM]
- (ii) Every auditor referred to in Rule 3 shall file a return with the NFRA on or before 30th November every year in Form NFRA-2”. (Insertion on Page no 5.48 of SM)
- (iii) The Central Government has amended the National Financial Reporting Authority Rules, 2018, by the National Financial Reporting Authority (Amendment) Rules, 2019. In the National Financial Reporting Authority Rules, 2018, after clause (c) of sub-rule (1) of **rule 3**, the following explanation shall be inserted, namely:-

“Explanation.- For the purpose of this clause, “banking company” includes ‘corresponding new bank’ as defined in clause (d) of section 2 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 (5 of 1970) and clause (b) of section 2 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 (40 of 1980) and ‘subsidiary bank’ as defined in clause (k) of section 2 of the State Bank of India (Subsidiary Bank) Act, 1959 (38 of 1959).”.
(insertion on page no 5.48 of SM.)

- (iv) Punishment in case of Non-Compliance : (Insertion on Page no 5.50 of SM)** If a company or any officer of a company or an auditor or any other person contravenes any of the provisions of NFRA Rules, the company and every officer of the company who is in default or the auditor or such other person shall be punishable as per the provisions of section 450 of the Act.

Further, as per Section 132(4) of the Companies Act, 2013 as amended by the Companies Amendment Act, 2019, National Financial Reporting Authority, where professional or other misconduct is proved, have the power to make order for:

- (A) imposing penalty of—
- I. not less than one lakh rupees, but which may extend to five times of the fees received, in case of individuals; and
 - II. not less than five lakh rupees, but which may extend to ten times of the fees received, in case of firms;
- (B) debarring the member or the firm from:
- I. being appointed as an auditor or internal auditor or undertaking any audit in respect of financial statements or internal audit of the functions and activities of any company or body corporate; or
 - II. performing any valuation as provided under section 247,
- for a minimum period of six months or such higher period not exceeding ten years as may be determined by the National Financial Reporting Authority.

Chapter 7: Audit Committee and Corporate Governance

As per Stock and Exchange Board of India circular no. CIR/CFD/CMD1/114/2019 dated 18th October, 2019 on resignation of statutory auditors from listed entities and their material subsidiaries:

1. Listed companies are required to make timely disclosures to investors in the securities market for enabling them to take informed investment decisions.
2. Under Sub-clause (2) of Clause A in Part C of Schedule II under Regulation 18(3) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI LODR Regulations"), the Audit Committee of a listed entity, inter alia, has to make

recommendations for the appointment, remuneration and terms of appointment of auditors of a listed entity. Under Sub-clause (7), the Audit Committee is also responsible for reviewing and monitoring the independence and performance of auditors and the effectiveness of the audit process.

3. Further, Sub-clause (7A) inserted under Clause A in Part A of Schedule III under Regulation 30(2) of SEBI LODR Regulations requires detailed reasons to be disclosed by the listed entities to the stock exchanges in case of resignation of the auditor of a listed entity as soon as possible but not later than twenty-four hours of receipt of such reasons from the auditor.
4. Regulation 36(5) of the SEBI LODR Regulations lays down certain disclosures to be made part of the notice to the shareholders for an AGM, where the statutory auditors are proposed to be appointed/re-appointed, including their terms of appointment.
5. Resignation of an auditor of a listed entity / its material subsidiary before completion of the audit of the financial results for the year due to reasons such as pre-occupation may seriously hamper investor confidence and deny them access to reliable information for taking timely investment decisions.
6. In light of the above, the conditions to be complied with upon resignation of the statutory auditor of a listed entity/material subsidiary w.r.t. limited review / audit report as per SEBI LODR Regulations, are as under:

A. All listed entities/material subsidiaries shall ensure compliance with the following conditions while appointing/re-appointing an auditor:

- (i) If the auditor resigns within 45 days from the end of a quarter of a financial year, then the auditor shall, before such resignation, issue the limited review/ audit report for such quarter.
- (ii) If the auditor resigns after 45 days from the end of a quarter of a financial year, then the auditor shall, before such resignation, issue the limited review/ audit report for such quarter as well as the next quarter.
- (iii) Notwithstanding the above, if the auditor has signed the limited review/ audit report for the first three quarters of a financial year, then the auditor shall, before such resignation, issue the limited review/ audit report for the last quarter of such financial year as well as the audit report for such financial year.

B. Other conditions relating to resignation shall include:

- (i) Reporting of concerns with respect to the listed entity/its material subsidiary to the Audit Committee:
 - a. In case of any concern with the management of the listed entity/material subsidiary such as non-availability of information / non-cooperation by the management which may hamper the audit process, the auditor shall approach the Chairman of the Audit Committee of the listed entity and the

Audit Committee shall receive such concern directly and immediately without specifically waiting for the quarterly Audit Committee meetings.

- b. In case the auditor proposes to resign, all concerns with respect to the proposed resignation, along with relevant documents shall be brought to the notice of the Audit Committee. In cases where the proposed resignation is due to non-receipt of information I explanation from the company, the auditor shall inform the Audit Committee of the details of information I explanation sought and not provided by the management, as applicable.
 - c. On receipt of such information from the auditor relating to the proposal to resign as mentioned above, the Audit Committee I board of directors, as the case may be, shall deliberate on the matter and communicate its views to the management and the auditor.
- (ii) Disclaimer in case of non-receipt of information: In case the listed entity/ its material subsidiary does not provide information required by the auditor, to that extent, the auditor shall provide an appropriate disclaimer in the audit report, which may be in accordance with the Standards of Auditing as specified by ICAI/ NFRA.

The listed entity/ material subsidiary shall ensure that the conditions as mentioned in 6(A) and 6(B) above are included in the terms of appointment of the statutory auditor at the time of appointing/re-appointing the auditor. In case the auditor has already been appointed, the terms of appointment shall be suitably modified to give effect to 6(A) and 6(B) above.

The practicing company secretary shall certify compliance by a listed entity with 6(A) and 6(B) above in the annual secretarial compliance report issued in terms of SEBI Circular no. CIR/CFD/CMD1/27/2019 dated February 08, 2019.

C. Obligations of the listed entity and its material subsidiary:

- (i) Format of information to be obtained from the statutory auditor upon resignation: Upon resignation, the listed entity/ its material subsidiary shall obtain information from the Auditor in the format as specified in Annexure A to this Circular. The listed entity shall ensure disclosure of the same under Sub-clause (7A) of Clause A in Part A of Schedule III under Regulation 30(2) of SEBI LODR Regulations.
- (ii) Co-operation by listed entity and its material subsidiary: During the period from when the auditor proposes to resign till the auditor submits the report for such quarter I financial year as specified above, the listed entity and its material subsidiaries shall continue to provide all such documents/information as may be necessary for the audit I limited review.
- (iii) Disclosure of Audit Committee's views to the Stock Exchanges: Upon resignation of the auditor, the Audit Committee shall deliberate upon all the concerns raised by the auditor with respect to its resignation as soon as

possible, but not later than the date of the next Audit Committee meeting and communicate its views to the management. The listed entity shall ensure the disclosure of the Audit Committee's views to the stock exchanges as soon as possible but not later than twenty-four hours after the date of such Audit Committee meeting.

7. In case an entity is not mandated to have an Audit Committee, then the board of directors of the entity shall ensure compliance of this circular.
8. The Stock Exchanges are advised to bring the provisions of this circular to the notice of all listed entities and their material subsidiaries and also disseminate it on their websites.
9. In case the auditor is rendered disqualified due to operation of any condition mentioned in Section 141 of the Companies Act, 2013, then the provisions of this Circular shall not apply.
10. The Circular is issued in exercise of the powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992 read with regulations 18(3), 30(2) and 36(5) of the SEBI LODR Regulations and shall be in addition to the provisions of Companies Act, 2013. For more details visit: https://www.sebi.gov.in/legal/circulars/oct-2019/resignation-of-statutory-auditors-from-listed-entities-and-their-material-subsidaries_44703.html

Chapter 18: Professional Ethics

Joining/Association with “Networks” by Members in Practice

It is hereby clarified that associations with “Network” as a medium of referral of professional work is permissible only if the Network is registered with the Institute, comprising only of Chartered Accountants/ Chartered Accountant Firms, and governed by the Institute’s Network Guidelines, which may be accessed at <https://resource.cdn.icai.org/24427announ14280.pdf>

Members’ attention is also drawn towards following provisions of Chartered Accountants Act, 1949 (hereinafter referred to as the “Act”) :

Clause (2) of Part I of First Schedule to the Act

A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he pays or allows or agrees to pay or allow, directly or indirectly, any share, commission or brokerage in the Fees or profits of his professional business, to any person other than a member of the Institute or a partner or a retired partner or the legal representative of a deceased partner, or a member of any other professional body or with such other persons having such qualifications as may be prescribed, for the purpose of rendering such professional services from time to time in or outside India.

Explanation — In this item, “partner” includes a person residing outside India with whom a chartered accountant in practice has entered into partnership which is not in contravention of item (4) of this Part;

Clause (3) of Part I of First Schedule to the Act

A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he accepts or agrees to accept any part of the profits of the professional work of a person who is not a member of the Institute:

Provided that nothing herein contained shall be construed as prohibiting a member from entering into profit sharing or other similar arrangements, including receiving any share commission or brokerage in the fees, with a member of such professional body or other person having qualifications, as is referred to in item (2) of this Part;

Clause (5) of Part I of First Schedule to the Act

A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he secures, either through the services of a person who is not an employee of such Chartered Accountant or who is not his partner or by means which are not open to a chartered accountant, any professional business.

Provided that nothing herein contained shall be construed as prohibiting any arrangement permitted in terms of items (2), (3) and (4) of this Part;

Clause (6) of Part I of First Schedule to the Act

A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he solicits clients or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means:

Provided that nothing herein contained shall be construed as preventing or prohibiting —

- (i) any chartered accountant from applying or requesting for or inviting or securing professional work from another chartered accountant in practice; or
- (ii) a member from responding to tenders or enquiries issued by various users of professional services or organisations from time to time and securing professional work as a consequence;

In view of the above provisions, it is not permissible for members in practice to join Networks (by whatever name called) other than the Networks registered with the Institute.

Members may note that joining such Networks as mentioned above may result in noncompliance of the above stated provisions of the Act resulting in disciplinary proceedings in accordance with the provisions of the Act.

A - Meaning of Network & Network Firm –

Network - A larger structure (a) That is aimed at co-operation; and (b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.

Network Firm – “Network Firm” means a firm or Entity that belongs to a Network.

B - Concept of Network

1. To enhance their ability to provide professional services, firms frequently form larger structures with other firms and entities. Whether these larger structures create a network depends on the particular facts and circumstances and does not depend on whether the firms and entities are legally separate and distinct. For example, a larger structure may be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a network. Alternatively, a larger structure might be such that it is aimed at co-operation and the firms share a common brand name, a common system of quality control, or significant professional resources and consequently is deemed to be a network.
2. The judgment as to whether the larger structure is a network shall be made in light of whether a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that the entities are associated in such a way that a network exists. This judgment shall be applied consistently throughout the network.
3. Where the larger structure is aimed at co-operation and it is clearly aimed at profit or cost sharing among the entities within the structure, it is deemed to be a network. However, the sharing of immaterial costs does not in itself create a network. In addition, if the sharing of costs is limited only to those costs related to the development of audit methodologies, manuals, or training courses, this would not in itself create a network.

Further, an association between a firm and an otherwise unrelated entity to jointly provide a service or develop a product does not in itself create a network.
4. Where the larger structure is aimed at cooperation and the entities within the structure share common ownership, control or management, it is deemed to be a network. This could be achieved by contract or other means.
5. Where the larger structure is aimed at co-operation and the entities within the structure share common quality control policies and procedures, it is deemed to be a network. For this purpose, common quality control policies and procedures are those designed, implemented and monitored across the larger structure.
6. Where the larger structure is aimed at co-operation and the entities within the structure share a common business strategy, it is deemed to be a network. Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not deemed to be a network firm merely because it co-operates with another entity solely to respond jointly to a request for a proposal for the provision.
7. Where the larger structure is aimed at co-operation and the entities within the structure share the use of a common brand name, it is deemed to be a network. A common brand name includes common initials or a common name. A firm is deemed to be using a common brand name if it includes, for example, the common brand name as part of, or along with, its firm name, when a partner of the firm signs an audit report.

8. Even though a firm does not belong to a network and does not use a common brand name as part of its firm name, it may give the appearance that it belongs to a network if it makes reference in its stationery or promotional materials to being a member of an association of firms.

Accordingly, if care is not taken in how a firm describes such memberships, a perception may be created that the firm belongs to a network.

9. Where the larger structure is aimed at co-operation and the entities within the structure share a significant part of professional resources, it is deemed to be a network. Professional resources include:

- Common systems that enable firms to exchange information such as client data, billing and time records;
- Partners and staff;
- Technical departments that consult on technical or industry specific issues, transactions or events for assurance engagements;
- Audit methodology or audit manuals; and
- Training courses and facilities.

10. The determination of whether the professional resources shared are significant, and therefore the firms are network firms, shall be made based on the relevant facts and circumstances. Where the shared resources are limited to common audit methodology or audit manuals, with no exchange of personnel or client or market information, it is unlikely that the shared resources would be significant. The same applies to a common training endeavor. Where, however, the shared resources involve the exchange of people or information, such as where staff are drawn from a shared pool, or a common technical department is created within the larger structure to provide participating firms with technical advice that the firms are required to follow, a reasonable and informed third party is more likely to conclude that the shared resources are significant.

C- Forms of the Network: The different forms of Network can be as under:-

1. A network can be constituted as a mutual entity which will act as a facilitator for the constituents of the Network. In such a case the Network itself will not carry out any professional practice.
2. A network can be constituted as a partnership firm subject to the condition that the total number of partners does not exceed twenty.
3. A network can be constituted as a Limited Liability Partnership subject to the provision of the Chartered Accountant Act and Rules and such other laws as may be applicable.
4. A network can be constituted as company subject to the guidelines prescribed by Institute for corporate form of practice and formation of management consultancy services company.

5. Network Firms shall consist of sole Practitioner/proprietor, partnership or any such entity of professional accountants as may be permitted by the Act
6. A firm is allowed to join only one network.
7. Firms having common partners shall join only one Network.

D - Approval of Name of Network amongst firms registered with Institute:

1. The Network may have distinct name which should be approved by the Institute. To distinguish a "Network" from a "firm" of Chartered Accountants, the words "& Affiliates" shall be used after the name of the network and the words "& Co." / "& Associates" shall not be used. The prescribed format of application for approval of Name for Network is at Form 'A' (enclosed). Illustrative examples of names of Network: -
 - (a) If the Network is a Mutual Entity or Partnership Firm: AB & Affiliates
 - (b) If the Network is a LLP: AB Affiliates LLP
 - (c) If the Network is a Limited Company: AB Affiliates P. Ltd/Limited
2. Provisions of Regulation 190 of the Chartered Accountants Regulations, 1988 shall be applicable to the name of Network. However, even if a name is approved and subsequently it is found that the same is undesirable then, the said name may be withdrawn at any time by the Institute. The Institute shall reject any undesirable name and the provisions in respect of names of companies as prescribed in the Companies Act, 1956 shall be applicable in spirit.
3. The Institute shall approve or reject the name of the Network and intimate the same to the Network at its address mentioned in Form 'A' within a period which shall not be later than 30 days from the date of receipt of the said Form.
4. Mere approval of the name of the Network shall not entitle the Network to carry on practice in its own name.

E - Registration of Network with entities in India

1. After the name of a Network is approved as per provision under Guideline 5, the Institute same shall reserve such name for a period of three (3) months from the date of approval.
2. The Network shall get itself registered with the Institute by applying in Form B within the period of 3 months, failing which the name assigned shall stand cancelled on the expiry of the said period.
3. Registration of Network with Institute is mandatory.
4. If different Indian firms are networked with a common Multinational Accounting Firm, they shall be considered as a part of network.

F - Listing of Network with entities outside India

1. The duly authorized representative(s) of the Indian Member firm (s)/Member constituting the Network with entities outside India shall file a declaration with the Institute in Form 'D'

for Listing of such Network within 30 days from the date of entering into the Network arrangement.

2. Proprietary/individual members, partnership firms as well as members in LLP or any such other entity of members as may be permitted by the Act, shall be permitted to join such network with entities outside India provided that the proprietary/individual members, partnership firms as well as members in LLP or any such other entity of members are allowed to join only one network and firms having common partners shall join only one such network.

G - Change in constitution of registered Network: In case of change in the constitution of registered Network on account of any entry into or exit from the Network, the network shall communicate the same to the Institute by filing Form 'C' within a period of thirty (30) days from the date of change in the constitution.

H - Ethical Compliance: Once the relationship of network arises, it will be necessary for such a network to comply with all applicable ethical requirements prescribed by the Institute from time to time in general and the following requirements in particular: -

1. If one firm of the network is the statutory auditor of an entity then the associate [including the networked firm(s)] or the said firm directly/indirectly shall not accept the internal audit or book-keeping or such other professional assignments which are prohibited for the statutory auditor firm.
2. The guidelines of ceiling on Non-audit fees is applicable in relation to a Network as follows: i) For a Network firm who is doing statutory audit (including its associate concern and/or firm(s) having common partnership), it shall be the same as mentioned in the said notification; and ii) For other firms of the same Network collectively, it shall be 3 times of the fee payable for carrying out the statutory audit of the same undertaking/company.
3. In those cases where rotation of firms is prescribed by any regulatory authority, no member firm of the network can accept appointment as an auditor in place of any member firm of the network which is retiring.
4. The Network may advertise the Network to the extent permitted by the Advertisement Guidelines issued by Institute. The firms constituting the network are permitted to use the words "Network Firms" on their professional stationery.
5. The constituent member firms of a Network and the Network shall comply with all the Ethical Standards prescribed by the Council from time to time.

I - Consent of Client: The effect of registration of network with Institute will be deemed to be a public notice of the network and therefore consent of client will be deemed to be obtained.

J - Framework of Internal Byelaws of Network: To streamline the networking, a network shall formulate operational bye-laws. Bye-laws may contain the following clauses on which the affiliates of the network may enter into a written agreement among themselves:

- (i) Appointment of a Managing Committee, from among the managing partners of the member firms of the network and the terms and conditions under which it should function. The minimum and maximum number of members of the Managing Committee shall also be agreed upon.
- (ii) Administration of the network
- (iii) Contribution of membership fees to meet the cost of the administration of the network.
- (iv) Identifying a partner of any of the member firms of the network to be responsible for the assignment (engagement partner)
- (v) Dispute settlement procedures through arbitration and conciliation
- (vi) Development of training materials for members of the network
- (vii) Issue of News-letters for staff and clients
- (viii) Development of softwares for different types of assignments
- (ix) Development and maintenance of data bases relevant for different types of assignments
- (x) Library
- (xi) Appointment of a technical director to whom references can be made
- (xii) Determining the methodology for drawing resources from each member firm
- (xiii) Determining compensation to member firms for resources to be drawn from them
- (xiv) Peer review of the member firms These clauses are illustrative.

K - Repeal and Saving: The erstwhile “Rules/Guidelines of Network” issued by the Institute stands repealed from the date of commencement of these Guidelines.

Provided that notwithstanding such repeal, anything done or any action taken or purported to have been done or taken in respect of the erstwhile Rules/Guidelines prior to the date of applicability of these Guidelines shall be deemed to have been done or taken under the corresponding provisions of these Guidelines.

Note: Students are also advised to refer RTP of Paper 1 Financial Reporting (for AS, Ind AS and other updates) and Paper 4 Part A -Corporate Laws (for academic updates relating to Company Law).

PART – II : QUESTIONS AND ANSWERS**QUESTIONS****PART A: MULTIPLE CHOICE QUESTIONS****Integrated Case Scenario 1.**

YS & Associates, a firm of Chartered Accountants, having CA. Y and CA. S as partners, is based at Mumbai. YS & Associates get their website developed as www.ysassociates.com from KPY Ltd. The colour of their website was very bright and attractive to run on a “push” technology. Names of the partners of the firm and the major clients were also displayed on the web-site without any disclosure obligation from any regulator.

CA. Y, accepted his appointment as tax auditor of a firm under Section 44AB, of the Income-tax Act, and commenced the tax audit within two days of appointment since the client was in a hurry to file Return of Income before the due date. After commencing the audit, CA. Y realised his mistake of accepting this tax audit without sending any communication to the previous tax auditor. In order to rectify his mistake, before signing the tax audit report, he sent a registered post to the previous auditor and obtained the postal acknowledgement.

CA. S, provides management consultancy and other services to his clients. During 2019, looking to the growing needs of his clients to invest in the stock markets, he also advised them on Portfolio Management Services whereby he managed portfolios of some of his clients. Looking at his expertise in financial management, Mr. Tarak, a student of Chartered Accountancy course, is very much impressed with his knowledge. He approached CA. S to take guidance on some topics of financial management subject related to his course. CA. S, on request, decided to spare some time and started providing classes to Mr. Tarak along with some other aspirants for 3 days in a week and for 1 hours in a day. However, he has not taken any specific permission for such private tutorship from the Council.

YS & Associates is appointed to conduct statutory audit of XYZ Ltd. XYZ Ltd is required to appoint internal auditor as per statutory provisions given in the Companies Act, 2013 and appointed CA. IA as its internal auditor. YS & Associates asked Mr. IA to provide direct assistance to him regarding evaluating significant accounting estimates by the management and assessing the risk of material misstatements. He also seeks his direct assistance in assembling the information necessary to resolve exceptions in confirmation responses with respect to external confirmation requests and evaluation of the results of external confirmation procedures.

XYZ Ltd is seeking advice of YS & Associates to appoint CA. IA for conducting GST Audit.

Question No.: (1-5)

1. YS & Associates sought direct assistance from CA. IA, internal auditor as stated in the above scenario. Advise as to whether he is permitted to do so in accordance with relevant Standards on Auditing.
 - (a) YS & Associates cannot ask CA. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements. However, CA. IA may assist YS & Associates in assembling information necessary to resolve exceptions in confirmation responses as per SA 610.
 - (b) CA. IA cannot assist YS & Associates in assembling information necessary to resolve exceptions in confirmation responses. However, YS & Associates can ask Mr. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements as per SA 610.
 - (c) YS & Associates cannot ask CA. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements and in assembling the information necessary to resolve exceptions in confirmation responses as per SA 610.
 - (d) YS & Associates can ask CA. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements and in assembling the information necessary to resolve exceptions in confirmation responses as per SA 610.
2. Whether CA S is guilty of professional misconduct in providing private tutorship to Mr. Tarak along with some other aspirants for 3 days in a week and for 1 hours in a day in the absence of specific approval.
 - (a) CA. S is not guilty of professional misconduct as he is teaching within prescribed hours i.e. not exceeding 25 hours a month as per Regulation 192A
 - (b) CA. S is not guilty of professional misconduct as he is teaching within prescribed hours i.e. not exceeding 25 hours a month as per Regulation 190A
 - (c) CA. S is guilty of professional misconduct as he has not obtained specific permission for the same.
 - (d) CA. S is not guilty of professional misconduct as he is teaching within prescribed hours i.e. not exceeding 25 hours a week as per Regulation 190A
3. Before signing the tax audit report, CA. Y sent a registered post to the previous auditor and obtained the postal acknowledgement. Will CA. Y be held guilty of professional misconduct under the Chartered Accountants Act, 1949?
 - (a) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949 CA. Y will not be held guilty of professional misconduct as he communicated with the previous tax auditor before signing the audit report.

- (b) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA. Y will not be held guilty of professional misconduct since the requirement for communicating with the previous auditor being a chartered accountant in practice would apply to statutory audit only.
 - (c) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA. Y will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.
 - (d) As per Clause (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949, CA. Y will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.
4. In view of YS & Associates, whether CA. IA is eligible to undertake Goods and Service Tax (GST) Audit of XYZ Ltd simultaneously?
- (a) CA. IA is internal auditor of XYZ Ltd and therefore, is eligible to undertake Goods and Service Tax (GST) Audit of XYZ Ltd simultaneously
 - (b) CA. IA is internal auditor of XYZ Ltd and therefore, not eligible to undertake Goods and Service Tax (GST) Audit of XYZ Ltd simultaneously
 - (c) Being Internal Auditor CA. IA is appropriate person to carry out Goods and Service Tax (GST) Audit of XYZ Ltd
 - (d) None of the above
5. Whether, website designed for www.ysassociates.com is in compliance with the guidelines given in Clause (6) of Part I of First Schedule to the Chartered Accountants Act, 1949:
- (a) Yes, website can have names of partners and major clients along with its fees.
 - (b) Yes, as the websites can be designed on a “push” technology.
 - (c) Yes, as there is no restriction on the colours used in the website.
 - (d) No, as names of the partners of the firm and the major clients were displayed without any disclosure obligation from any Regulator.

Integrated Case Scenario 2.

M/s ANS & Associates have been appointed as statutory auditors of Delco Ltd., listed company (referred to as ‘Company’) for the Financial Year 2019-20. Delco Ltd. deals in the manufacture of shoes.

During the course of the audit, the auditor found that the company has acquired two subsidiaries namely Sole Ltd. dealing in the manufacture of shoe soles and Soccer Ltd. dealing in the manufacture of kid shoes. The auditors of Sole Ltd. and Soccer Ltd. are M/s XYZ & Associates.

Delco Ltd. has prepared the consolidated financial statements under Indian Accounting Standards and consolidated the financial statements of subsidiary Sole Ltd. during the current financial year. However, the company has not consolidated the financial statements of Soccer

Ltd. which was also acquired during the current financial year as the company has not yet been able to ascertain the fair values of certain material assets and liabilities of Soccer Ltd. as on the acquisition date. This acquisition is accounted for as an investment in the books of Delco Ltd. Had the company consolidated the financial statements of both the subsidiary, there would have been material impact on important elements of the financial statements.

At the time of finalization of the Audit Report of the company for the year ended March 31, 2020, the auditors are considering their reporting responsibility for non-consolidation of the financial statements of Soccer Limited.

The auditors also asked the management to disclose their reason for non-consolidation of financial of Soccer Ltd. in the notes to accounts.

Also the financial statements of Delco Ltd. of the current financial year include the corresponding figures (without consolidation) of the previous financial year i.e. FY 2018-19.

Further, the auditors are also considering the implications on their responsibilities and the management's responsibilities with respect to the financial statements and in the audit of such financial statements.

Question No.: (6-10)

6. With respect to the non-consolidation of financial statements of Soccer Ltd. with the financial statements of Delco Ltd., how should the auditor deal with the same in their audit report?
 - (a) The auditor should give a disclaimer of opinion.
 - (b) The auditor should give an adverse opinion if the impact is material and pervasive in his audit report.
 - (c) The auditor should mention this fact in the emphasis of matter paragraph pervasive in his audit report.
 - (d) The auditor should mention this fact in other matter paragraph pervasive in his audit report.
7. What are the auditors reporting responsibility with respect to the corresponding figures of the financial year 2018-19 in the current year financial statements, for the same?
 - (a) The auditor's opinion should refer to each period for which the financial statements are presented.
 - (b) The auditors need to report on the current year financials only be it comparative or corresponding figures.
 - (c) The auditor's opinion shall not refer to the corresponding figures except if the previous period audit report is other than an unqualified opinion or the auditor has sufficient evidence that a material misstatement exist in the financial statement of prior period which was not addressed earlier.

- (d) The auditor has no reporting responsibility for the financial statements of any year other than the current financial year for which they have been appointed.
8. What is the reporting responsibility of the auditor in case, the prior period financial statements are not audited?
- (a) The auditors need to report such matter in the Key Audit Matters paragraph in his report.
- (b) The auditors need to report such matter in the other matter paragraph in his report.
- (c) The auditor will be responsible for obtaining sufficient appropriate audit evidence that opening balance so not contain any material misstatement.
- (d) Both b & c.
9. Preparation of the financial statements in accordance with the applicable financial reporting framework is the responsibility of the management of Delco Ltd. Which of the following is correct in regard to the disclosure of such management responsibility:-
- (a) This is implied responsibility of management and is presumed in an audit of financial statements and therefore need not be specifically mentioned anywhere.
- (b) The management may undertake to accept such responsibility through an engagement letter itself.
- (c) The auditor report should describe the management responsibility in a section with heading "responsibility of management for financial statements".
- (d) The auditor's report should refer to the responsibility of auditors and not that of the management as the same is obvious.
10. If the auditors of Delco Ltd. decides to give a qualified/ adverse opinion in the current financial year with respect to the non-consolidation of financials of Soccer Ltd., which of the following is true with regard to the use of EOM paragraph for some other matter:-
- (a) The auditor cannot add EOM paragraph in his report on any matter as a qualified/ adverse opinion is given by the auditor.
- (b) EOM paragraph on a matter can be added if auditors opinion is neither qualified/ nor adverse in respect to that particular matter and the matter is fundamental to the user's understanding of financial statements.
- (c) EOM paragraph on any matter can be added in the auditor's report even if the report is qualified/ adverse with respect to that particular matter.
- (d) EOM paragraph indicates that the auditor's opinion is modified in respect to the matter emphasized.

Independent MCQs

11. NIC Chartered Accountants was appointed as statutory auditors by PNG Ltd. for the audit of their financial statements. During the course of audit the auditors noticed a fraud of ₹ 101 lac committed by an officer of the Company. The officer sanctioned and made the payment to fake vendors for purchase of fixed assets, however, the assets were not entered in the Fixed Assets Register. The auditor reported the fraud in his audit report to the shareholders of the Company presented in the Annual General Meeting, but did not mention the name of the parties involved. The Board of Directors of the Company asked ICAI to take necessary action against the auditor as he did not comply with his duty to report fraud as per Section 143(12) of the Companies Act, 2013. What is the duty of the auditor as per the Companies Act, 2013 in reporting the fraud committed by officers / employees of the Company?
- (a) As per the Companies Act, 2013, since the amount of fraud is more than ₹ 100 lac; the auditor should have reported the matter within 2 days of his knowledge to the Board of Directors/ Audit committee of the Company seeking their reply or observations within 45 days. After completion of 45 days, the auditor should forward his report to the Central Government along with the reply, if any, received from Board/ Audit Committee.
 - (b) As per the Companies Act, 2013, during the course of audit if the auditor has reason to believe that a fraud has been committed by the officers or employees of the Company, the auditor shall report the matter to the Central Government immediately.
 - (c) The auditor's duty is restricted to reporting the fraud to shareholders and he is not required to report the matter to the Board of Directors/ Audit Committee/ Central Government.
 - (d) The auditor can submit his report on fraud to shareholders but is required to mention the name of the parties involved in fraud, as per Section 143(12) of the Companies Act, 2013.
12. Before concluding the audit, there was a difference of opinion between the audit committee and the auditors as to which among the following are the areas which the auditor should take into account to determine "Key Audit Matter" as per SA 701:
- (I) The effect on audit of significant transactions that took place in the FY.
 - (II) Areas of high risk as assessed and reported by management's expert.
 - (III) Significant auditor judgement relating to areas in the financials that involved significant management judgement.
- As per SA 701- Communicating Key audit matters in the Independent auditor's Report, which among the above-mentioned areas should CA & Co. take into account to determine "Key Audit Matter"?
- (a) (I) & (III)

- (b) (II) only
- (c) (I) & (II)
- (d) (I), (II) & (III)

PART B : DESCRIPTIVE QUESTIONS

Standards on Auditing, Statements and Guidance Notes

13. (a) MEA Limited is a listed company having its operation across India. MEA Limited appointed Mr. X, Mr. Y and Mr. Z, as its joint auditors for the year 2019-20. After making sure that all of them are qualified to be appointed as statutory auditor, MEA Limited issued engagement letter to all of them. But Mr. X was not clear on some points, so he requested MEA Limited to slightly change the terms of his engagement. This change will not impact the ultimate opinion on the financial statement. The engagement letter contains the details on objective and scope of audit, responsibilities of auditor and identification of framework applicable. It also contains the reference to expected form and content of report from all three joint auditors. In your opinion what was the discrepancy in the Audit engagement letter issued by MEA Limited?

- (b) ENN Limited is availing the services of APP Private Limited for its payroll operations. Payroll cost accounts for 65% of total cost for ENN Limited. APP Limited has provided the type 2 report as specified under SA 402 for its description, design and operating effectiveness of control.

APP Private Limited has also outsourced a material part of payroll operation M/s SMP & Associates in such a way that M/s SMP & Associates is sub-service organization to ENN Limited. The Type 2 report which was provided by APP Private Limited was based on carve-out method as specified under SA 402.

CA Raman while reviewing the unmodified audit report drafted by his assistant found that, a reference has been made to the work done by the service auditor. CA Raman hence asked his assistant to remove such reference and modify report accordingly.

Comment whether CA Raman is correct in removing the reference of the work done by service auditor?

The Company Audit & Audit Report

14. (a) Petro Ltd. is engaged in generation of electricity for captive consumption through Captive Generating Plant. The Company also maintains cost records in its books of account as required under Cost Records and Audit Rules. Mr. Xylo, friend of Managing Director of the Company, suggested name of his brother, who is a Cost Accountant in Practice, for the purpose of cost audit. However, the statutory auditor of the company, is of the view that the Company is not legally required to conduct cost audit. Now, the Managing Director is in dilemma about the requirement of cost audit. Being an expert in cost records and audit rules, you are required to guide in this regard.

- (b) AKB Associates, a renowned audit firm in the field of CA practice for past two decades. The firm was appointed to conduct statutory audit of Rica Ltd. an unlisted company, which is engaged in the business of paper manufacturing. It decided to commence the audit for the recently concluded financial year. Once after making significant progress in the audit, the auditors made the following observations:

Observation 1: The management had disclosed in the financials that, during the year, one of the warehouses of the Company was affected due to a major flood. As a result of the same, the Company had incurred some losses. But the management was of the view that it was not material.

Observation 2: Due to flood, few records maintained by the Company with respect to a particular transaction was completely destroyed and there was no duplicate record maintained by the Company. However, those details were not pervasive, but material.

You are required to advise, whether AKB Associates should report Observation 1 and 2 in its audit report? If so, under which heading should it be reported?

Audit Committee and Corporate Governance

15. M/s FCA & Associates, Chartered Accountants is one of the leading auditing firms in Guwahati. The firm received an assignment to examine the compliance conditions [as stated in SEBI (LODR) Regulations] of corporate governance by ABC Ltd., a listed entity with no outstanding SR equity shares. The firm had made the following observations:

Observation No. 1: Mr. Fine, one of the Director of the Company, also the Chairman of the Stakeholder Relationship Committee, was acting as the audit committee Chairman in 4 other listed companies as well & 1 private company, simultaneously.

Observation No. 2: The Nomination & Remuneration Committee consisted of 6 members, which regularly met biannually.

Observation No. 3: The Risk Management Committee consisted of 9 directors, out of which, the number of independent directors is the majority, but it was less than two thirds of the total strength.

Which among the above three observations made by the auditor of ABC Ltd. should be reported by M/s. FCA & Associates?

Audit of Banks & Insurance Company

16. (a) ABN Bank was engaged in the business of providing Portfolio Management Services to its customers, for which it took prior approval from RBI. Your firm has been appointed as the statutory auditors of the Bank's financial statements for the year 2019-20. Your senior has instructed you to verify the transactions of Portfolio Management Services (PMS). While verifying the transactions you noticed that the bank has not maintained separate record for PMS transactions from the Bank's own investments. As a statutory auditor what methodology will be adopted by you for

verification of PMS transactions?

- (b) M/s MPS & Associates, Chartered Accountants started the statutory audit of their client Contingencies Ltd., a General Insurance company, which has a paid-up capital of ₹ 16,800/- lac. During the course of the audit, it was found that the Company was not maintaining the required solvency margin as per the provisions of Insurance Act, 1938. When the issue was escalated to the management, they replied that solvency margin needs to be maintained as per limits prescribed only on last day of the financial year. Comment whether reply of management is tenable or not.

Audit under Fiscal Laws

17. (a) M/s PQRS & Associates is appointed for conducting tax audit as per Income Tax Act, 1961 of QW Ltd., a cotton textile company. The Company had incurred ₹ 6 lac towards advertisement expenditure on a brochure/ pamphlet published by a political party in Pune. Advise the auditor whether such expenditure should be included in the tax audit report or not.
- (b) Mr. Ramanuj, a Chartered Accountant by profession, has been appointed as GST auditor for ABC Ltd. The management has asked Mr. Ramanuj for GST audit and to file GSTR-3B for the months of July and August 2019 and filing of annual return in FORM GSTR-9. Mr. Ramanuj contended that he has been appointed only for GST audit and the above are his scope limitations and cannot be conducted as the compliances and returns are to be filed by the management. In context of above dispute, you have to suggest whether the contention of Mr. Ramanuj is correct or not. Justify.

Due Diligence, Investigation and Forensic Audit

18. APK Bank Ltd., received an application from a Pharmaceutical Company for takeover of their outstanding term loans secured on its assets, availed from and outstanding with a nationalised bank. APK Bank Ltd., requires you to conduct a due diligence audit in the areas of assets of Pharmaceutical Company especially with reference to valuation aspect of assets. State what may be your areas of analysis in order to ensure that the assets are not stated at overvalued amounts.

Professional Ethics

19. Comment on the following with reference to the Chartered Accountants Act, 1949 and schedules thereto:
- (a) CA. Srishti and CA. Mishti are two partners of the CA firm 'Srishti Mishti & Associates'. Being very pious, CA. Srishti organised a religious ceremony at her home for which she instructed her printing agent to add her designation "Chartered Accountant" with her name in the invitation cards. Later on, the invitations were distributed to all the relatives, close friends and clients of both the partners.

- (b) Ms. Preeto, a CA, had an account with a bank. The normal balance in this account remained at a level below ₹ 5,000. The bank inadvertently credited this account with a cheque of ₹ 2,70,000 belonging to another account holder. When CA. Preeto came to know about this she withdrew the amount of ₹ 2,75,000 and closed the bank account. After 1 year the bank noticed the mistake and claimed ₹ 2,75,000 with interest. CA. Preeto contested this claim. Can the bank approach the Institute of Chartered Accountants of India for disciplinary action against CA. Preeto?
- (c) CA. Moni is practicing since 2009 in the field of company audit. Due to her good practical knowledge, she was offered editorship of a 'Company Audit' Journal which she accepted. However, she did not take any permission from the Council regarding such editorship.
20. Write a short note on the following:
- (a) Selection of sample by the reviewer in case of peer review.
 - (b) Classification of frauds by NBFC.
 - (c) General steps in the conduct of risk based audit.
 - (d) Contents of an audit plan.

SUGGESTED ANSWERS/HINTS

PART A : ANSWERS TO MULTIPLE QUESTIONS

- 1. (a)
- 2. (d)
- 3. (c)
- 4. (b)
- 5. (d)
- 6. (b)
- 7. (c)
- 8. (d)
- 9. (c)
- 10. (b)
- 11. (a)
- 12. (a)

PART B

13. (a) **Agreement on Audit Engagement Terms** : As per SA 210, "Agreeing the Terms of Audit Engagements", the auditor shall agree the terms of the audit engagement with management or those charged with governance, as appropriate.

Subject to prescribed details under Law or Regulations, the agreed terms of the audit engagement shall be recorded in an audit engagement letter or other suitable form of written agreement and shall include:

- (i) The objective and scope of the audit of the financial statements;
- (ii) The responsibilities of the auditor;
- (iii) The responsibilities of management;
- (iv) Identification of the applicable financial reporting framework for the preparation of the financial statements; and
- (v) Reference to the expected form and content of any reports to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content.

In the given scenario, MEA Limited appointed Mr. X, Mr. Y and Mr. Z, as its joint auditors for the year 2019-20 and issued engagement letter to all of them. The engagement letter contains the details on objective and scope of audit, responsibilities of auditor, identification of framework applicable and reference to expected form and content of report from all three joint auditors. However, engagement letter issued by MEA Ltd. doesnot specify the responsibilities of management, whereas as per SA 210, it should also specify responsibilities of management.

- (b) **Reporting by the User Auditor**: As per SA 402, "Audit Considerations Relating to an Entity Using a Service Organisation", the user auditor shall modify the opinion in the user auditor's report in accordance with SA 705, "Modifications to the Opinion in the Independent Auditor's Report", if the user auditor is unable to obtain sufficient appropriate audit evidence regarding the services provided by the service organisation relevant to the audit of the user entity's financial statements.

The user auditor shall not refer to the work of a service auditor in the user auditor's report containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the user auditor's report shall indicate that the reference does not diminish the user auditor's responsibility for the audit opinion.

Thus, in view of above, contention of CA. Raman in removing reference of the work done by service auditor is in order as in case of unmodified audit report, user auditor cannot refer to the work done by service auditor.

14. (a) **Applicability of Provisions related to Cost Records and Audit:** The provisions relating to cost records and audit are governed by section 148 of the Companies Act, 2013 read with the Companies (Cost Records and Audit) Rules, 2014. The audit conducted under this section shall be in addition to the audit conducted under section 143.

Rule 3 of the Companies (Cost Records and Audit) Rules, 2014 provides the classes of companies, engaged in the production of goods or providing services, required to include cost records in their books of account.

However, the requirement for cost audit under these rules shall not be applicable to a company which is covered under Rule 3, and,

- (i) whose revenue from exports, in foreign exchange, exceeds 75 per cent of its total revenue; or
- (ii) which is operating from a special economic zone.
- (iii) which is engaged in generation of electricity for captive consumption through Captive Generating Plant.

In the given case, Petro Ltd. is engaged in generation of electricity for captive consumption through Captive Generating Plant. Therefore, Petro Ltd. is not required to conduct cost audit as it is falling under the exemption criteria. Hence, the opinion of statutory auditor of the Company regarding non-applicability of cost audit is correct.

- (b) **Observation 1 - The management had disclosed in the financials that, during the year, one of the warehouses of the Company was affected due to a major flood. As a result of the same, the Company had incurred some losses. But the management was of the view that it was not material:** As per SA 706, "Emphasis of Matter Paragraph & Other Matter Paragraph in the Independent Auditor's Report", an Emphasis of Matter Paragraph refers to matter appropriately disclosed in the financials, that in the auditor's judgement is of such importance that it is fundamental to users' understanding of the financials. Hence, in this case, the auditor shall report about the consequences of the flood which affected the Company's warehouse under Emphasis of Matter Paragraph.

Observation 2 - Due to flood, few records maintained by the Company with respect to a particular transaction was completely destroyed and there was no duplicate record maintained by the Company. However, those details were not pervasive, but material: As per SA 705, "Modification to Opinion in the Independent Auditor's Report", where the auditor is unable to obtain sufficient and appropriate audit evidence and where such matter is material but not pervasive, the auditor shall issue a qualified opinion.

Thus, in the given situation, on account of flood few records pertaining to particular transactions was completely destroyed and in the absence of duplicate records, the auditor was unable to obtain sufficient and appropriate audit evidence and those

details were material but not pervasive. Therefore, in accordance with SA 705, the auditor is required to issue qualified opinion.

15. **Observation No. 1 - Mr. Fine, one of the Director of the Company, also the Chairman of the Stakeholder Relationship Committee, was acting as the Audit committee Chairman as well in 4 other listed companies & 1 private Company, simultaneously:** As per Regulation 26 of SEBI (LODR) Regulations, a Director cannot be a Chairman in more than 5 committees across all listed entities. However, for the purpose of reckoning the limit under this Regulation, chairmanship of committees in a private company shall be excluded. In this case, since Mr. Fine is the Chairman of audit committee in ABC Ltd. and Chairman in 4 other listed companies, there is no violation of the limit specified under the Regulation 26. Accordingly, **this observation need not be reported by the auditor.**

Observation No. 2: The Nomination & Remuneration Committee consisted of 6 members, who regularly met biannually: As per Regulation 19, Part D of Schedule II of SEBI (LODR) Regulations, every listed company should have a Nomination & Remuneration Committee, which shall meet at least once in a year. **Since, in the given case the committee met biannually (i.e. once in 2 years), the said observation needs to be reported by the auditor.**

Observation No. 3: The Risk Management committee consisted of 9 directors, out of which the number of independent directors is the majority, but it was less than two thirds of the total strength: As per Regulation 21 of SEBI (LODR) Regulations, only in case of a listed entity having outstanding SR equity shares, at least two thirds of Risk Management Committee shall comprise of independent directors. In the given case, ABC Ltd. does not have outstanding SR equity shares. **Accordingly, this observation need not be reported by the auditor.**

Thus, in the given scenario, only observation 2 will be reported.

16. (a) **Separation of Investment Functions:** The auditor needs to examine whether the bank, as required by the RBI, is maintaining separate accounts for the investments made by it on their own Investment Account, PMS clients' account, and on behalf of other Constituents (including brokers). As per the RBI guidelines, banks are required to get their investments under PMS separately audited by external auditors.

Thus, in the instant case, ABN Bank is required to prepare separate records for PMS and as per RBI guidelines PMS investments need to be audited separately by the external auditors and the auditors are required to give a certificate separately for the same. So, in the above case the auditor should not verify the PMS transactions and advise the bank to segregate the PMS transactions from its own investments and provide the certificate of external auditor as described above. In case ABN Bank does not provide the same the auditor may report accordingly.

- (b) **Maintenance of Solvency Margin:** Section 64VA of the Insurance Act, 1938 as amended by Insurance Laws (Amendment) Act, 2015 requires every insurer and re-insurer to maintain an excess of the value of assets over the amount of liabilities at all times which shall not be less than 50% of the amount of minimum capital as stated under section 6 (requirement as to capital) of the Act and arrived at in the manner specified by the regulations.

If, at any time, an insurer or re-insurer does not maintain the required control level of solvency margin, he is required to submit a financial plan to the Authority indicating the plan of action to correct the deficiency. If, on consideration of the plan, the Authority finds it inadequate, the insurer has to modify the financial plan.

Sub-section (2) of section 64VA states that if an insurer or re-insurer fails to comply with the prescribed requirement of maintaining excess of value of assets over amount of liabilities, it shall be deemed to be insolvent and may be wound up by the Court on an application made by the authority.

Therefore, in the said case Contingencies Ltd has not maintained the Solvency Margin throughout the year. Accordingly, contention of Contingencies Ltd. that solvency margin is required to be maintained as per limits prescribed only on last day of the financial year is not tenable.

17. (a) **Expenses on Advertisement in the Media of a Political Party:** In the given situation, M/s PQRS & Associates is appointed for conducting tax audit as per Income Tax Act, 1961 of QW Ltd., a cotton textile company. The Company had incurred ₹ 6 lac towards advertisement expenditure on a brochure/ pamphlet published by a political party.

As per Clause 21(a) of Form 3CD, the auditor is required to furnish the details of amounts debited to the Profit and Loss Account, being in the nature of advertisement expenditure in any souvenir, brochure, tract, pamphlet or the like published by a political party in his tax audit report.

Therefore, advertisement expenditure of ₹ 6 lac on brochure/pamphlet published by a political party shall be reported in the tax audit report as per Clause 21 (a) of Form 3CD.

- (b) **Responsibility of Compliances and filing of Returns:** GST auditor's prime responsibility on this engagement is limited to GST audit, audit of reconciliation statement between books of accounts *vis-a-vis* GST returns prepared by the Company. The GST auditor is, however, not responsible for any compliances like uploading GST periodic returns for the relevant audit period.

Since, in the given situation, Management has asked the auditor Mr. Ramanuj to conduct besides GST Audit filing of GSTR-3B for the months of July and August 2019 and filing of annual return in FORM GSTR-9.

Accordingly, Mr. Ramanuj has rightly refused that his scope is limited to GST Audit and the scope does not cover any of the management functions.

In view of above, **Contention of Management to Ramanuj is not tenable** as preparation of annual returns and its filing was the responsibility of management.

18. **Over-Valued Assets** : The areas of analysis in order to ensure that the assets are not stated at overvalued amounts during conduct of Due Diligence are:

- ✍ Uncollected/uncollectable receivables.
- ✍ Obsolete, slow non-moving inventories or inventories valued above NRV; huge inventories of packing materials etc. with name of company.
- ✍ Underused or obsolete Plant and Machinery and their spares; asset values which have been impaired due to sudden fall in market value etc.
- ✍ Assets carried at much more than current market value due to capitalization of expenditure/foreign exchange fluctuation, or capitalization of expenditure mainly in the nature of revenue.
- ✍ Litigated assets and property.
- ✍ Investments carried at cost though realizable value is much lower.
- ✍ Investments carrying a very low rate of income / return.
- ✍ Infertuous project expenditure/deferred revenue expenditure etc.
- ✍ Group Company balances under reconciliation etc.
- ✍ Intangibles of no value.

19. (a) **Printing of Designation “Chartered Accountant” on Invitations for Religious Ceremony**: As per Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct if he solicits clients or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means.

However, the Council of the ICAI is of the view that the designation “Chartered Accountant” as well as the name of the firm may be used in greeting cards, invitations for marriages, religious ceremonies and any other specified matters, provided that such greeting cards or invitations etc. are sent only to clients, relatives and close friends of the members concerned.

In the given case, CA. Srishti has instructed to write designation “Chartered Accountant” on invitation cards for a religious ceremony and distributed the same to all the relatives, close friends and clients of both the partners.

In this context, it may be noted that the Council has allowed using designation “Chartered Accountant” in invitations for religious ceremony, provided these are sent to clients, relatives and close friends of the members concerned only.

Therefore, CA. Srishti would be held guilty of professional misconduct under the said clause for sending such invitations to the relatives, close friends and clients of CA. Mishti as well.

- (b) **Disrepute to the Profession:** As per Clause 2 of Part IV of First Schedule of the Chartered Accountant Act, 1949, a Chartered Accountant will be deemed to be guilty of other misconduct if he in the opinion of the Council brings disrepute to the profession or the Institute as a result of his action whether or not related to his professional work.

In the instant case, CA. Preeto, a CA, had an account with a bank from which she withdrew the amount of ₹ 2,75,000 and closed the account. This amount of ₹ 2,75,000 was pertaining to ₹ 5,000 minimum balance and ₹ 2,70,000 belonging to other account holder and inadvertently credited to his account by the bank. The said act of CA. Preeto to withdraw the money which does not belongs to her will bring disrepute to the profession. Hence under this clause the bank can file a suitable complaint under Clause 2 of Part IV of First Schedule of the Chartered Accountant Act, 1949 with the Institute of Chartered Accountants of India.

- (c) **Permission from the Council:** As per Clause (11) of Part I of First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice will be deemed to be guilty of professional misconduct if he engages in any business or occupation other than the profession of Chartered Accountant unless permitted by the Council so to engage.

However, the Council has granted general permission to the members to engage in certain specific occupation. In respect of all other occupations specific permission of the Institute is necessary.

In the instant case, CA. Moni accepted editorship of a journal for which she did not take any permission from the Council. In this context, it may be noted that the editorship of professional journals is covered under the general permission and specific permission is not required.

Therefore, CA. Moni shall not be held guilty of professional misconduct in terms of Clause (11) of Part I of First Schedule to the Chartered Accountants Act, 1949.

20. (a) Selection of Sample by the Reviewer in case of Peer Review:

- (i) The Reviewer shall within 15 days of receiving the information from the Practice Unit select a sample of the assurance services that he would like to Review and intimate the same to the Practice Unit.

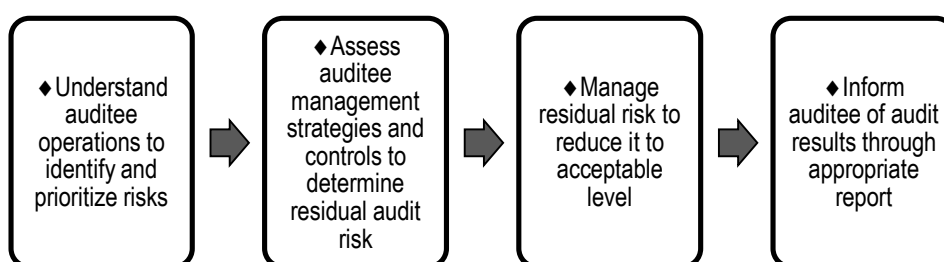
- (ii) The Reviewer may also seek further / additional clarification from the Practice Unit on the information furnished / not furnished.
 - (iii) The Reviewer shall plan for an on-site Review visit or initial meeting in consultation with the Practice Unit. The Reviewer shall give the Practice Unit at least fifteen days' time to keep ready the necessary records of the selected assurance services.
 - (iv) The Reviewer and Practice Unit shall mutually cooperate and ensure that the entire Review process is completed within 90 days from the date of notifying the Practice Unit about its selection for Review.
- (b) **Classification of Frauds by NBFC:** In order to have uniformity in reporting, frauds have been classified as under based mainly on the provisions of the Indian Penal Code:
- (i) Misappropriation and criminal breach of trust.
 - (ii) Fraudulent encashment through forged instruments, manipulation of books of account or through fictitious accounts and conversion of property.
 - (iii) Unauthorised credit facilities extended for reward or for illegal gratification.
 - (iv) Negligence and cash shortages.
 - (v) Cheating and forgery.
 - (vi) Irregularities in foreign exchange transactions.
 - (vii) Any other type of fraud not coming under the specific heads as above.
- Cases of 'negligence and cash shortages' and 'irregularities in foreign exchange transactions'** referred to in items (d) and (f) above are to be reported as fraud if the intention to cheat/ defraud is suspected/ proved. However, the following cases where fraudulent intention is not suspected/ proved, at the time of detection, will be treated as fraud and reported accordingly:
- (I) cases of cash shortages more than ₹ 10,000/- and
 - (II) cases of cash shortages more than ₹ 5000/- if detected by management/ auditor/ inspecting officer and not reported on the occurrence by the persons handling cash.
- (c) **General Steps in the Conduct of Risk Base Audit:** RBA consists of four main phases starting with the identification and prioritization of risks, to the determination of residual risk, reduction of residual risk to acceptable level and the reporting to auditee of audit results. These are achieved through the following:
- Step 1 Understand auditee operations to identify and prioritize risks:** Understanding auditee operations involves processes for reviewing and understanding the audited organization's risk management processes for its

strategies, framework of operations, operational performance and information process framework, in order to identify and prioritize the error and fraud risks that impact the audit of financial statements. The environment in which the auditee operates, the information required to monitor changes in the environment, and the process or activities integral to the audited entity's success in meeting its objectives are the key factors to an understanding of agency risks. Likewise, a performance review of the audited entity's delivery of service by comparing expectations against actual results may also aid in understanding agency operations.

Step 2 Assess auditee management strategies and controls to determine residual audit risk: Assessment of management risk strategies and controls is the determination as to how controls within the auditee are designed. The role of internal audit in promoting a sound accounting system and internal control is recognized, thus the SAI should evaluate the effectiveness of internal audit to determine the extent to which reliance can be placed upon it in the conduct of substantive tests.

Step 3 Manage residual risk to reduce it to acceptable level: Management of residual risk requires the design and execution of a risk reduction approach that is efficient and effective to bring down residual audit risk to an acceptable level. This includes the design and execution of necessary audit procedures and substantive testing to obtain evidence in support of transactions and balances. More resources should be allocated to areas of high audit risks, which were earlier known through the analytical procedures undertaken.

Step 4 Inform auditee of audit results through appropriate report: The results of audit shall be communicated by the auditor to the audited entity. The auditor must immediately communicate to the auditee reportable conditions that have been observed even before completion of the audit, such as weaknesses in the internal control system, deficiencies in the design and operation of internal controls that affect the organization's ability to record, process, summarize and report financial data.



(d) **Contents of an Audit Plan:** The auditor shall develop an audit plan that shall include a description of-

- (i) The nature, timing and extent of planned risk assessment procedures, as determined under SA 315 "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment".

- (ii) The nature, timing and extent of planned further audit procedures at the assertion level, as determined under SA 330 "The Auditor's Responses to Assessed Risks".
- (iii) Other planned audit procedures that are required to be carried out so that the engagement complies with SAs.

The audit plan is more detailed than the overall audit strategy that includes the nature, timing and extent of audit procedures to be performed by engagement team members. Planning for these audit procedures takes place over the course of the audit as the audit plan for the engagement develops. For example, planning of the auditor's risk assessment procedures occurs early in the audit process. However, planning the nature, timing and extent of specific further audit procedures depends on the outcome of those risk assessment procedures. In addition, the auditor may begin the execution of further audit procedures for some classes of transactions, account balances and disclosures before planning all remaining further audit procedures.

PAPER 4: CORPORATE AND ECONOMIC LAWS

PART I: RELEVANT AMENDMENTS APPLICABLE FOR NOVEMBER 2020 EXAMINATION

For November 2020 examinations for Paper 4: Corporate and Economic Laws, the significant amendments made in the respective subject for the period 1st May 2019 to 30th April, 2020 are relevant and applicable.

Students are advised to refer study material of August 2019 edition with these applicable amendments.

Relevant amendments: Here are given relevant amendments arranged chapter wise.

PART I: CORPORATE LAWS

SECTION A: COMPANY LAW

Companies (Amendment) Act, 2019: The Companies Act, 2013 have been continuously amended by the Government vide enforcement of various amendment Act, namely Companies (Amendment) Act, 2017, the Companies (Amendment) Ordinance, 2018, the Companies (Amendment) Ordinance Act, 2019 and the Companies (Amendment) Second Ordinance, 2019 and Companies (Amendment) Act, 2019.

On July 31, 2019, the Ministry of Corporate Affairs introduced the Companies (Amendment) Act, 2019. The Amendment considers changes brought in by the Companies (Amendment) Ordinance, 2018, the Companies (Amendment) Ordinance Act, 2019 and the Companies (Amendment) Second Ordinance, 2019 to further amend the Companies Act, 2013.

The Amendment has reinforced the 2018 Ordinance and 2019 Ordinances, and all provisions to have come into force from November 2, 2018 except some sections which have come into force on August 15, 2019.

CHAPTER 1: APPOINTMENT AND QUALIFICATION OF DIRECTORS

I. The Companies (Appointment and Qualification of Directors) Fifth Amendment Rules, 2019 notified by MCA vide notification no. G.S.R. 804(E), dated **22nd October, 2019 w.e.f. 1st day of December, 2019**. This amended rule is further to amend the Companies (Appointment and Qualification of Directors) Rules, 2014.

For Rule 6, the following rule shall be substituted, namely: –

“6. Compliances required by a person eligible and willing to be appointed as an independent director.—

(1) Every individual –

(a) who has been appointed as an independent director in a company, **on the date of commencement** of the Companies (Appointment and Qualification of Directors) Fifth Amendment Rules, 2019, shall within a period of three months from such commencement; or

- (b) who intends to get appointed as an independent director in a company **after such commencement**, shall before such appointment, apply online to the institute for inclusion of his name in the data bank for a period of one year or five years or for his life-time, and from time to time take steps as specified in sub-rule (2), till he continues to hold the office of an independent director in any company:

Provided that any individual, including an individual not having DIN, may voluntarily apply to the institute for inclusion of his name in the data bank.

- (2) Every individual whose name has been so included in the data bank shall file an application for renewal for a further period of one year or five years or for his life-time, within a period of thirty days from the date of expiry of the period upto which the name of the individual was applied for inclusion in the data bank, failing which, the name of such individual shall stand removed from the data bank of the institute:

Provided that no application for renewal shall be filed by an individual who has paid life-time fees for inclusion of his name in the data bank.

- (3) Every independent director shall submit a declaration of compliance of sub-rule (1) and sub-rule (2) to the Board, each time he submits the declaration required under sub-section (7) of section 149 of the Act.
- (4) Every individual whose name is so included in the data bank under sub-rule (1) shall pass an online proficiency self-assessment test conducted by the institute within a period of one year from the date of inclusion of his name in the data bank, failing which, his name shall stand removed from the databank of the institute.

Provided that the individual who has served for a period of not less than ten years as on the date of inclusion of his name in the databank as director or key managerial personnel in a listed public company or in an unlisted public company having a paid-up share capital of rupees ten crore or more shall not be required to pass the online proficiency self-assessment test.

Provided further that for the purpose of calculation of the period of ten years referred to in the first proviso, any period during which an individual was acting as a director or as a key managerial personnel in two or more companies at the same time shall be counted only once.

Explanation: For the purposes of this rule,-

- (a) the expression "institute" means the 'Indian Institute of Corporate Affairs at Manesar' notified under sub-section (1) of section 150 of the Companies Act, 2013 as the institute for the creation and maintenance of data bank of Independent Directors;

- (b) an individual who has obtained a score of not less than sixty percent. in aggregate in the online proficiency self-assessment test shall be deemed to have passed such test;
- (c) there shall be no limit on the number of attempts an individual may take for passing the online proficiency self-assessment test.”

II. The Companies (Appointment and Qualification of Directors) Amendment Rules, 2020

MCA vide Notification G.S.R. 145(E) dated **28th February, 2020** notified the Companies (Appointment and Qualification of Directors) Amendment Rules, 2020 further to amend the Companies (Appointment and Qualification of Directors) Rules, 2014 w.e.f. the date of their publication in the Official Gazette.

¹In the Companies (Appointment and Qualification of Directors) Rules, 2014, in rule 6:

Sl. No.	Previous Law	Amended law
1.	in sub-rule (1), in clause (a), for the words “three months”	the words “five months” shall be substituted;
2.	in sub-rule (4),- For the first Proviso- Provided that the individual who has served for a period of not less than ten years as on the date of inclusion of his name in the databank as director or key managerial personnel in a listed public company or in an unlisted public company having a paid-up share capital of rupees ten crore or more shall not be required to pass the online proficiency self-assessment test.	Following proviso shall be substituted- “Provided that an individual shall not be required to pass the online proficiency self-assessment test, when he has served as a director or key managerial personnel, for a total period of not less than ten years, as on the date of inclusion of his name in the databank, in one or more of the following, namely:- (a) listed public company; or (b) unlisted public company having a paid-up share capital of rupees ten crore or more; or (c) body corporate listed on a recognized stock exchange.”

¹ Vide notification no. G.S.R. 804(E), dated 22nd October, 2019 w.e.f. 1st day of December, 2019, Rule 6 have been amended. The amended Rule 6 is given in Point no. I., the above para. This Rule have been further amended by the Companies (Appointment and Qualification of Directors) Second Amendment Rules, 2020, w.e.f. 29-3-2020 and Companies (Appointment and Qualification of Directors) Amendment Rules, 2020, w.e.f. 8-2-2020.

3.	in sub-rule (4),- in the second proviso, for the word “companies”,	the words “ companies or bodies corporate ” shall be substituted.
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III. The Companies (Appointment and Qualification of Directors) Second Amendment Rules, 2020

Vide Notification G.S.R. 268 (E), dated 29th April, 2020, the Companies (Appointment and Qualification of Directors) Second Amendment Rules, 2020 came into enforcement from the date of their publication in the Official Gazette further to amend the Companies (Appointment and Qualification of Directors) Rules, 2014.

Sl. No.	Previous Law	Amended law
1.	In rule 6 in sub-rule (1), in clause (a), for the words “ five months ”	the words “ seven months ” shall be substituted.

CHAPTER 2: APPOINTMENT AND REMUNARATION OF MANAGERIAL PERSONNEL

The Companies (Appointment and Remuneration of Managerial Personnel) Amendment Rules, 2020

Vide Notification G.S.R. 13(E) dated **3rd January, 2020**, the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 has been amended with the above mentioned rules. It shall be applicable in respect of financial years commencing on or after 1st April, 2020.

Sl. No.	Previous Law	Amended law
1.	According to Rule 8A, a company other than a company covered under Rule 8, which has a paid up share capital of ₹ 5 crore or more shall have a whole-time company secretary.	the following shall be substituted as under:- “8A. Every private company which has a paid up share capital of ten crore rupees or more shall have a whole-time company secretary.”
2.	in rule 9, in sub-rule (1), (i) after clause (b), at the end, (ii) No clause (c) was there (iii) No Explanation earlier	in rule 9, in sub-rule (1), (i) the word “or” shall be inserted. (ii) after clause (b), the following clause (c) shall be inserted, namely:- “(c) every company having outstanding loans or borrowings from banks or public financial institutions of one hundred crore rupees or more.” (iii) following Explanation inserted, namely:-

		“Explanation:- For the purposes of this sub-rule, it is hereby clarified that the paid up share capital, turnover, or outstanding loans or borrowings as the case may be, existing on the last date of latest audited financial statement shall be taken into account.”
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CHAPTER 3: MEETING OF BOARD AND ITS POWERS

I. The Companies (Meetings of Board and its Powers) Second Amendment Rules, 2019

Vide Notification G.S.R. 857(E) dated **18th November, 2019**, the Central Government hereby makes the following rules further to amend the Companies (Meetings of Board and its Powers) Rules, 2014 to be enforced from the date of their publication in the Official Gazette.

Sl. No.	Previous Law	Amended law
1.	In rule 15, in sub-rule (3), in clause (a),- (a) in sub-clauses (i) and (ii), the words “ or rupees one hundred crore, whichever is lower ”	shall be omitted
2.	In rule 15, in sub-rule (3), in clause (a),- (a) in sub-clause (iii), for the words “ amounting to ten per cent or more of the net worth of the company or ten per cent or more of turnover of the company or rupees one hundred crore, whichever is lower ”	the words “ amounting to ten per cent or more of the turnover of the company ” shall be substituted
3.	In rule 15, in sub-rule (3), in clause (a),- (a) in sub-clause (iv), the words “ or rupees fifty crore, whichever is lower ”	shall be omitted

II. The Companies (Meetings of Board and its Powers) Amendment Rules, 2020

Vide notification G.S.R. 186(E) dated 19th March, 2020, the Central Government hereby makes the amended the Companies (Meetings of Board and its Powers) Rules, 2014 through the enforcement of the Companies (Meetings of Board and its Powers) Amendment Rules, 2020 from the date of their publication in the Official Gazette.

In the Companies (Meetings of Board and its Powers) Rules, 2014, rule 4 shall be renumbered as sub-rule (1) thereof and after sub-rule (1) as so renumbered, the following sub-rule shall be inserted, namely:-

“(2) For the period beginning from the commencement of the Companies (Meetings of Board and its Powers) Amendment Rules, 2020 and ending on the 30th June, 2020, the meetings on matters referred to in sub-rule (1) may be held through video conferencing or other audio visual means in accordance with rule 3.”

- III. Further exemptions to Government company:** Vide Notification G.S.R. 151(E) dated 2nd March, 2020, the Central Government, in the public interest, hereby makes the following further amendments in the notification of the Government of India, in the Ministry of Corporate Affairs, number G.S.R. 463(E), dated 5th June, 2015 which dealt with the exemptions to Government Companies:

Sl. No.	Previous Law	Amended law
1.	Chapter XII, first and second proviso to sub-section (1) of section 188 Shall not apply to – (a) a Government company in respect of contracts or arrangements entered into by it with any other Government Company (b) a Government company, other than a listed company, in respect of contracts or arrangements other than those referred to in clause (a), in case such company obtains approval of the Ministry or Department of the Central Government which is administratively in charge of the company, or, as the case may be, the State Government before entering into such contract or arrangement.	Chapter XII, first and second proviso to sub-section (1) of section 188, Shall not apply to – (a) a Government company in respect of contracts or arrangements entered into by it with any other Government company, or with Central Government or any State Government or any combination thereof; (b) a Government company, other than a listed company, in respect of contracts or arrangements other than those referred to in clause (a), in case such company obtains approval of the Ministry or Department of the Central Government which is administratively in charge of the company, or, as the case may be, the State Government before entering into such contract or arrangement.”

CHAPTER 4: INSPECTION, INQUIRY AND INVESTIGATION

Amendments through the Companies (Amendment) Act, 2019

Relevant Section	Earlier law	Amendment in law	Date of Enforcement
Amendment of Section 212	(a) in sub-section (8), for the words “If the	(a) the words “If any officer not below	15 th August, 2019

	<p>Director, Additional Director or Assistant Director”</p> <p>(b) in sub-section (9), for the portion beginning with the words “The Director” and ending with the word, brackets and figure “sub-section (8)”,</p> <p>(c) in sub-section (10),—</p> <p>(i) for the words “Judicial Magistrate”,</p> <p>(ii) in the proviso, for the words “Magistrate’s court”,</p> <p>(d) Earlier not there</p>	<p>the rank of Assistant Director” shall be substituted;</p> <p>(b) the words, brackets and figure “The officer authorised under sub-section (8) shall, immediately after arrest of such person under such sub-section” shall be substituted;</p> <p>(c) in sub-section (10),—</p> <p>(i) the words “Special Court or Judicial Magistrate” shall be substituted;</p> <p>(ii) “Special Court or Magistrate’s court” shall be substituted;</p> <p>(d) New sub-section inserted after sub-section 14, namely:— “(14A) Where the report under sub-section (11) or sub-section (12) states that fraud has taken place in a company and due to such fraud any director, key managerial personnel, other officer of the company or any other person or entity, has taken undue advantage or benefit, whether in the form of any asset, property or cash or in any other</p>	
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		manner, the Central Government may file an application before the Tribunal for appropriate orders with regard to disgorgement of such asset, property or cash and also for holding such director, key managerial personnel, other officer or any other person liable personally without any limitation of liability.”	
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CHAPTER 5: COMPROMISES, ARRANGEMENTS AND AMALGAMATIONS

I. Clarification under Section 232(6) of the Companies Act, 2013

A clarification has been issued by the MCA on **21st August, 2019** regarding section 232(6). According to the clarification,

- (a) The provision of section 232(6) of the Act enables the companies in question to choose and state in the scheme an 'appointed date'. This date may be a specific calendar date or may be tied to the occurrence of an event such as grant of license by a competent authority or fulfilment of any preconditions agreed upon by the parties, or meeting any other requirement as agreed upon between the parties, etc., which are relevant to the scheme.
- (b) The 'appointed date' identified under the scheme shall also be deemed to be the 'acquisition date' and date of transfer of control for the purpose of conforming to accounting standards (including Ind-AS 103 Business Combinations).
- (c) Where the 'appointed date' is chosen as a specific calendar date, it may precede the date of filing of the application for scheme of merger/amalgamation in NCLT. However, if the 'appointed date' is significantly ante-dated beyond a year from the date of filing, the justification for the same would have to be specifically brought out in the scheme and it should not be against public interest.
- (d) The scheme may identify the 'appointed date' based on the occurrence of a trigger event which is key to the proposed scheme and agreed upon by the parties to the scheme. This event would have to be indicated in the scheme itself upon occurrence of which the scheme would become effective. However, in case of such event based date being a date subsequent to the date of filing the order with the Registrar under section 232(5), the company shall file an intimation of the same with the Registrar within 30 days of such scheme coming into force.

- II. **Enforcement of section 230(11) and 230(12):** Government of India through Ministry of Corporate Affairs vide notification dated 3rd February, 2020, appoints **3rd day of February, 2020** as the date on which the provisions of sub-sections (11) and (12) of section 230 of the said Act shall come into force.

CHAPTER 6: PREVENTION OF OPPRESSION AND MISMANAGEMENT

1. Amendments through the Companies (Amendment) Act, 2019

Relevant Section	Earlier Law	Amendment	Date of Enforcement
Amendment of Section 241	<p>(a) No proviso was there to sub-section (2)</p> <p>(b) Not there earlier</p>	<p>(a) in sub-section (2), the following proviso is inserted, namely:— “Provided that the applications under this sub-section, in respect of such company or class of companies, as may be prescribed, shall be made before the Principal Bench of the Tribunal which shall be dealt with by such Bench.”</p> <p>(b) New insertion of sub-sections (3),(4) & (5) after sub-section (2), namely:— “(3) Where in the opinion of the Central Government there exist circumstances suggesting that— (a) any person concerned in the conduct and management of the affairs of a company is or has been in connection therewith guilty of fraud, misfeasance, persistent negligence or default in carrying out his obligations and functions under the law or of breach of trust; (b) the business of a company is not or has not been conducted and managed by such person in</p>	15th August, 2019

		<p>accordance with sound business principles or prudent commercial practices;</p> <p>(c) a company is or has been conducted and managed by such person in a manner which is likely to cause, or has caused, serious injury or damage to the interest of the trade, industry or business to which such company pertains; or</p> <p>(d) the business of a company is or has been conducted and managed by such person with intent to defraud its creditors, members or any other person or otherwise for a fraudulent or unlawful purpose or in a manner prejudicial to public interest,</p> <p>the Central Government may initiate a case against such person and refer the same to the Tribunal with a request that the Tribunal may inquire into the case and record a decision as to whether or not such person is a fit and proper person to hold the office of director or any other office connected with the conduct and management of any company.</p> <p>(4) The person against whom a case is referred to the Tribunal under sub-section (3), shall be joined as a respondent to the application.</p>	
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		<p>(5) Every application under sub-section (3)—</p> <p>(a) shall contain a concise statement of such circumstances and materials as the Central Government may consider necessary for the purposes of the inquiry; and</p> <p>(b) shall be signed and verified in the manner laid down in the Code of Civil Procedure, 1908, for the signature and verification of a plaint in a suit by the Central Government.”</p>	
Amendment of Section 242	Not there earlier	<p>New insertion sub-section 4A After sub-section (4), , namely:—</p> <p>“(4A) At the conclusion of the hearing of the case in respect of sub-section (3) of section 241, the Tribunal shall record its decision stating therein specifically as to whether or not the respondent is a fit and proper person to hold the office of director or any other office connected with the conduct and management of any company.”.</p>	15th August, 2019
Amendment of Section 243	(a) Earlier not there	<p>(a) new insertion of sub-section 1A & 1B after sub-section (1), the following sub-sections shall be inserted, namely:—</p> <p>“(1A) The person who is not a fit and proper person pursuant to sub-section (4A) of section 242 shall not hold the office of a director or any other office connected with the conduct and management of the affairs of any company for a period of five years from the date of the said decision: Provided that the Central Government may, with the</p>	15th August, 2019

		<p>leave of the Tribunal, permit such person to hold any such office before the expiry of the said period of five years.</p> <p>(1B) Notwithstanding anything contained in any other provision of this Act, or any other law for the time being in force, or any contract, memorandum or articles, on the removal of a person from the office of a director or any other office connected with the conduct and management of the affairs of the company, that person shall not be entitled to, or be paid, any compensation for the loss or termination of office.”;</p>	
	<p>(b) in sub-section (2), after the word, brackets and figure “sub-section (1)”,</p>	<p>(b) the words, brackets, figure and letter “or sub-section (1A)” shall be inserted.</p>	

2. Enforcement of the National Company Law Tribunal (Second Amendment) Rules, 2019 vide Notification G.S.R. 351(E) dated 8th May, 2019

The Central Government makes *the* National Company Law Tribunal (Second Amendment) Rules, 2019 to amend the National Company Law Tribunal Rules, 2016.

In National Company Law Tribunal Rules, 2016, in **rule 84** which dealt with “Right to apply under section 245”, after **sub-rule (2)**, the following sub-rules (3) & (4) shall be inserted, namely: –

“(3) In case of a company having a share capital, the requisite number of member or members to file an application under sub-section (1) of section 245 shall be -

- (i) (a) at least five per cent. of the total number of members of the company; or
 - (b) one hundred members of the company,
- whichever is less; or

- (ii) (a) member or members holding not less than five per cent. of the issued share capital of the company, in case of an unlisted company;
- (b) member or members holding not less than two per cent. of the issued share capital of the company, in case of a listed company.
- (4) The requisite number of depositor or depositors to file an application under sub-section (1) of section 245 shall be -
 - (i) (a) at least five per cent. of the total number of depositors of the company; or
 - (b) one hundred depositors of the company,
 - whichever is less; or
 - (ii) depositor or depositors to whom the company owes five per cent. of total deposits of the company."

CHAPTER 7: WINDING UP

Amendments through the Companies (Amendment) Act, 2019

Relevant sections	Earlier Law	Amendment	Date of Enforcement
Amendment of Section 272	In sub-section (3), for the words, brackets and letter "or clause (e) of that sub-section",	the words "of that section" shall be substituted.	15 th August, 2019

CHAPTER 10: MISCELLANEOUS PROVISIONS

- I. **Amendment in Section 406:** Section 406 has been substituted by the Companies (Amendment) Act, 2017, with effect from **15th August, 2019**.

Section 406: (1) In this section, "Nidhi" or "Mutual Benefit Society" means a company which the Central Government may, by notification in the Official Gazette, declare to be a Nidhi or Mutual Benefit Society, as the case may be.

- (2) The Central Government may, by notification in the Official Gazette, direct that any of the provisions of this Act specified in the notification—
 - (a) shall not apply to any Nidhi or Mutual Benefit Society; or
 - (b) shall apply to any Nidhi or Mutual Benefit Society with such exceptions, modifications and adaptations as may be specified in the notification.
- (3) A copy of every notification proposed to be issued under sub-section (2), shall be laid in draft before each House of Parliament, while it is in session, for a total period of thirty days, and if, both Houses agree in disapproving the issue of notification or both Houses agree in making any modification in the notification, the notification shall not

be issued or, as the case may be, shall be issued only in such modified form as may be agreed upon by both the Houses.

- (4) In reckoning any such period of thirty days as is referred to in sub-section (3), no account shall be taken of any period during which the House referred to in sub-section (3) is prorogued or adjourned for more than four consecutive days.
- (5) The copies of every notification issued under this section shall, as soon as may be after it has been issued, be laid before each House of Parliament.

II. Enforcement of the *Nidhi (Amendment) Rules, 2019* via G.S.R. 467(E) dated 15th August, 2019

The Central Government makes the Nidhi (Amendment) Rules, 2019 to amend Nidhi Rules, 2014. In the Nidhi rules, 2014 (hereinafter referred to as "said rules"):

Sl. No.	Nidhi rules, 2014	Amendment vide Nidhi (Amendment) Rules, 2019
1.	In rule 2, after clause (c)	Insertion of clause (d), namely:- “(d) every company declared as Nidhi or Mutual Benefit Society under sub-section (1) of section 406 of the Act”.
2.	In rule 3, after clause (d)	Following clause (da) is inserted:- ‘(da) “Nidhi” means a company which has been incorporated as a Nidhi with the object of cultivating the habit of thrift and savings amongst its members, receiving deposits from, and lending to, its members only, for their mutual benefit, and which complies with the rules made by the Central Government for regulation of such class of companies.’
3.	After rule 3	New rule 3A is inserted:- “3A. Declaration of Nidhis.— The Central Government, on receipt of application (in Form NDH-4 along with fee thereon) of a public company for declaring it as Nidhi and on being satisfied that the company meets the requirements under these rules, shall notify the company as a Nidhi in the Official Gazette: Provided that a Nidhi incorporated under the Act on or after the commencement of the Nidhi (Amendment) Rules, 2019 shall file Form NDH-4 within sixty days from the date of expiry of:- (a) one year from the date of its incorporation; or

		<p>(b) the period up to which extension of time has been granted by the Regional Director under sub-rule (3) of rule 5:</p> <p>Provided further that nothing in the first proviso shall prevent a Nidhi from filing Form NDH-4 before the period referred therein:</p> <p>Provided also that that in case a company does not comply with the requirements of this rule, it shall not be allowed to file Form No. SH-7 (Notice to Registrar of any alteration of share capital) and Form PAS-3 (Return of Allotment)."</p>
4.	In rule 4	<p>(i) in sub-rule (1), the words, "to be incorporated under the Act" shall be omitted;</p> <p>(ii) in sub-rule (5), the words "Company incorporated as a" shall be omitted.</p>
5.	<p>In rule 5</p> <p>(i) in sub-rule (1), for the words "from the commencement of these rules",</p> <p>(ii) in sub-rule (3), before the Explanation,</p> <p>(iii) in sub-rule (4), after the words, brackets and figure "contained in sub-rule (1)",</p>	<p>(i) the words "from the date of its incorporation" shall be substituted;</p> <p>(ii) the following proviso shall be inserted, namely:- "Provided that the Regional Director may extend the period upto one year from the date of receipt of application."</p> <p>(iii) the words, brackets and figures "and gets itself declared under sub-section (1) of section 406" shall be inserted.</p>
6.	In rule 7, in sub-rule (1), after the words "shall issue"	the words "fully paid up" shall be inserted.
7.	<p>In rule 12</p> <p>(i) in sub-rule (1) after clause (b)</p>	(i) the following clause (ba) shall be inserted namely:-

	(ii) in sub-rule (2), in clause (a), for the words "Registrar of Companies" ,	<p>"(ba) The date of declaration or notification as Nidhi";</p> <p>(ii) the words "Bench of the National Company Law Tribunal" shall be substituted.</p>
8.	<p>In the said rules, in rule 23, in sub-rule (2),-</p> <p>(i) for the words "concerned Regional Director",</p> <p>(ii) for the words "such Regional Director",</p> <p>(iii) in the proviso, for the words "Regional Director",</p>	<p>(i) the words, "Central Government" shall be substituted;</p> <p>(ii) the words, "Central Government" shall be substituted;</p> <p>(iii) the words, "Central Government" shall be substituted.</p>
9.	After rule 23	<p>following rules 23A & 23B shall be inserted, namely:-</p> <p>23A. Compliance with rule 3A by certain Nidhis:- Every company referred to in clause (b) of rule 2 and every Nidhi incorporated under the Act, before the commencement of Nidhi (Amendment) Rules, 2019, shall also get itself declared as such in accordance with rule 3A within a period of one year from the date of its incorporation or within a period of six months from the date of commencement of Nidhi (Amendment) Rules, 2019, whichever is later.</p> <p>Provided that in case a company does not comply with the requirements of this rule, it shall not be allowed to file Form No. SH-7 (Notice to Registrar of any alteration of share capital) and Form PAS-3 (Return of Allotment).</p> <p>23B. Companies declared as Nidhis under previous company law to file Form NDH-4:- Every company referred in clause (a) of rule 2 shall file Form NDH-4 along with fees as per the Companies</p>

		<p>(Registration Offices and Fees) Rules, 2014 for updating its status.</p> <p>Provided that no fees shall be charged under this rule for filing Form NDH-4, in case it is filed within six month of the commencement of Nidhi (Amendment) Rules, 2019.</p> <p>Provided further that, in case a company does not comply with the requirements of this rule, it shall not be allowed to file Form No. SH-7 (Notice to Registrar of any alteration of share capital) and Form PAS-3 (Return of Allotment).</p>
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III. The Nidhi (Second Amendment) Rules, 2020

Vide Notification G.S.R. 114(E) dated 14th February, 2020, to further amend the Nidhi Rules, 2014, the Nidhi (Second Amendment) Rules, 2020 have come into force on the date of their publication in the Official Gazette.

Sl. No.	Nidhi rules, 2014	Amendment vide Nidhi (Amendment) Rules, 2019
1.	in rule 23A, for the words “six months”	the words “nine months” shall be substituted

IV. Ministry of Corporate Affairs issued Corrigendum vide notification G.S.R. 150 (E) dated 2nd March, 2020

W.r.t. to the notification ²G.S.R. 114(E) of the Government of India, dated the 14th February, 2020, in line 9, for “rule 23A” read “rule 23A and first proviso to rule 23B”.

SECTION B: SECURITIES LAWS

1. Amendments through Finance Act, 2018 w.e.f. 8.3.2019

- In the Securities and Exchange Board of India Act, 1992 (hereafter in this Part referred to as the principal Act), in section 11 which deals with the Functions of Board,—

- after sub-section (4), the following sub-section shall be inserted, namely:—

“(4A) Without prejudice to the provisions contained in sub-sections (1), (2), (2A), (3) and (4), section 11B and section 15-I, the Board may, by an order, for reasons to be recorded in writing, levy penalty under sections 15A, 15B, 15C, 15D, 15E, 15EA, 15EB, 15F, 15G, 15H, 15HA and 15HB after holding an inquiry in the prescribed manner.”;

² Given above in Point no. III

- (ii) **in sub-section (5)**, after the words and figures “the Depositories Act, 1996”, the words, figures, letters and brackets shall be inserted, namely:—

“or under a settlement made under section 15JB or section 23JA of the Securities Contracts (Regulation) Act, 1956 or section 19-IA of the Depositories Act, 1996.”.
- 2. In **section 11B**, of the principal Act,—
 - (a) in the marginal heading, after the word “directions”, the words “and levy penalty” shall be inserted;
 - (b) section 11B shall be numbered as sub-section (1) thereof and after subsection (1) as so renumbered, the following sub-section shall be inserted, namely:—

“(2) Without prejudice to the provisions contained in sub-section (1), sub-section (4A) of section 11 and section 15-I, the Board may, by an order, for reasons to be recorded in writing, levy penalty under sections 15A, 15B, 15C, 15D, 15E, 15EA, 15EB, 15F, 15G, 15H, 15HA and 15HB after holding an inquiry in the prescribed manner.”.
- 3. In the principal Act, in **section 15A** which deals with the Penalty for failure to furnish information, return, etc.,—
 - (i) **in clause (a)**, after the words “fails to furnish the same”, the words “or who furnishes or files false, incorrect or incomplete information, return, report, books or other documents” shall be inserted;
 - (ii) **in clause (b)**, after the words “furnish the same within the time specified therefor in the regulations”, the words “or who furnishes or files false, incorrect or incomplete information, return, report, books or other documents” shall be inserted.
- 4. In the principal Act, after section 15E, the following sections shall be inserted, namely:—

“15EA. Where any person fails to comply with the regulations made by the Board in respect of alternative investment funds, infrastructure investment trusts and real estate investment trusts or fails to comply with the directions issued by the Board, such person shall be liable to penalty which shall not be less than one lakh rupees but which may extend to one lakh rupees for each day during which such failure continues subject to a maximum of one crore rupees or three times the amount of gains made out of such failure, whichever is higher.

15EB. Where an investment adviser or a research analyst fails to comply with the regulations made by the Board or directions issued by the Board, such investment adviser or research analyst shall be liable to penalty which shall not be less than one lakh rupees but which may extend to one lakh rupees for each day during which such failure continues subject to a maximum of one crore rupees.”.

5. In the principal Act, in **section 15F** which deals with the Penalty for default in case of stock brokers, in **clause (b)**, for the words “he sponsors or carries on any such collective investment scheme including mutual funds”, the words “such failure continues” shall be substituted.
6. In the principal Act, in **section 15-I** which deals with the Power to adjudicate, in sub-section (1),—
 - (i) after the figures and letter “15E,”, the figures and letters “15EA, 15EB,” shall be inserted;
 - (ii) for the word “shall” the word “may” shall be substituted.
7. In the principal Act, in **section 15J**,—
 - (a) for the marginal heading, the following marginal heading shall be substituted, namely:— “Factors to be taken into account while adjudging quantum of penalty.”;
 - (b) after the words, figures and letter “section 15-I, the adjudicating officer”, the figures, letters and words “15-I or section 11 or section 11B, the Board or the adjudicating officer” shall be substituted;
 - (c) in the Explanation, the words “of an adjudicating officer” shall be omitted.
8. In the principal Act, in **section 15JB** which deals with the Settlement of administrative and civil proceedings, after sub-section (4), the following sub-section shall be inserted, namely:—

“(5) All settlement amounts, excluding the disgorgement amount and legal costs, realised under this Act shall be credited to the Consolidated Fund of India.”.
9. In the principal Act, in **section 24** which states about the Offences,—
 - (i) after the words “adjudicating officer” at both the places where they occur, the words “or the Board” shall be inserted;
 - (ii) in sub-section (2), the words “of his” shall be omitted.
10. In the principal Act, in **section 27** which deals with the Contravention by companies,—
 - (i) for the marginal heading, the following marginal heading shall be substituted, namely:— “Contravention by companies.”;
 - (ii) in sub-section (1), for the words “an offence under this Act,”, the words “a contravention of any of the provisions of this Act or any rule, regulation, direction or order made thereunder” shall be substituted;
 - (iii) for the word “offence”, wherever it occurs, the word “contravention” shall be substituted. 189. In the principal Act, in section 28A, in sub-section (1), for the words “by the adjudicating officer”, the words “under this Act” shall be substituted.

11. In the principal Act, after **section 28A** which deals with recovery of money, the following section shall be inserted, namely:—

‘28B. (1) Where a person dies, his legal representative shall be liable to pay any sum which the deceased would have been liable to pay, if he had not died, in the like manner and to the same extent as the deceased. Provided that, in case of any penalty payable under this Act, a legal representative shall be liable only in case the penalty has been imposed before the death of the deceased person.

(2) For the purposes of sub-section (1),—

- (a) any proceeding for disgorgement, refund or an action for recovery before the Recovery Officer under this Act, except a proceeding for levy of penalty, initiated against the deceased before his death, shall be deemed to have been initiated against the legal representative, and may be continued against the legal representative from the stage at which it stood on the date of the death of the deceased and all the provisions of this Act shall apply accordingly;
- (b) any proceeding for disgorgement, refund or an action for recovery before the Recovery Officer under this Act, except a proceeding for levy of penalty, which could have been initiated against the deceased if he had survived, may be initiated against the legal representative and all the provisions of this Act shall apply accordingly.
- (3) Every legal representative shall be personally liable for any sum payable by him in his capacity as legal representative if, while his liability for such sum remains undischarged, he creates a charge on or disposes of or parts with any assets of the estate of the deceased, which are in, or may come into, his possession, but such liability shall be limited to the value of the asset so charged, disposed of or parted with.
- (4) The liability of a legal representative under this section shall be limited to the extent to which the estate of the deceased is capable of meeting the liability.

Explanation.—For the purposes of this section “legal representative” means a person who in law represents the estate of a deceased person, and includes any person who intermeddles with the estate of the deceased and where a party sues or is sued in a representative character, the person on whom the estate devolves on the death of the party so suing or sued.’.

2. Inserted by Finance (No. 2) Act, 2019, w.e.f. 20-1-2020.

- (i) In section **15C of the principal Act**, which deals with the Penalty for failure to redress investors’ grievances after the words “after having been called upon by the Board in writing”, the words “including by any means of electronic communication” shall be inserted.

- (ii) In **section 15F** of the principal Act, which deals with the Penalty for default in case of stock brokers in sub-clause (a), after the words "one lakh rupees but which may extend to", the words "one crore rupees" shall be inserted.
- (iii) After **section 15HA** of the principal Act, the following section shall be inserted, namely:—

‘15HAA. Penalty for alteration destruction, etc., of records and failure to protect the electronic database of Board

Any person, who—

- (a) knowingly alters, destroys, mutilates, conceals, falsifies, or makes a false entry in any information, record, document (including electronic records), which is required under this Act or any rules or regulations made thereunder, so as to impede, obstruct, or influence the investigation, inquiry, audit, inspection or proper administration of any matter within the jurisdiction of the Board.

Explanation.—For the purposes of this clause, a person shall be deemed to have altered, concealed or destroyed such information, record or document, in case he knowingly fails to immediately report the matter to the Board or fails to preserve the same till such information continues to be relevant to any investigation, inquiry, audit, inspection or proceeding, which may be initiated by the Board and conclusion thereof;

- (b) without being authorised to do so, access or tries to access, or denies of access or modifies access parameters, to the regulatory data in the database;
- (c) without being authorised to do so, downloads, extracts, copies, or reproduces in any form the regulatory data maintained in the system database;
- (d) knowingly introduces any computer virus or other computer contaminant into the system database and brings out a trading halt;
- (e) without authorisation disrupts the functioning of system database;
- (f) knowingly damages, destroys, deletes, alters, diminishes in value or utility, or affects by any means, the regulatory data in the system database; or
- (g) knowingly provides any assistance to or causes any other person to do any of the acts specified in clauses (a) to (f), shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to ten crore rupees or three times the amount of profits made out of such act, whichever is higher.

Explanation.—In this section, the expressions "computer contaminant", "computer virus" and "damage" shall have the meanings respectively assigned to them under section 43 of the Information Technology Act, 2000.

PART II: ECONOMIC LAWS**CHAPTER 1: THE FOREIGN EXCHANGE MANAGEMENT ACT, 1999****I. Amendment in Section 6 of the Foreign Exchange Management Act, 1999 vide Finance Act, 2015 w.e.f. 15.10.2019.****Amended section with the changes marked in bold:**

- (1) Subject to the provisions of sub-section (2), any person may sell or draw foreign exchange to or from an authorised person for a capital account transaction.
- (2) The Reserve Bank may, in consultation with the Central Government, specify—
 - (a) **any class or classes of capital account transactions, involving debt instruments, which are permissible;**
 - (b) **the limit up to which foreign exchange shall be admissible for such transactions;**
 - (c) **any conditions which may be placed on such transactions:**

Provided that the Reserve Bank or the Central Government shall not impose any restrictions on the drawal of foreign exchange for payment due on account of amortisation of loans or for depreciation of direct investments in the ordinary course of business.

- (2A) **The Central Government may, in consultation with the Reserve Bank, prescribe—**
 - (a) **any class or classes of capital account transactions, not involving debt instruments, which are permissible;**
 - (b) **the limit up to which foreign exchange shall be admissible for such transactions; and**
 - (c) **any conditions which may be placed on such transactions.**
- (3) **[***]**
- (4) A person resident in India may hold, own, transfer or invest in foreign currency, foreign security or any immovable property situated outside India if such currency, security or property was acquired, held or owned by such person when he was resident outside India or inherited from a person who was resident outside India.
- (5) A person resident outside India may hold, own, transfer or invest in Indian currency, security or any immovable property situated in India if such currency, security or property was acquired, held or owned by such person when he was resident in India or inherited from a person who was resident in India.
- (6) Without prejudice to the provisions of this section, the Reserve Bank may, by regulation, prohibit, restrict, or regulate establishment in India of a branch, office or

other place of business by a person resident outside India, for carrying on any activity relating to such branch, office or other place of business.

- (7) For the purposes of this section, the term "debt instruments" shall mean, such instruments as may be determined by the Central Government in consultation with the Reserve Bank.

II. Amendments in External Commercial Borrowings

Vide FED Master Direction No.5/2018-19, amendments have been made in the Transactions on account of External Commercial Borrowings (ECB). Here is the updated master direction –external commercial borrowings.

Within the contours of the Regulations, Reserve Bank of India also issues directions to Authorised Persons under Section 11 of the Foreign Exchange Management Act (FEMA), 1999. These directions lay down the modalities as to how the foreign exchange business has to be conducted by the Authorised Persons with their customers/constituents with a view to implementing the regulations framed.

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Introduction: External Commercial Borrowings are commercial loans raised by eligible resident entities from recognised non-resident entities and should conform to parameters such as minimum maturity, permitted and non-permitted end-uses, maximum all-in-cost ceiling, etc. The parameters given below apply in totality and not on a standalone basis.

2.1. ECB Framework: The framework for raising loans through ECB (hereinafter referred to as the ECB Framework) comprises the following two options:

Sr. No.	Parameters	FCY denominated ECB	INR denominated ECB
i	Currency of borrowing	Any freely convertible Foreign Currency	Indian Rupee (INR)
ii	Forms of ECB	Loans including bank loans; floating/ fixed rate notes/ bonds/ debentures (other than fully and compulsorily convertible instruments); Trade credits beyond 3 years; FCCBs; FCEBs and Financial Lease.	Loans including bank loans; floating/ fixed rate notes/bonds/ debentures/ preference shares (other than fully and compulsorily convertible instruments); Trade credits beyond 3 years; and Financial Lease. Also, plain vanilla Rupee denominated bonds issued overseas, which can be either placed privately or listed

			on exchanges as per host country regulations.
iii	Eligible borrowers	All entities eligible to receive FDI. Further, the following entities are also eligible to raise ECB: i. Port Trusts; ii. Units in SEZ; iii. SIDBI; and iv. EXIM Bank of India.	(a) All entities eligible to raise FCY ECB; and (b) Registered entities engaged in micro-finance activities, viz., registered Not for Profit companies, registered societies/trusts/cooperatives and Non-Government Organisations.
iv	Recognised lenders	The lender should be resident of FATF or IOSCO compliant country, including on transfer of ECB. However, (a) Multilateral and Regional Financial Institutions where India is a member country will also be considered as recognised lenders; (b) Individuals as lenders can only be permitted if they are foreign equity holders or for subscription to bonds/debentures listed abroad; and (c) Foreign branches / subsidiaries of Indian banks are permitted as recognised lenders only for FCY ECB (except FCCBs and FCEBs).	
		Foreign branches / subsidiaries of Indian banks, subject to applicable prudential norms, can participate as arrangers/underwriters/market-makers/traders for Rupee denominated Bonds issued overseas. However, underwriting by foreign branches/subsidiaries of Indian banks for issuances by Indian banks will not be allowed.	
V	Minimum Average Maturity Period (MAMP)	MAMP for ECB will be 3 years. Call and put options, if any, shall not be exercisable prior to completion of minimum average maturity. However, for the specific categories mentioned below, the MAMP will be as prescribed therein:	

		Sr. No.	Category	MAMP
		(a)	ECB raised by manufacturing companies up to USD 50 million or its equivalent per financial year.	1 year
		(b)	ECB raised from foreign equity holder for working capital purposes, general corporate purposes or for repayment of Rupee loans	5 years
		³ (c)	ECB raised for (i) working capital purposes or general corporate purposes (ii) on-lending by NBFCs for working capital purposes or general corporate purposes	10 years
		(d)	ECB raised for (i) repayment of Rupee loans availed domestically for capital expenditure (ii) on-lending by NBFCs for the same purpose	7 years
		(e)	ECB raised for (i) repayment of Rupee loans availed domestically for purposes other than capital expenditure (ii) on-lending by NBFCs for the same purpose	10 years
		for the categories mentioned at (b) to (e) – (i) ECB cannot be raised from foreign branches / subsidiaries of Indian banks (ii) the prescribed MAMP will have to be strictly complied with under all circumstances.		
vi	All-in-cost ceiling per annum	Benchmark rate plus 450 bps spread.		

³ Inserted vide [A.P.\(DIR Series\) Circular No. 04 dated July 30, 2019](#).

vii	Other costs	Prepayment charge/ Penal interest, if any, for default or breach of covenants, should not be more than 2 per cent over and above the contracted rate of interest on the outstanding principal amount and will be outside the all-in-cost ceiling.	
Viii	End-uses (Negative list)	<p>The negative list, for which the ECB proceeds cannot be utilised, would include the following:</p> <ul style="list-style-type: none"> (a) Real estate activities. (b) Investment in capital market. (c) Equity investment. (d) ⁴Working capital purposes, except in case of ECB mentioned at v(b) and v(c) above. (e) General corporate purposes, except in case of ECB mentioned at v(b) and v(c) above. (f) Repayment of Rupee loans, except in case of ECB mentioned at v(d) and v(e) above. (g) On-lending to entities for the above activities, except in case of ECB raised by NBFCs as given at v(c), v(d) and v(e) above. 	
ix	Exchange rate	Change of currency of FCY ECB into INR ECB can be at the exchange rate prevailing on the date of the agreement for such change between the parties concerned or at an exchange rate, which is less than the rate prevailing on the date of the agreement, if consented to by the ECB lender.	For conversion to Rupee, the exchange rate shall be the rate prevailing on the date of settlement.
x	Hedging provision	The entities raising ECB are required to follow the guidelines for hedging issued, if any, by the	Overseas investors are eligible to hedge their exposure in Rupee through permitted

⁴Substituted vide [A.P.\(DIR Series\) Circular No. 04 dated July 30, 2019](#). Prior to substitution it read as below:

- (a) Working capital purposes except from foreign equity holder.
- (b) General corporate purposes except from foreign equity holder.
- (c) Repayment of Rupee loans except from foreign equity holder.
- (d) On-lending to entities for the above activities.

		<p>concerned sectoral or prudential regulator in respect of foreign currency exposure.</p> <p>Infrastructure space companies shall have a Board approved risk management policy. Further, such companies are required to mandatorily hedge 70 per cent of their ECB exposure in case the average maturity of the ECB is less than 5 years. The designated AD Category-I bank shall verify that 70 per cent hedging requirement is complied with during the currency of the ECB and report the position to RBI through Form ECB 2. The following operational aspects with respect to hedging should be ensured:</p> <p>a. Coverage: The ECB borrower will be required to cover the principal as well as the coupon through financial hedges. The financial hedge for all exposures on account of ECB should start from the time of each such exposure (i.e. the day the liability is created in the books of the borrower).</p> <p>b. Tenor and rollover: A minimum tenor of one year for the financial hedge would be required with periodic rollover, duly ensuring that</p>	<p>derivative products with AD Category I banks in India. The investors can also access the domestic market through branches / subsidiaries of Indian banks abroad or branches of foreign banks with Indian presence on a back to back basis.</p>
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		the exposure on account of ECB is not unhedged at any point during the currency of the ECB. c. Natural Hedge: Natural hedge, in lieu of financial hedge, will be considered only to the extent of offsetting projected cash flows / revenues in matching currency, net of all other projected outflows. For this purpose, an ECB may be considered naturally hedged if the offsetting exposure has the maturity/cash flow within the same accounting any other arrangements/structures, where revenues are indexed to foreign currency will not be considered as a natural hedge.	
xi	Change of currency of borrowing	Change of currency of ECB from one freely convertible foreign currency to any other freely convertible foreign currency as well as to INR is freely permitted.	Change of currency from INR to any freely convertible foreign currency is not permitted.

Note: The ECB framework is not applicable in respect of investments in Non-Convertible Debentures in India made by Registered Foreign Portfolio Investors.

⁵Lending and borrowing under the ECB framework by Indian banks and their branches/subsidiaries outside India will be subject to prudential guidelines issued by the Department of Banking Regulation of the Reserve Bank. Further, other entities raising ECB are required to follow the guidelines issued, if any, by the concerned sectoral or prudential regulator.

2.2. Limit and leverage: Under the aforesaid framework, all eligible borrowers can raise ECB up to USD 750 million or equivalent per financial year under the automatic route.

⁵ Inserted vide [A.P. \(DIR Series\) Circular No. 17 dated January 16, 2019](#).

Further, in case of FCY denominated ECB raised from direct foreign equity holder, ECB liability-equity ratio for ECB raised under the automatic route cannot exceed 7:1. However, this ratio will not be applicable if the outstanding amount of all ECB, including the proposed one, is up to USD 5 million or its equivalent. Further, the borrowing entities will also be governed by the guidelines on debt equity ratio, issued, if any, by the sectoral or prudential regulator concerned.

3. Issuance of Guarantee, etc. by Indian banks and Financial Institutions: Issuance of any type of guarantee by Indian banks, All India Financial Institutions and NBFCs relating to ECB is not permitted. Further, financial intermediaries (viz., Indian banks, All India Financial Institutions, or NBFCs) shall not invest in FCCBs/ FCEBs in any manner whatsoever.
4. **Parking of ECB proceeds:** ECB proceeds are permitted to be parked abroad as well as domestically in the manner given below:
 - 4.1 **Parking of ECB proceeds abroad:** ECB proceeds meant only for foreign currency expenditure can be parked abroad pending utilisation. Till utilisation, these funds can be invested in the following liquid assets (a) deposits or Certificate of Deposit or other products offered by banks rated not less than AA (-) by Standard and Poor/Fitch IBCA or Aa3 by Moody's; (b) Treasury bills and other monetary instruments of one-year maturity having minimum rating as indicated above and (c) deposits with foreign branches/subsidiaries of Indian banks abroad.
 - 4.2 **Parking of ECB proceeds domestically:** ECB proceeds meant for Rupee expenditure should be repatriated immediately for credit to their Rupee accounts with AD Category I banks in India. ECB borrowers are also allowed to park ECB proceeds in term deposits with AD Category I banks in India for a maximum period of 12 months cumulatively. These term deposits should be kept in unencumbered position.
5. **Procedure of raising ECB:** All ECB can be raised under the automatic route if they conform to the parameters prescribed under this framework. For approval route cases, the borrowers may approach the RBI with an application in prescribed format ([Form ECB](#)) for examination through their AD Category I bank. Such cases shall be considered keeping in view the overall guidelines, macroeconomic situation and merits of the specific proposals. ECB proposals received in the Reserve Bank above certain threshold limit (refixed from time to time) would be placed before the Empowered Committee set up by the Reserve Bank. The Empowered Committee will have external as well as internal members and the Reserve Bank will take a final decision in the cases taking into account recommendation of the Empowered Committee. Entities desirous to raise ECB under the automatic route may approach an AD Category I bank with their proposal along with duly filled in Form ECB.
6. **Reporting Requirements:** Borrowings under ECB Framework are subject to following reporting requirements apart from any other specific reporting required under the framework:

6.1 Loan Registration Number (LRN): Any draw-down in respect of an ECB should happen only after obtaining the LRN from the Reserve Bank. To obtain the LRN, borrowers are required to submit duly certified Form ECB, which also contains terms and conditions of the ECB, in duplicate to the designated AD Category I bank. In turn, the AD Category I bank will forward one copy to the Director, Reserve Bank of India, Department of Statistics and Information Management, External Commercial Borrowings Division, Bandra-Kurla Complex, Mumbai – 400 051 (Contact numbers 022-26572513 and 022-26573612). Copies of loan agreement for raising ECB are not required to be submitted to the Reserve Bank.

6.2 Changes in terms and conditions of ECB: Changes in ECB parameters in consonance with the ECB norms, including reduced repayment by mutual agreement between the lender and borrower, should be reported to the DSIM through revised Form ECB at the earliest, in any case not later than 7 days from the changes effected. While submitting revised Form ECB the changes should be specifically mentioned in the communication.

6.3 Monthly Reporting of actual transactions: The borrowers are required to report actual ECB transactions through Form ECB 2 Return through the AD Category I bank on monthly basis so as to reach DSIM within seven working days from the close of month to which it relates.

Changes, if any, in ECB parameters should also be incorporated in Form ECB 2 Return.

6.4 Late Submission Fee (LSF) for delay in reporting:

6.4.1 Any borrower, who is otherwise in compliance of ECB guidelines, can regularise the delay in reporting of drawdown of ECB proceeds before obtaining LRN or delay in submission of Form ECB 2 returns, by payment of late submission fees as detailed in the following matrix:

Sr. No.	Type of Return/Form	Period of delay	Applicable LSF
1	Form ECB 2	Up to 30 calendar days from due date of submission	INR 5,000
2	Form ECB 2/ Form ECB	Up to three years from due date of submission/date of drawdown	INR 50,000 per year
3	Form ECB 2/Form ECB	Beyond three years from due date of submission/date of drawdown	INR 100,000 per year

6.4.2 The borrower, through its AD bank, may pay the LSF by way of demand draft in favour of “Reserve Bank of India” or any other mode specified by the Reserve Bank. Such payment should be accompanied with the requisite return(s). Form ECB and Form ECB 2 returns reporting contraventions will be treated separately. Non-payment

of LSF will be treated as contravention of reporting provision and shall be subject to compounding or adjudication as provided in FEMA 1999 or regulations/rules framed thereunder.

6.5 Standard Operating Procedure (SOP) for Untraceable Entities: The following SOP has to be followed by designated AD Category-I banks in case of untraceable entities who are found to be in contravention of reporting provisions for ECB by failing to submit prescribed return(s) under the ECB framework, either physically or electronically, for past eight quarters or more.

i. **Definition:** Any borrower who has raised ECB will be treated as 'untraceable entity', if entity/auditor(s)/director(s)/ promoter(s) of entity are not reachable/responsive/reply in negative over email/letters/phone for a period of not less than two quarters with documented communication/ reminders numbering 6 or more and it fulfills both of the following conditions:

- (a) Entity not found to be operative at the registered office address as per records available with the AD Bank or not found to be operative during the visit by the officials of the AD Bank or any other agencies authorised by the AD bank for the purpose;
- (b) Entities have not submitted Statutory Auditor's Certificate for last two years or more;

ii. **Action:** The followings actions are to be undertaken in respect of 'untraceable entities':

- (a) File Revised Form ECB, if required, and last Form ECB 2 Return without certification from company with 'UNTRACEABLE ENTITY' written in bold on top. The outstanding amount will be treated as written-off from external debt liability of the country but may be retained by the lender in its books for recovery through judicial/ non-judicial means;
- (b) No fresh ECB application by the entity should be examined/processed by the AD bank;
- (c) Directorate of Enforcement should be informed whenever any entity is designated 'UNTRACEABLE ENTITY'; and
- (d) No inward remittance or debt servicing will be permitted under auto route.

7. Powers delegated to AD Category I banks to deal with ECB cases: The designated AD Category I banks can approve any requests from the borrowers for changes in respect of ECB, except for FCCBs/FCEBs, duly ensuring that the changed conditions, including change in name of borrower/lender, transfer of ECB and any other parameters, comply with extant ECB norms and are with the consent of lender(s). Further, the following can also be undertaken under the automatic route:

- 7.1 Change of the AD Category I bank:** AD Category I bank can be changed subject to obtaining no objection certificate from the existing AD Category I bank.
- 7.2 Cancellation of LRN:** The designated AD Category I banks may directly approach DSIM for cancellation of LRN for ECB contracted, subject to ensuring that no draw down against the said LRN has taken place and the monthly ECB-2 returns till date in respect of the allotted LRN have been submitted to DSIM.
- 7.3 Refinancing of existing ECB:** Refinancing of existing ECB by fresh ECB provided the outstanding maturity of the original borrowing (weighted outstanding maturity in case of multiple borrowings) is not reduced and all-in-cost of fresh ECB is lower than the all-in-cost (weighted average cost in case of multiple borrowings) of existing ECB. Further, refinancing of ECB raised under the previous ECB frameworks may also be permitted, subject to additionally ensuring that the borrower is eligible to raise ECB under the extant framework. Raising of fresh ECB to part refinance the existing ECB is also permitted subject to same conditions. Indian banks are permitted to participate in refinancing of existing ECB, only for highly rated corporates (AAA) and for Maharatna/Navratna public sector undertakings.
- 7.4 Conversion of ECB into equity:** Conversion of ECB, including those which are matured but unpaid, into equity is permitted subject to the following conditions:
- (i) The activity of the borrowing company is covered under the automatic route for FDI or Government approval is received, wherever applicable, for foreign equity participation as per extant FDI policy.
 - (ii) The conversion, which should be with the lender's consent and without any additional cost, should not result in contravention of eligibility and breach of applicable sector cap on the foreign equity holding under FDI policy;
 - (iii) Applicable pricing guidelines for shares are complied with; In case of partial or full conversion of ECB into equity, the reporting to the Reserve Bank will be as under:
 - (a) For partial conversion, the converted portion is to be reported in Form FC-GPR prescribed for reporting of FDI flows, while monthly reporting to DSIM in Form ECB 2 Return will be with suitable remarks, viz., "ECB partially converted to equity".
 - (b) For full conversion, the entire portion is to be reported in Form FC-GPR, while reporting to DSIM in Form ECB 2 Return should be done with remarks "ECB fully converted to equity". Subsequent filing of Form ECB 2 Return is not required.
 - (c) For conversion of ECB into equity in phases, reporting through Form FC-GPR and Form ECB 2 Return will also be in phases.

- (iv) If the borrower concerned has availed of other credit facilities from the Indian banking system, including foreign branches/subsidiaries of Indian banks, the applicable prudential guidelines issued by the Department of Banking Regulation of Reserve Bank, including guidelines on restructuring are complied with;
- (v) Consent of other lenders, if any, to the same borrower is available or atleast information regarding conversions is exchanged with other lenders of the borrower.
- (vi) For conversion of ECB dues into equity, the exchange rate prevailing on the date of the agreement between the parties concerned for such conversion or any lesser rate can be applied with a mutual agreement with the ECB lender. It may be noted that the fair value of the equity shares to be issued shall be worked out with reference to the date of conversion only.

7.5. Security for raising ECB: AD Category I banks are permitted to allow creation/cancellation of charge on immovable assets, movable assets, financial securities and issue of corporate and/or personal guarantees in favour of overseas lender / security trustee, to secure the ECB to be raised/ raised by the borrower, subject to satisfying themselves that:

- (i) the underlying ECB is in compliance with the extant ECB guidelines,
- (ii) there exists a security clause in the Loan Agreement requiring the ECB borrower to create/cancel charge, in favour of overseas lender/security trustee, on immovable assets/movable assets/financial securities/issuance of corporate and/or personal guarantee, and
- (iii) No objection certificate, as applicable, from the existing lenders in India has been obtained in case of creation of charge.

Once the aforesaid stipulations are met, the AD Category I bank may permit creation of charge on immovable assets, movable assets, financial securities and issue of corporate and/or personal guarantees, during the currency of the ECB with security co-terminating with underlying ECB, subject to the following:

- (i) **Creation of Charge on Immovable Assets:** The arrangement shall be subject to the following:
 - (a) Such security shall be subject to provisions contained in the Foreign Exchange Management (Acquisition and Transfer of Immovable Property in India) Regulations, 2017, as amended from time to time.
 - (b) The permission should not be construed as a permission to acquire immovable asset (property) in India, by the overseas lender/ security trustee.
 - (c) In the event of enforcement / invocation of the charge, the immovable

asset/ property will have to be sold only to a person resident in India and the sale proceeds shall be repatriated to liquidate the outstanding ECB.

- (ii) **Creation of Charge on Movable Assets:** In the event of enforcement/ invocation of the charge, the claim of the lender, whether the lender takes over the movable asset or otherwise, will be restricted to the outstanding claim against the ECB. Encumbered movable assets may also be taken out of the country subject to getting 'No Objection Certificate' from domestic lender/s, if any.
- (iii) **Creation of Charge over Financial Securities:** The arrangements may be permitted subject to the following:
 - (a) Pledge of shares of the borrowing company held by the promoters as well as in domestic associate companies of the borrower is permitted. Pledge on other financial securities, viz. bonds and debentures, Government Securities, Government Savings Certificates, deposit receipts of securities and units of the Unit Trust of India or of any mutual funds, standing in the name of ECB borrower/promoter, is also permitted.
 - (b) In addition, security interest over all current and future loan assets and all current assets including cash and cash equivalents, including Rupee accounts of the borrower with ADs in India, standing in the name of the borrower/promoter, can be used as security for ECB. The Rupee accounts of the borrower/promoter can also be in the form of escrow arrangement or debt service reserve account.
 - (c) In case of invocation of pledge, transfer of financial securities shall be in accordance with the extant FDI/FII policy including provisions relating to sectoral cap and pricing as applicable read with the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2017, as amended from time to time.
- (iv) **Issue of Corporate or Personal Guarantee:** The arrangement shall be subject to the following:
 - (a) A copy of Board Resolution for the issue of corporate guarantee for the company issuing such guarantee, specifying name of the officials authorised to execute such guarantees on behalf of the company or in individual capacity should be obtained.
 - (b) Specific requests from individuals to issue personal guarantee indicating details of the ECB should be obtained.
 - (c) Such security shall be subject to provisions contained in the Foreign Exchange Management (Guarantees) Regulations, 2000, as amended from time to time.

- (d) ECB can be credit enhanced / guaranteed / insured by overseas party/ parties only if it/ they fulfil/s the criteria of recognised lender under extant ECB guidelines.

7.6. Additional Requirements: While exercising the delegated powers, the AD Category I banks should ensure that:

- i. The changes permitted are in conformity with the applicable ceilings / guidelines and the ECB continues to be in compliance with applicable guidelines. It should also be ensured that if the ECB borrower has availed of credit facilities from the Indian banking system, including foreign branches/subsidiaries of Indian banks, any extension of tenure of ECB (whether matured or not) shall be subject to applicable prudential guidelines issued by Department of Banking Regulation of Reserve Bank including guidelines on restructuring.
- ii. The changes in the terms and conditions of ECB allowed by the ADs under the powers delegated and / or changes approved by the Reserve Bank should be reported to the DSIM as given at paragraph 6.2 above. Further, these changes should also get reflected in the Form ECB 2 returns appropriately.

8. Special Dispensations under the ECB framework:

8.1 ECB facility for Oil Marketing Companies: Notwithstanding the provisions contained in paragraph 2.1 (viii), 2.1 (x) and 2.2 above, Public Sector Oil Marketing Companies (OMCs) can raise ECB for working capital purposes with minimum average maturity period of 3 years from all recognised lenders under the automatic route without mandatory hedging and individual limit requirements. The overall ceiling for such ECB shall be USD 10 billion or equivalent. However, OMCs should have a Board approved forex mark to market procedure and prudent risk management policy, for such ECB. All other provisions under the ECB framework will be applicable to such ECB.

8.2 ECB facility for Startups: AD Category-I banks are permitted to allow Startups to raise ECB under the automatic route as per the following framework:

- (i) **Eligibility:** An entity recognised as a Startup by the Central Government as on date of raising ECB.
- (ii) **Maturity:** Minimum average maturity period will be 3 years.
- (iii) **Recognised lender:** Lender / investor shall be a resident of a FATF compliant country. However, foreign branches/subsidiaries of Indian banks and overseas entity in which Indian entity has made overseas direct investment as per the extant Overseas Direct Investment Policy will not be considered as recognised lenders under this framework.
- (iv) **Forms:** The borrowing can be in form of loans or non-convertible, optionally convertible or partially convertible preference shares.

- (v) **Currency:** The borrowing should be denominated in any freely convertible currency or in Indian Rupees (INR) or a combination thereof. In case of borrowing in INR, the non resident lender, should mobilise INR through swaps/outright sale undertaken through an AD Category-I bank in India.
- (vi) **Amount:** The borrowing per Startup will be limited to USD 3 million or equivalent per financial year either in INR or any convertible foreign currency or a combination of both.
- (vii) **All-in-cost:** Shall be mutually agreed between the borrower and the lender.
- (viii) **End uses:** For any expenditure in connection with the business of the borrower.
- (ix) **Conversion into equity:** Conversion into equity is freely permitted subject to Regulations applicable for foreign investment in Startups.
- (x) **Security:** The choice of security to be provided to the lender is left to the borrowing entity. Security can be in the nature of movable, immovable, intangible assets (including patents, intellectual property rights), financial securities, etc. and shall comply with foreign direct investment / foreign portfolio investment / or any other norms applicable for foreign lenders / entities holding such securities. Further, issuance of corporate or personal guarantee is allowed. Guarantee issued by a non resident(s) is allowed only if such parties qualify as lender under ECB for Startups. However, issuance of guarantee, standby letter of credit, letter of undertaking or letter of comfort by Indian banks, all India Financial Institutions and NBFCs is not permitted.
- (xi) **Hedging:** The overseas lender, in case of INR denominated ECB, will be eligible to hedge its INR exposure through permitted derivative products with AD Category – I banks in India. The lender can also access the domestic market through branches/ subsidiaries of Indian banks abroad or branches of foreign bank with Indian presence on a back to back basis.

Note: Startups raising ECB in foreign currency, whether having natural hedge or not, are exposed to currency risk due to exchange rate movements and hence are advised to ensure that they have an appropriate risk management policy to manage potential risk arising out of ECB.
- (xii) **Conversion rate:** In case of borrowing in INR, the foreign currency - INR conversion will be at the market rate as on the date of agreement.
- (xiii) **Other Provisions:** Other provisions like parking of ECB proceeds, reporting arrangements, powers delegated to AD banks, borrowing by entities under investigation, conversion of ECB into equity will be as included in the ECB framework. However, provisions on leverage ratio and ECB liability: Equity ratio will not be applicable. Further, the Start-ups as defined above [8.2. (i)] as well as other start-ups which do not comply with the aforesaid definition but are

eligible to receive FDI, can also raise ECB under the general ECB route/framework.

9. **Borrowing by Entities under Investigation:** All entities against which investigation/ adjudication / appeal by the law enforcing agencies for violation of any of the provisions of the Regulations under FEMA pending, may raise ECB as per the applicable norms, if they are otherwise eligible, notwithstanding the pending investigations / adjudications / appeals, without prejudice to the outcome of such investigations / adjudications / appeals. The borrowing entity shall inform about pendency of such investigation / adjudication / appeal to the AD Category-I bank / RBI as the case may be. Accordingly, in case of all applications where the borrowing entity has indicated about the pending investigations / adjudications/ appeals, the AD Category I Banks / Reserve Bank while approving the proposal shall intimate the agencies concerned by endorsing a copy of the approval letter.
10. **ECB by entities under restructuring/ ECB facility for refinancing stressed assets:**
 - 10.1 An entity which is under a restructuring scheme/ corporate insolvency resolution process can raise ECB only if specifically permitted under the resolution plan.
 - 10.2 ⁶Eligible corporate borrowers who have availed Rupee loans domestically for capital expenditure in manufacturing and infrastructure sector and which have been classified as SMA-2 or NPA can avail ECB for repayment of these loans under any one time settlement with lenders. Lender banks are also permitted to sell, through assignment, such loans to eligible ECB lenders, provided, the resultant external commercial borrowing complies with all-in-cost, minimum average maturity period and other relevant norms of the ECB framework. Foreign branches/ overseas subsidiaries of Indian banks are not eligible to lend for the above purposes. The applicable MAMP will have to be strictly complied with under all circumstances.
 - 10.3 Eligible borrowers under the ECB framework, who are participating in the Corporate Insolvency Resolution Process under Insolvency and Bankruptcy Code, 2016 as resolution applicants, can raise ECB from all recognised lenders, except foreign branches/subsidiaries of Indian banks, for repayment of Rupee term loans of the target company. Such ECB will be considered under the approval route, procedure of which is given at paragraph No. 5 above.
11. **Dissemination of information:** For providing greater transparency, information with regard to the name of the borrower, amount, purpose and maturity of ECB under both Automatic and Approval routes are put on the RBI's website, on a monthly basis, with a lag of one month to which it relates.
12. **Compliance with the guidelines:** The primary responsibility for ensuring that the borrowing is in compliance with the applicable guidelines is that of the borrower

⁶ Inserted vide [A.P.\(DIR Series\) Circular No. 04 dated July 30, 2019](#).

concerned. Any contravention of the applicable provisions of ECB guidelines will invite penal action under the FEMA. The designated AD Category I bank is also expected to ensure compliance with applicable ECB guidelines by their constituents.

III. Foreign Exchange Management (Export of Goods and Services) (Amendment) Regulations, 2019

Vide Notification No. FEMA 23(R)/(2)/2019-RB dated **December 09, 2019**, the Reserve Bank of India makes the following amendments in the Foreign Exchange Management (Export of Goods & Services) Regulations, 2015 ('the Principal Regulations'), namely:

In the Principal Regulations, in **regulation 4**, after sub-regulation (e), the following shall be inserted, namely :-

“(ea) re-export of leased aircraft/ helicopter and/or engines/auxiliary power units (APUs) re-possessioned by overseas lessor and duly de-registered by the Directorate General of Civil Aviation (DGCA) on the request of Irrevocable Deregistration and Export Request Authorisation (IDERA) holder under ‘Cape Town Convention’ subject to permission by DGCA/Ministry of Civil Aviation for such export/s.”

IV. Foreign Exchange Management (Export of Goods and Services) (Amendment) Regulations, 2020

Vide Notification No. FEMA 23(R)/(3)/2020-RB dated **March 31, 2020**, the Reserve Bank of India makes the following amendments in the Foreign Exchange Management (Export of Goods & Services) Regulations, 2015 ('the Principal Regulations'), namely:

- In the Principal Regulations, in regulation 9, in sub-regulation (1) and sub-regulation (2)(a), for the words “**nine months**”, the words “**nine months or within such period as may be specified by the Reserve Bank, in consultation with the Government, from time to time**” shall be substituted.
- Similarly, in sub-regulation (1) (a), for the words “**fifteen months**”, the words “**fifteen months or within such period as may be specified by the Reserve Bank, in consultation with the Government, from time to time**” shall be substituted.
- In Regulation 9 (1)(b), for the words “**period of nine months or fifteen months, as the case may be**”, the words “**said period**” shall be substituted.
- In proviso to Regulation 9 (2)(a), for the words “**period of nine months**”, the words “**said period**” shall be substituted.

CHAPTER 3: PREVENTION OF MONEY LAUNDERING ACT, 2002

I Amendment in section 8 vide Finance Act, 2019, w.r.e.f. 20-3-2019.

Sub-section (3) dealing with the computation of period of attachment/retention of property / record seized / frozen during investigation, is amended as follows:

(3) Where the Adjudicating Authority decides that any property is involved in money-laundering, he shall, by an order in writing, confirm the attachment of the property made under section 5(1) or retention of property or record seized or frozen under section 17 or section 18 and record a finding to that effect, whereupon such attachment or retention or freezing of the seized or frozen property or record shall—

- (a) continue during investigation for a period not **exceeding three hundred and sixty-five days** or the pendency of the proceedings relating to any offence under this Act before a court or under the corresponding law of any other country, before the competent court of criminal jurisdiction outside India, as the case may be; and
- (b) become final after an order of confiscation is passed under sub-section (5) or sub-section (7) of section 8 or section 58B or sub-section (2A) of section 60 by the Special Court.

Explanation.—For the purposes of computing the period of three hundred and sixty-five days under clause (a), the period during which the investigation is stayed by any court under any law for the time being in force shall be excluded.

II Insertion of Section 11A vide the Aadhaar and Other Laws (Amendment) Act, 2019, w.e.f. 25-7-2019

Verification of identity by reporting entity.

11A. (1) Every reporting entity shall verify the identity of its clients and the beneficial owner, by—

- (a) authentication under the Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act, 2016 if the reporting entity is a banking company; or
- (b) offline verification under the Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act, 2016; or
- (c) use of passport issued under section 4 of the Passports Act, 1967; or
- (d) use of any other officially valid document or modes of identification as may be notified by the Central Government in this behalf:

Provided that the Central Government may, if satisfied that a reporting entity other than banking company, complies with such standards of privacy and security under the Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act, 2016, and it is necessary and expedient to do so, by notification, permit such entity to perform authentication under clause (a):

Provided further that no notification under the first proviso shall be issued without consultation with the Unique Identification Authority of India established under sub-section (1) of section 11 of the Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act, 2016 and the appropriate regulator.

- (2) If any reporting entity performs authentication under clause (a) of sub-section (1), to verify the identity of its client or the beneficial owner it shall make the other modes of identification under clauses (b), (c) and (d) of sub-section (1) also available to such client or the beneficial owner.
- (3) The use of modes of identification under sub-section (1) shall be a voluntary choice of every client or beneficial owner who is sought to be identified and no client or beneficial owner shall be denied services for not having an Aadhaar number.
- (4) If, for identification of a client or beneficial owner, authentication or offline verification under clause (a) or clause (b) of sub-section (1) is used, neither his core biometric information nor his Aadhaar number shall be stored.
- (5) Nothing in this section shall prevent the Central Government from notifying additional safeguards on any reporting entity in respect of verification of the identity of its client or beneficial owner.

Explanation.—The expressions “Aadhaar number” and “core biometric information” shall have the same meanings as are respectively assigned to them in clauses (a) and (j) of section 2 of the Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act, 2016.’

III Amendment in section 12 vide Aadhaar and Other Laws (Amendment) Act, 2019, w.e.f. 25-7-2019

Clause (c) & (d) of section 12(1) have been omitted by the Aadhaar and Other Laws (Amendment) Act, 2019, w.e.f. 25-7-2019.

Prior to their omission, clauses (c) and (d) read as under:

"(c) verify the identity of its clients in such manner and subject to such conditions, as may be prescribed;

(d) identify the beneficial owner, if any, of such of its clients, as may be prescribed;"

CHAPTER 4: FOREIGN CONTRIBUTION REGULATION ACT, 2010

Foreign Contribution (Regulation) (Second Amendment) Rules, 2019

Vide notification no. **G.S.R. 659(E)**, dated 16th September, 2019, Central Government hereby enacts the Foreign Contribution (Regulation) (Second Amendment) Rules, 2019, further to amend the Foreign Contribution (Regulation) Rules, 2011.

In the Foreign Contribution (Regulation) Rules, 2011, —

- (i) **in rule 6A**, for the words “rupees twenty-five thousand”, the words “one lakh rupees” shall be substituted;
- (ii) **in rule 7**, in sub-rule (4), for the words “sixty days”, the words “one month” shall be substituted;

- (iii) **in rule 12**, in sub-rule (2), after the prescribed form (i.e., FC- 3C) the words and letters “with an affidavit executed by each office bearer and key functionary and member in Performa ‘AA’ appended to these rules” shall be inserted;

CHAPTER 5: ARBITRATION AND CONCILIATION ACT, 1996

In section 1 which deals with the Short title, extent and commencement, proviso is omitted by the Jammu and Kashmir Reorganisation Act, 2019, dated 9-8-2019, w.e.f. **31-10-2019**, Prior to its omission read as under:

"Provided that Parts I, III and IV shall extent to the State of Jammu and Kashmir only insofar as they relate to international Commercial arbitration or, as the case may be, international Commercial Conciliation."

CHAPTER 6: INSOLVENCY AND BANKRUPTCY CODE, 2016

I. The Insolvency and Bankruptcy Code (Amendment) Act, 2019

Ministry of Corporate Affairs vide Notification S.O. 2953(E) dated 16th August, 2019, in exercise of the powers conferred by sub-section (2) of section 1 of **the Insolvency and Bankruptcy Code (Amendment) Act, 2019**, the Central Government hereby appoints the date of publication of this notification in the Official Gazette as the date on which the provisions of the said Act shall come into force.

Following are the relevant amendments:

- (i) In **section 5(26)** pertaining to the definition “resolution plan”, following explanation is added.

“Explanation.—For the removal of doubts, it is hereby clarified that a resolution plan may include provisions for the restructuring of the corporate debtor, including by way of merger, amalgamation and demerger;”

- (ii) In **section 7(4)** of the Code, following proviso shall be inserted:

“Provided that if the Adjudicating Authority has not ascertained the existence of default and passed an order under sub-section (5) within such time, it shall record its reasons in writing for the same.”

- (iii) In **section 12** which deals with the Time-limit for completion of insolvency resolution process. – Following provisos have been added after the proviso to section 3:

“Provided further that the corporate insolvency resolution process shall mandatorily be completed within a period of three hundred and thirty days from the insolvency commencement date, including any extension of the period of corporate insolvency resolution process granted under this section and the time taken in legal proceedings in relation to such resolution process of the corporate debtor:

Provided also that where the insolvency resolution process of a corporate debtor is pending and has not been completed within the period referred to in the second proviso, such resolution process shall be completed within a period of ninety days

from the date of commencement of the Insolvency and Bankruptcy Code (Amendment) Act, 2019”.

(iv) **In section 30(2)(b)**, the following shall be substituted :

- (b) provides for the payment of debts of operational creditors in such manner as may be specified by the Board which shall not be less than—
 - (i) the amount to be paid to such creditors in the event of a liquidation of the corporate debtor under section 53; or
 - (ii) the amount that would have been paid to such creditors, if the amount to be distributed under the resolution plan had been distributed in accordance with the order of priority in sub-section (1) of section 53,

whichever is higher, and provides for the payment of debts of financial creditors, who do not vote in favour of the resolution plan, in such manner as may be specified by the Board, which shall not be less than the amount to be paid to such creditors in accordance with sub-section (7) of section 53 in the event of a liquidation of the corporate debtor.

Explanation 1.—For the removal of doubts, it is hereby clarified that a distribution in accordance with the provisions of this clause shall be fair and equitable to such creditors.

Explanation 2.—For the purposes of this clause, it is hereby declared that on and from the date of commencement of the Insolvency and Bankruptcy Code (Amendment) Act, 2019, the provisions of this clause shall also apply to the corporate insolvency resolution process of a corporate debtor—

- (i) where a resolution plan has not been approved or rejected by the Adjudicating Authority;
- (ii) where an appeal has been preferred under section 61 or section 62 or such an appeal is not time barred under any provision of law for the time being in force; or
- (iii) where a legal proceeding has been initiated in any court against the decision of the Adjudicating Authority in respect of a resolution plan;”

(v) **In section 31(1)** of the Code, after the words “members, creditors,” the following words shall be inserted:

“including the Central Government, any State Government or any local authority to whom a debt in respect of the payment of dues arising under any law for the time being in force, such as authorities to whom statutory dues are owed,”

(vi) **In section 33(2)**, following explanation shall be added:

“Explanation.—For the purposes of this sub-section, it is hereby declared that the committee of creditors may take the decision to liquidate the corporate debtor, any

time after its constitution under sub-section (7) of section 21 and before the confirmation of the resolution plan, including at any time before the preparation of the information memorandum."

II. The Insolvency and Bankruptcy Code (Amendment) Act, 2020

Ministry of law and justice notified on 13th March, 2020, the Insolvency and Bankruptcy Code (Amendment) Act, 2020 w.e.f. **28th day of December, 2019**. With the enforcement of this Amendment Act, the Insolvency and Bankruptcy Code (Amendment) Ordinance, 2019 was hereby repealed.

Following are the relevant amendments:

1. In **section 5** of the Insolvency and Bankruptcy Code, 2016 (hereafter referred to as the principal Act),—

Sl. No.	Earlier Law	Amended Law
1.	in clause (12) , the given proviso- 7"Provided that where the interim resolution professional is not appointed in the order admitting application under section 7, 9 or 10, the insolvency commencement date shall be the date on which such interim resolution professional is appointed by the Adjudicating Authority"	Omitted
2.	in clause (15) , after the words "during the insolvency resolution process period" occurring at the end	the words "and such other debt as may be notified" shall be inserted.
3.	No such proviso to section 7(1) was there.	In section 7 of the principal Act, in sub-section (1), before the <i>Explanation</i> , the following provisos inserted— "Provided that for the financial creditors, referred to in clauses (a) and (b) of sub-section (6A) of section 21, an application for initiating corporate insolvency resolution process against the

⁷ Proviso was Ins. by Act No. 26 of 2018, sec. 3 (w.e.f. 6-6-2018)

		<p>corporate debtor shall be filed jointly by not less than one hundred of such creditors in the same class or not less than ten per cent. of the total number of such creditors in the same class, whichever is less:</p> <p>Provided further that for financial creditors who are allottees under a real estate project, an application for initiating corporate insolvency resolution process against the corporate debtor shall be filed jointly by not less than one hundred of such allottees under the same real estate project or not less than ten per cent. of the total number of such allottees under the same real estate project, whichever is less:</p> <p>Provided also that where an application for initiating the corporate insolvency resolution process against a corporate debtor has been filed by a financial creditor referred to in the first and second provisos and has not been admitted by the Adjudicating Authority before the commencement of the Insolvency and Bankruptcy Code (Amendment) Act, 2020, such application shall be modified to comply with the requirements of the first or second proviso within thirty days of the commencement of the said Act, failing which the application shall be deemed to be withdrawn before its admission."</p>
4.	In section 11 of the principal Act, only an Explanation is there.	In section 11 of the principal Act, the <i>Explanation</i> shall be numbered as <i>Explanation I</i> and after <i>Explanation I</i> as so numbered, the following <i>Explanation</i> shall be

		<p>inserted, namely:—</p> <p><i>"Explanation II—For the purposes of this section, it is hereby clarified that nothing in this section shall prevent a corporate debtor referred to in clauses (a) to (d) from initiating corporate insolvency resolution process against another corporate debtor."</i></p>
5.	(a) In section 14 , no explanation was there with Sub-section (1) of the principal Act.	<p>In section 14 of the principal Act,—</p> <p>(a) in sub-section (1), the following Explanation inserted, namely:—</p> <p><i>"Explanation.—For the purposes of this sub-section, it is hereby clarified</i></p> <p>that notwithstanding anything contained in any other law for the time being in force, a license, permit, registration, quota, concession, clearances or a similar grant or right given by the Central Government, State Government, local authority, sectoral regulator or any other authority constituted under any other law for the time being in force, shall not be suspended or terminated on the grounds of insolvency, subject to the condition that there is no default in payment of current dues arising for the use or continuation of the license, permit, registration, quota, concession, clearances or a similar grant or right during the moratorium period;"</p>

	<p>(b) No Sub-section 2A was there in the Principal Act.</p> <p>(c) in sub-section (3), for clause (a), namely- “(a) such transaction as may be notified by the Central Government in consultation with any financial regulator;”</p>	<p>(b) after sub-section (2), the following sub-section 2A shall be inserted, namely:— “(2A) Where the interim resolution professional or resolution professional, as the case may be, considers the supply of goods or services critical to protect and preserve the value of the corporate debtor and manage the operations of such corporate debtor as a going concern, then the supply of such goods or services shall not be terminated, suspended or interrupted during the period of moratorium, except where such corporate debtor has not paid dues arising from such supply during the moratorium period or in such circumstances as may be specified.”;</p> <p>(c) the following clause shall be substituted, namely:— “(a) such transactions, agreements or other arrangements as may be notified by the Central Government in consultation with any financial sector regulator or any other authority;”.</p>
6.	In section 16 in sub-section (1), for the words "within fourteen days from the insolvency commencement date"	the words "on the insolvency commencement date" shall be substituted.
7.	In section 21 , in sub-section (2), in the second proviso, after the words "convertible into equity shares"	the words "or completion of such transactions as may be prescribed," shall be inserted.

8.	<p>In section 29A of the principal Act-</p> <p>(i) in clause (c), in the second proviso, in Explanation I, after the words, "convertible into equity shares",</p> <p>(ii) in clause (j), in Explanation I, in the second proviso, after the words "convertible into equity shares",</p>	<p>(i) the words "or completion of such transactions as may be prescribed," shall be inserted;</p> <p>(ii) the words "or completion of such transactions as may be prescribed," shall be inserted.</p>
9.	<p>No such section 32A was there in the Principal Act.</p>	<p>After section 32 of the principal Act, the following section 32A shall be inserted, namely:—</p> <p>"32A. (1) Notwithstanding anything to the contrary contained in this Code or any other law for the time being in force, the liability of a corporate debtor for an offence committed prior to the commencement of the corporate insolvency resolution process shall cease, and the corporate debtor shall not be prosecuted for such an offence from the date the resolution plan has been approved by the Adjudicating Authority under section 31, if the resolution plan results in the change in the management or control of the corporate debtor to a person who was not—</p> <p>(a) a promoter or in the management or control of the corporate debtor or a related party of such a person; or</p> <p>(b) a person with regard to whom the relevant investigating authority has, on the basis of material in its possession, reason to believe that he had abetted or conspired for the commission of the offence,</p>

		<p>and has submitted or filed a report or a complaint to the relevant statutory authority or Court:</p> <p>Provided that if a prosecution had been instituted during the corporate insolvency resolution process against such corporate debtor, it shall stand discharged from the date of approval of the resolution plan subject to requirements of this sub-section having been fulfilled:</p> <p>Provided further that every person who was a "designated partner" as defined in clause (j) of section 2 of the Limited Liability Partnership Act, 2008, or an "officer who is in default", as defined in clause (60) of section 2 of the Companies Act, 2013, or was in any manner incharge of, or responsible to the corporate debtor for the conduct of its business or associated with the corporate debtor in any manner and who was directly or indirectly involved in the commission of such offence as per the report submitted or complaint filed by the investigating authority, shall continue to be liable to be prosecuted and punished for such an offence committed by the corporate debtor notwithstanding that the corporate debtor's liability has</p>
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		<p>ceased under this sub-section.</p> <p>(2) No action shall be taken against the property of the corporate debtor in relation to an offence committed prior to the commencement of the corporate insolvency resolution process of the corporate debtor, where such property is covered under a resolution plan approved by the Adjudicating Authority under section 31, which results in the change in control of the corporate debtor to a person, or sale of liquidation assets under the provisions of Chapter III of Part II of this Code to a person, who was not—</p> <p>(i) a promoter or in the management or control of the corporate debtor or a related party of such a person; or</p> <p>(ii) a person with regard to whom the relevant investigating authority has, on the basis of material in its possession reason to believe that he had abetted or conspired for the commission of the offence, and has submitted or filed a report or a complaint to the relevant statutory authority or Court.</p> <p>Explanation.—For the purposes of this sub-section, it is hereby clarified that,—</p> <p>(i) an action against the property of the corporate debtor in relation to an offence shall include the</p>
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		<p>attachment, seizure, retention or confiscation of such property under such law as may be applicable to the corporate debtor;</p> <p>(ii) nothing in this sub-section shall be construed to bar an action against the property of any person, other than the corporate debtor or a person who has acquired such property through corporate insolvency resolution process or liquidation process under this Code and fulfils the requirements specified in this section, against whom such an action may be taken under such law as may be applicable.</p> <p>(3) Subject to the provisions contained in sub-sections (1) and (2), and notwithstanding the immunity given in this section, the corporate debtor and any person who may be required to provide assistance under such law as may be applicable to such corporate debtor or person, shall extend all assistance and co-operation to any authority investigating an offence committed prior to the commencement of the corporate insolvency resolution process."</p>
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- III. Enhancement in the limit of amount of default:** Ministry of Corporate Affairs vide notification S.O. 1205(E) dated **24th March, 2020**, in exercise of the powers conferred by the proviso to section 4 of the Insolvency and Bankruptcy Code, 2016, the Central Government hereby specifies one crore rupees as the minimum amount of default for the purposes of the said section.
- IV.** Ministry of Corporate Affairs Vide Notification S.O. 4126(E) dated **15th November, 2019**, in exercise of the powers conferred by sub-section (3) of section 1 of the Insolvency and Bankruptcy Code, 2016, the Central Government hereby appoints the 1st day of December, 2019 as the date on which clause (e) of section 2 of the Code in so far as they relate to personal guarantors to corporate debtors, shall come into force.
- V. Vide Notification S.O. 4139(E) dated 18th November, 2019**, in exercise of the powers conferred by section 227 of the Insolvency and Bankruptcy Code, 2016, the Central Government in consultation with the Reserve Bank of India notifies that the insolvency resolution and liquidation proceedings of the Non-banking finance companies (which include housing finance companies) with asset size of ₹ 500 crore or more, as per last audited balance sheet, shall be undertaken in accordance with the provisions of the Insolvency and Bankruptcy Code, 2016 read with the Insolvency and Bankruptcy (Insolvency and Liquidation Proceedings of Financial Service Providers and Application to Adjudicating Authority) Rules, 2019 and the applicable Regulations.

PART – II : QUESTIONS AND ANSWERS**QUESTIONS****DIVISION A: INTEGRATED CASE SCENARIO/ MULTIPLE CHOICE QUESTIONS****Integrated Case scenario 1**

DEF Limited is an unlisted public company, incorporated under the provisions of the Companies Act, 2013 having its registered office in the state of Rajasthan.

The Registrar after the inspection of the books of account or an inquiry under section 206 and other books and papers of DEF Limited under section 207, submitted a report in writing to the Central Government including a recommendation that further investigation into the affairs of the company was necessary, giving his reasons in support.

The Central Government was of the opinion, that it was necessary to investigate into the affairs of the company by the Serious Fraud Investigation Office (SFIO).

The director, SFIO appointed an investigating officer who called on the directors of the company and arrested the directors of the company. The directors demanded the reasons for such arrest which were informed to them.

The directors of the company were produced before the jurisdictional Judicial Magistrate who released them on bail though the prosecution opposed the application of bail in the court.

On completion of the investigation of the director, SFIO submitted the investigation report to the Central Government. The Central Government, after examination of the report, directed the SFIO to initiate prosecution against the company and its officers or employees, who are or have been in employment of the company or any other person directly or indirectly connected with the affairs of the company.

A charge sheet was presented against the accused directors of the company before the Special Court and after the completion of the trial, the court convicted the directors and sentenced them with imprisonment for a term of six months and a fine of Rupees Two Thousand each.

Given the above situation, your opinion is sought on the following matters:

[Questions 1-5]

1. If the Central Government is of the opinion to order the investigation into affairs of a company on receipt of a report of the Registrar under section 208 of the Companies Act, state the correct statement as to the initiation of order of the investigation into affairs of a company-
 - (a) It cannot order investigation by inspectors under the provisions of section 210 of the Companies Act.
 - (b) It can order investigation by inspectors under the provisions of section 210 of the Companies Act.

- (c) It cannot order investigation by SFIO under the provisions of section 212 of the Companies Act.
 - (d) It can order investigation by inspectors under section 210 or by SFIO under section 212 of the companies Act.
2. Is Director, SFIO a competent authority to arrest the directors of DEF Limited, an unlisted public company?
- (a) Yes, Director, SFIO is competent authority to arrest the directors of the unlisted public company.
 - (b) Yes, Director, SFIO is competent authority subject to approval of Central Government.
 - (c) No, Director, SFIO cannot arrest the directors of the unlisted public company.
 - (d) Yes, Director, SFIO is competent authority subject to approval of special court to arrest the directors of the unlisted public company.
3. Is it the duty of the director, SFIO to inform the arrestee the grounds of arrest?
- (a) Yes, it is the duty of the director, SFIO to inform the grounds of arrest and as well as right of arrestee to know the grounds of his arrest.
 - (b) No, it is not necessary to inform the grounds of arrest.
 - (c) No, the ground of arrest may be informed, if asked for.
 - (d) No, it is prerogative of the authority to arrest the accused, there is no need to inform the grounds of arrest.
4. Within how much time are the arrested directors of DEF Limited required to be produced before jurisdictional judicial magistrate by the director, SFIO after arrest?
- (a) Within 24 hours of such arrest.
 - (b) Within 48 hours of such arrest.
 - (c) Within 72 hours of such arrest.
 - (d) Within 80 hours of such arrest.
5. When do the directors of DEF Limited vacate the office of director in the company?
- (a) On the date when the directors were arrested by the SFIO.
 - (b) On the date when the charge sheet was submitted in the court by the SFIO.

- (c) On the date when the directors were arrested and produced before jurisdictional Judicial Magistrate.
- (d) On the date when the directors were convicted by the Special Court.

Integrated Case Scenario 2

Hansraj Power Distribution Ltd. (HPDL) was incorporated in the year 2008. The annual turnover of the company is two crore rupees. Mr. Raj Purohit, a Director of the company was appointed by company four years back. Mr. Raj Purohit is eligible for retirement by rotation at this AGM. The AGM is scheduled to be held on 22nd August, 2020. He is also working as a director in Max International Limited and Trinity Infrastructure Limited. Trinity Infrastructure Limited did not file its financial statements for the last three years with the Registrar of Companies. Trinity Infrastructure Limited also defaulted in paying interest on loans taken from a Public Financial Institution in the last two years. The Board of HPDL has decided to propose Mr. Raj's name for re-appointment. Mr. Raj gave his consent for the same.

Application to the Tribunal for Compromise & Arrangement was submitted along with all the documents. The Tribunal fixed the time and place of the meeting and appointed a Chairperson for the meeting.

A meeting of members of the company was held as per the orders of the Court to consider a scheme of compromise and arrangement. Notice of the meeting was sent to all 1000 members. Notice of the meeting was also sent to all the creditors or class of creditors and to the debenture-holders of the company, individually at the address registered with the company which will be accompanied by a statement disclosing the details of the compromise or arrangement, a copy of the valuation report, if any, and explaining their effect on creditors, key managerial personnel, promoters and non-promoter members, and the debenture-holders and the effect of the compromise or arrangement on any material interests of the directors of the company or the debenture trustees.

In total, the 1000 members of the company holds in aggregate 10,00,000 equity shares. The meeting was attended by 800 members holding 7,00,000 shares. Out of which 460 members holding 4,70,000 shares voted in favour of the scheme; 190 members holding 1,25,000 shares voted against the scheme. The remaining 150 members holding 1,05,000 shares abstained from voting. All the members voted for the scheme either in person or through proxies.

As prescribed under this Act, a notice along with all the documents was also sent to the Central Government, the Income-Tax Authorities, the Reserve Bank of India, the Securities and Exchange Board, the Registrar, the respective stock exchanges, and the Competition Commission of India. The Securities and Exchange Board made objection to scheme of arrangements after 45 days of receiving all the documents.

According to the last audit financial report, the outstanding debt on the company is ₹ 50 lakh rupees. The creditors of the company is as follows:

X-One financial Company	200,000 rupees	4%
Mr. Mohan Shah	1,250,000 rupees	25%
Radhey Finance Company	200,000 rupees	4%
Soham Company	700,000 rupees	14%
Onex National bank	1,000,000 rupees	20%
DXY National bank	1,650,000 rupees	33%

So from the above mentioned Creditors' list, X-One financial Company raised its objection in the Tribunal, to the aforementioned scheme. The creditor file the petition in the Tribunal.

The Chairperson of the meeting submitted the report to the Tribunal within the time fixed by the Tribunal. After hearing the creditors, the Tribunal finally approve the scheme of compromise and arrangement between the company and its members. The order of the Tribunal is binding on the company, all its members and creditors.

Answer the following questions in the light of the given information:

[Questions 6-10]

6. With reference to the provisions of the Companies Act, 2013, which value of the requisite majority will be considered to approve the scheme?
 - (a) 3/4th of the total value of shares held by 650 members.
 - (b) 3/4th of the total value of shares held by 800 members.
 - (c) 3/4th of the total value of shares held by 1000 members.
 - (d) 3/4th majority of 1000 shares holders present and voting.
7. According to the provision of the Companies Act, 2013, X-One financial company objected to the compromise held on the scheme in between the company and its shareholders? According to their respective percentage in debt owed to the company, choose the correct option?
 - (a) X-One Finance Company can raise the objection as aggregate loan amount needs to be more than 2% of debt.
 - (b) X-One Finance Company jointly with Radhey Finance company can raise the objection as the aggregate amount needs to be not less than 5%.

- (c) Only X-One Finance Company along with Soham Finance company can jointly raise the objection as the aggregate amounts needs not to be less than 15%.
 - (d) Only X-One Finance Company jointly with Soham Finance company and Radhey Finance company can raise the objection the aggregate amounts needs not to be less than 20 %.
8. Evaluate the representation made by SEBI, after 45 days of receiving the notice and all the documents, is tenable or not?
- (a) Not tenable. It is required to be made within 10 days
 - (b) Not tenable. It is required to be made within 15 days.
 - (c) Not tenable. It is required to be made within 30 days.
 - (d) Not tenable. It is required to be made within 45 days.
9. While finally approving the scheme of compromise and arrangements between the company and its members, which of the below mentioned certificate is necessary to be filed with the Tribunal?
- (a) Certificate from the Central Government
 - (b) Certificate from the Registrar.
 - (c) Certificate from the audit and accounts committee of the company
 - (d) Certificate from the company's auditor.
10. According to the above mentioned facts under the directorship of Mr. Raj Purohit, Trinity Infrastructure Limited, defaulted in filing statements and paying the interest due on the loans. How the default of Trinity Infrastructure Limited going to affect the directorship of Mr. Raj Purohit, in all the three companies?
- (a) Mr. Raj has to immediately vacate his office as a director in all the three companies.
 - (b) Mr. Raj needs to vacate his office as a director in (HPDL).
 - (c) Mr. Raj needs to vacate his office as a director only in (HPDL) and in Max International Limited.
 - (d) Mr. Raj need not resign in any of the company, as the default makes him only ineligible for re-appointment.

INDEPENDENT MCQS [Question 11-15]

11. State under which given situation, a lender can avail the benefits of SARFAESI Act -
- (i) An insolvency application has been launched against the borrower

- (ii) The borrower is under BIFR
 - (iii) A winding up petition has been made against the borrower
 - (iv) A criminal proceeding has been launched by the lender against the borrower
 - (a) In situations (i) & (iii)
 - (b) In situations (ii) & (iv)
 - (c) In situations (ii), (iii) & (iv)
 - (d) In all the given situations (i), (ii), (iii) & (iv)
12. Mr. Kamal is accused of an offence as mentioned in Part B of Schedule to the PMLA, 2002. What must be the minimum amount of the offence for which Mr. Kamal is accused of?
- (a) INR 25 Lakhs
 - (b) INR 50 Lakhs
 - (c) INR 100 Lakhs
 - (d) INR 75 Lakhs
13. Anna, a foreign citizen has made donations in kind to various individuals of Indian resident for their personal use. When shall such donation in kind will be excluded from the definition of Foreign Contribution considering the provisions of Foreign Contribution (Regulation) Act, 2010?
- (a) If the market value, in India, of such article, on the date of such gift, is more than ₹ 1,00,000 but less than 5,00,000.
 - (b) If the market value, in India, of such article, on the date of such gift, is more than ₹ 500,000 but less than 10,00,000.
 - (c) Any donation in kind given for personal use is always excluded.
 - (d) If the market value, in India, of such article, on the date of such gift, is not more than ₹ 100,000.
14. Milan Limited entered into an agreement with Vinne Limited for the supply of confectionary biscuits and cakes for a period of 5 years. The Arbitration clause of the agreement states, "That all the disputes shall be submitted to arbitration." After a period, it was found that the principal contract is invalid in the light of the Indian Contract Act, 1872. You are required to select the best option in the given scenario considering the provisions of the Arbitration and Conciliation Act, 1996.

- (a) The arbitration clause in the principal agreement also stands invalid due to the principal contract becoming invalid.
 - (b) The arbitration clause is an independent agreement of the principal agreement and cannot be treated as invalid merely because the principal contract was invalid.
 - (c) The arbitration clause shall be exercisable only if the Judicial Authority under the Arbitration and Conciliation Act, 1996 allows to treat it as an independent agreement.
 - (d) The arbitration clause in the principal agreement stands valid only till the time the principal contract was in force and valid.
15. MX Limited was admitted in the Corporate Insolvency Resolution Process (CIRP) under section 7 of the Insolvency and Bankruptcy Code (Code). The Resolution Professional (RP) of the MX Limited (Corporate Debtor) conducted the Committee of Creditors (CoC) meeting but the same was adjourned due to lack of quorum. Accordingly, in the adjourned meeting, a resolution was passed by the CoC members present, representing 51% of the voting rights for liquidation of the Corporate Debtor before the expiry of the Corporate Insolvency Resolution Process (CIRP). You as a qualified Chartered Accountant in the team of RP is required to advise RP whether the resolution of liquidation passed is valid in law considering the provisions of the Insolvency and Bankruptcy Code.
- (a) The resolution passed for liquidation is not valid in law as it has not been approved by minimum of 90% of the voting shares of the financial creditors.
 - (b) The resolution passed for liquidation is not valid in law as it has not been approved by minimum of 66% of the voting shares of the financial creditors.
 - (c) The resolution passed for liquidation is not valid in law as it cannot be passed before the expiry of the CIRP.
 - (d) The resolution passed for liquidation is valid in law as it has been passed by 51% of the voting shares of the financial creditors.

Descriptive Questions [Questions 16-24]

16. The Board of Directors of the Universal Ltd. which is an MNC comprised of directors who were Indian as well as of Foreign Nationals. Mr. "X", who is a Director on the Board is very often on business tour abroad. He approached you being legal expert of the company to know from you the regulatory provisions of the Companies Act, 2013 relating to appointment of Alternate Directors.

Examine the following situations and advise suitably, Mr. X referring to the provisions of the Companies Act, 2013.

- (a) Number of directors for which a person can be appointed as an alternate director.

- (b) Where an alternate director is appointed in place of a director whose term is indefinite, then, what will be the tenure of such alternate director?
 - (c) Can an Executive Director/Whole Time Director/Managing Director appoint alternate directors?
17. International Technologies Limited, a listed company, being managed by a Managing Director proposes to pay the following managerial remuneration:
- (i) Commission at the rate of five percent of the net profits to its Managing Director, Mr. Kamal.
 - (ii) The directors other than the Managing Director are proposed to be paid monthly remuneration of ₹ 50,000 and also commission at the rate of one percent of net profits of the company subject to the condition that overall remuneration payable to ordinary directors including monthly remuneration payable to each of them shall not exceed two percent of the net profits of the company. The commission is to be distributed equally among all the directors.

You are required to examine with reference to the provisions of the Companies Act, 2013 the validity of the above proposals.

18. On an application filed from shareholder of Company, Tribunal (NCLT) passed an order on 20th December, 2019 without the consent of parties. Mr. Rama whose family's condition was not good so didn't take much interest in order of tribunal but after few days due to aggrieved by an order, he filed an appeal before Appellate Tribunal (NCLAT) on 15th March, 2020 showing sufficient cause of delay for not filing appeal up to 45 days from the date of order. Even after receiving order from Appellate Tribunal dated 30th April, 2020, Mr. Rama was not satisfied and desires to make application to Supreme Court on 30th October, 2020.

Considering the given situation, examine whether Appeal to be filed before the Supreme Court will be admissible?

19. 'X' Stock Exchange Limited was granted recognition by Securities and Exchange Board of India (SEBI). The stock brokers of the Stock Exchange did not pay much heed to the concept of governance and focused on increasing their wealth and snubbed the protection of investors. Their activities were against the interest of the trade and general public.

Examine whether the SEBI has the power to withdraw the recognition granted to 'X' Stock Exchange Limited under the provisions of Securities Contracts (Regulations) Act, 1956?

Whether a person can be a member of an unrecognized Stock Exchange for the purpose of performing any contracts in Securities?

20. The composition of Audit Committee of MKBTC Limited, an unlisted Public Company, as on 31-3-2019 comprised of 7 Directors including 4 Independent Directors. The majority of the members of the Audit Committee has the ability to read and understand the financial statements but none of them has accounting or related financial management expertise. The Company listed its Securities in a recognized Stock Exchange in the month of August 2019. Referring to the regulations of Securities and Exchange Board of India [Listing Obligations and Disclosure Requirements] Regulations 2015, decide whether the existing Audit Committee can continue after listing of its Securities?
21. Mr. Kunal used his car for smuggling cash and for other illegal activities. On trial before the Special Court, it was found that an offence of money laundering was committed by Mr. 'Kunal'. Also found that the car was under hypothecation to a Bank for the car loan obtained. Referring to provisions of the PMLA, 2002, examine whether the car can be confiscated in the light of the given situation?
22. Quality Rubber Limited, a supplier of raw materials filed a petition before the NCLT for the recovery of ₹ 10,00,000 against Smart Latex Limited. Smart Latex Limited, the Corporate Debtor, has other financial creditors to the extent of ₹ 1,50,00,000 and they also joined together and filed petitions to NCLT. The Corporate Debtor has a total of 40 financial creditors and 2 operational creditors. Further, all the financial creditors are having equal voting rights/shares.
- Notice was issued on 1st August, 2019 for the conduct of the first meeting to be held on 5th August, 2019 at a common venue. The meeting was attended by all 40 financial creditors and 2 operational creditors. A resolution was passed to appoint Mr. Naveen as a Resolution Professional. 25 of the financial creditors voted in favour of the resolution and 10 voted against the resolution and 5 financial creditors and 2 operational creditors abstained from voting.
- Decide in terms of the given information whether the resolution passed to appoint Mr. Naveen is valid? In the light of the provisions of Insolvency and Bankruptcy Code, 2016 read with rules framed thereunder, explain the requirements of valid quorum for the conduct of the meeting.
23. XYZ Foundation, a society registered under the Societies Registration Act, 1860, has received foreign contribution from a Mala Company LLC, a company incorporated in Singapore. XYZ Foundation deposited the amount of foreign contribution in a bank and earned interest on it. XYZ Foundation desires to invest maturity proceeds from deposits in mutual funds. You are required to advise whether XYZ Foundation is allowed to make such investment considering the provisions of the Foreign Contribution (Regulation) Act, 2010 (Note: XYZ Foundation has obtained certificate of registration under section 11 of the Act).

24. Mr. Ramesh Kulkarni conducts private tuition classes from his residence. It was alleged by the Enforcement Directorate that Mr. Kulkarni has under reported his income and collected income in tax and used the proceeds to purchase a house property in Marol, Mumbai. The ED officers through written orders provisionally attached the properties on suspicion of it being derived from the proceeds of crime. Comment on the validity of the provisional attachment on the order issued by the ED officers.

SUGGESTED ANSWERS/HINTS

Answers to Integrated Case Scenario/Independent MCQs

1. (d)
2. (a)
3. (a)
4. (a)
5. (d)
6. (a)
7. (b)
8. (c)
9. (d)
10. (c)
11. (c)
12. (c)
13. (d)
14. (b)
15. (b)

Answers to Descriptive Questions

16. (a) According to Section 161(2) of the Companies Act, 2013, the Board of Directors of a company may, if so authorised by its articles or by a resolution passed by the company in general meeting, appoint a person, not being a person holding any alternate directorship for any other director in the company or holding directorship in the same company, to act as an alternate director for a director during his absence for a period of not less than three months from India.

According to section 165, no person shall hold office as a director, including any alternate directorship, in more than twenty companies at the same time. However, the maximum number of public companies in which a person can be appointed as a director shall not exceed ten.

Hence, in the instant case, a person can be appointed as an alternate director for only one director in the same company but maximum twenty different companies.

- (b) According to second proviso to section 161(2), an alternate director shall not hold office for a period longer than that permissible to the director in whose place he has been appointed and shall vacate the office if and when the director in whose place he has been appointed returns to India.

Third proviso says that if the term of office of the original director is determined before he so returns to India, any provision for the automatic re-appointment of retiring directors in default of another appointment shall apply to the original, and not to the alternate director.

Hence, in the instant case, the alternate director shall hold office till the time original director returns to India.

- (c) As per section 161(2), the Board of Directors of a company may, if so authorised by its articles or by a resolution passed by the company in general meeting, appoint a person, not being a person holding any alternate directorship for any other director in the company or holding directorship in the same company, to act as an alternate director for a director during his absence for a period of not less than three months from India.

From the above provision, it is clear that an alternate director can be appointed for any director by the board of directors and not by an Executive Director/Whole Time Director/Managing Director for themselves.

17. International Technologies Limited, a listed company, being managed by a Managing Director proposes to pay the following managerial remuneration:

- (i) **Commission at the rate of 5% of the net profits to its Managing Director, Mr. Kamal:** Part (i) of the Second Proviso to Section 197(1), provides that except with the approval of the company in general meeting by a special resolution, the remuneration payable to any one managing director or whole time director or manager shall not exceed 5% of the net profits of the company and if there is more than one such director then remuneration shall not exceed 10% of the net profits to all such directors and manager taken together.

In the present case, since the International Technologies Limited is being managed by a Managing Director, the commission at the rate of 5% of the net profit to Mr. Kamal, the Managing Director is allowed and no approval of company in general meeting is required.

- (ii) The directors other than the Managing Director are proposed to be paid monthly remuneration of ₹ 50,000 and also commission at the rate of 1 % of net profits of the company subject to the condition that overall remuneration payable to ordinary directors including monthly remuneration payable to each of them shall not exceed 2 % of the net profits of the company. Part (ii) of the Second Proviso to Section 197(1) provides that except with the approval of the company in general meeting by a special resolution, the remuneration payable to directors who are neither managing directors nor whole time directors shall not exceed-

- (A) 1% of the net profits of the company, if there is a managing or whole-time director or manager;
 (B) 3% of the net profits in any other case.

In the present case, the maximum remuneration allowed to directors other than managing or whole-time director is 1% of the net profits of the company because the company is managed by a managing director. Hence, if the company wants to fix directors' remuneration at not more than 2% of the net profits of the company, the approval of the company in general meeting is required by passing a special resolution.

18. According to Section 423 of the Companies Act, 2013, any person aggrieved by an order of the Appellate Tribunal may prefer an appeal to the Supreme Court.

Every appeal shall be filed within a period of 60 days from the date on which a copy of the order of the Appellate Tribunal is made available to the person aggrieved and shall be in such form, and accompanied by such fees, as may be prescribed.

Supreme Court may entertain an appeal even after the expiry of the said period of 60 days from the date aforesaid, but within a further period not exceeding 60 days, if it is satisfied that the appellant was prevented by sufficient cause from filing the appeal within period.

In above case, since Mr. Rama even aggrieved by an order of Appellate Tribunal desires to fill an application before Supreme Court on 30th October 2020. But as Supreme Court can entertain appeal only upto 60 days + 60 Days (Extension if sufficient cause). Since this appeal was to be filled beyond 120 days by Mr. Rama, so, appeal to be filed before the Supreme Court will not be admissible.

19. (i) Section 5(1) of the Securities Contracts (Regulations) Act, 1956 states that if the Central Government/ SEBI is of the opinion that the recognition granted to a stock exchange under the provisions of this Act, should, in the interest of the trade or in the public interest, be withdrawn, the Central Government or SEBI may serve on the governing body of the stock exchange, a written notice that the Central Government or SEBI is considering the withdrawal of the recognition for the reasons stated in the notice and after giving an opportunity to the governing body to be heard in the matter, the Central Government/SEBI may withdraw the recognition granted to the stock exchange.

Thus, Central Government or SEBI can withdraw the recognition of 'X' Stock Exchange Limited on the grounds that their activities were against the interest of the trade and general public.

- (ii) As per section 19 of the Securities Contracts (Regulations) Act, 1956, no person shall organise or assist in organising or be a member of any stock exchange (other than a recognised stock exchange) for the purpose of assisting in, entering into or performing any contracts in securities, except with the approval of Central Government or SEBI.

Hence, no person can be a member of an unrecognised Stock exchange for the purpose of performing any contracts in Securities, except with the approval of Central Government or SEBI.

20. Audit Committee: According to Regulation 18 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, every listed entity shall constitute a qualified and independent audit committee which shall have:

- (a) Minimum three directors as members.
- (b) Two-thirds of the members of audit committee shall be independent directors.
- (c) All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise.

As per the facts of the question, MKBTC Limited, listed its securities in a recognised Stock Exchange in the month of August, 2019. In order to comply with the requirements of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the company requires to do the following:

- (i) The audit committee of MKBTC Limited already has 7 directors as members, which is in compliance.
- (ii) The audit committee has 4 directors as independent directors. However, once the company gets listed, at least 5 $[7 \times (2/3)]$ directors shall be independent directors. Thus, they need to change the composition of audit committee once the company gets listed on stock exchange.
- (iii) In the existing audit committee though majority of the members have the ability to read and understand the financial statement but none of them has accounting or related financial management expertise. However, once the company gets listed it is required that all members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise. Hence, it is required that the company should appoint at least one member in the audit committee who shall have accounting or related financial management expertise.

In view of above, the existing audit committee cannot continue after listing of its securities.

- 21. Vesting of property in Central Government [Section 9]:** Where an order of confiscation has been made under section 8(5) or section 8(7) or section 58B or section 60(2A) of PMLA, 2002 in respect of any property of a person, all the rights and title in such property shall vest absolutely in the Central Government free from all encumbrances.

However, where the Special Court or the Adjudicating Authority, as the case may be, after giving an opportunity of being heard to any other person interested in the property attached under this Chapter, or seized or frozen, is of the opinion that any encumbrance on the property or lease-hold interest has been created with a view to defeat the provisions of this Chapter, it may, by order, declare such encumbrance or lease-hold interest to be void and thereupon the aforesaid property shall vest in the Central Government free from such encumbrances or lease-hold interest.

In the instant case, Mr. Kunal used his car for smuggling cash and for other illegal activities for committing of an offence under the purview of the Prevention of Money Laundering Act. The Special Court found on conclusion of trial that an offence of money laundering was committed by Mr. Kunal. The car was under hypothecation with the bank for the car loan obtained. As the encumbrance on the car has been created to defeat the provisions and special court may order to declare such encumbrance to be void and therefore the car can be confiscated and shall vest in the Central Government.

- 22.** According to section 22 of the Insolvency and Bankruptcy Code, 2016, the first meeting of the committee of creditors shall be held within seven days of the constitution of the committee of creditors. The committee of creditors in the first meeting may by a majority vote of not less than sixty-six percent of the voting share of the financial creditors, either resolve to appoint the interim resolution professional as a resolution professional or to replace the interim resolution professional by another resolution professional.

A meeting of committee of creditors shall quorate if members of the committee of creditors representing at least thirty three percent of the voting rights are present either in person or by video/audio means.

The adjourned meeting shall quorate with the members of the committee attending the meeting.

As per the facts of the question and the provisions of law, the requisite quorum was present in the meeting as all 40 financial creditors attended the meeting and 5 abstained from voting.

The Act requires that not less 66% of the financial creditors shall resolve to appoint resolution professional. However, in the given case 71.4% $[(25/35) \times 100]$ voted in favour of Mr. Naveen. Hence, the said appointment is valid.

23. As per the explanation 2 to the definition of the Foreign Contribution under the Act, the interest accrued on the foreign contribution deposited in any bank referred to in section 17(1) or any other income derived from the foreign contribution or interest thereon shall also be deemed to be foreign contribution within the meaning of this clause.

Further as per section 8 of the Act, every person, who is registered and granted a certificate or given prior permission under this Act and receives any foreign contribution, shall utilise such contribution for the purpose for which the contribution has been received.

Provided that any foreign contribution or any income arising out of it shall not be used for speculative business, where as speculative business includes investment in mutual fund. XYZ Foundation cannot use the contribution as well as the interest component for the Investment in Mutual Fund.

24. As per Section 5(5) of the Prevention of Money Laundering Act, 2002, the Director or any other officer who provisionally attaches any property under sub-section (1) shall, within a period of thirty days from such attachment, file a complaint stating the facts of such attachment before the Adjudicating Authority.

As per Section 8(4) of the Prevention of Money Laundering Act, 2002, where the provisional order of attachment made under sub-section (1) of section 5 has been confirmed under sub-section (3), the Director or any other officer authorised by him in this behalf shall forthwith take the possession of the property attached under section 5 or frozen under sub-section (IA) of section 17, in such manner as may be prescribed. Accordingly, the Director is to file a petition with the Adjudicating Authority within 30 days of attachment. After order of attachment is confirmed, the Director take possession of the attached property.

**Applicability of Standards/Guidance Notes/Legislative Amendments etc. for November,
2020 Examination**

Study Guidelines for November, 2020 Examinations

Final New Course

Paper 1: Financial Reporting

List of topic-wise exclusions from the syllabus

(1)	(2)	(3)
S. No. in the revised syllabus	Topics of the syllabus	Exclusions
2.	<p>Application of Indian Accounting Standards (Ind AS) with reference to General Purpose Financial Statements</p> <p>(v) Ind AS on Assets and Liabilities of the Financial Statements including Industry specific Ind AS</p> <p>(viii) Other Ind AS</p>	<p>Indian Accounting Standard (Ind AS) 37 'Provisions, Contingent Liabilities and Contingent Assets'</p> <ul style="list-style-type: none"> Appendix A: Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds Appendix B: Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment <ul style="list-style-type: none"> Indian Accounting Standard (Ind AS) 29: Financial Reporting in Hyperinflationary Economies Indian Accounting Standard (Ind AS) 104: Insurance Contracts Indian Accounting Standard (Ind AS) 106: Exploration for and Evaluation of Mineral Resources Indian Accounting Standard (Ind AS) 114: Regulatory Deferral Accounts
5.	Analysis of financial statements	<ul style="list-style-type: none"> Analysis of financial statements based on Accounting Standards

Notes:

- (1) In the above table, in respect of the topics of the revised syllabus specified in column (2) the related exclusion is given in column (3). The revised syllabus has been enclosed as **Annexure I** of this Study Guidelines.
- (2) August, 2019 edition of the Study Material is relevant for November, 2020 examination. The relevant / applicable topics or content are to be read alongwith the 'Corrigendum to Study Material'.
- (3) The relevant Amendments / Notifications / Circulars / Rules issued by the Companies Act, 2013 up to 30th April, 2020 will be applicable for November, 2020 Examination. **Accordingly, Ind AS 116 (by replacing Ind AS 17) and other amendments notified by MCA on 30.3.2019 is applicable for November, 2020 examination.**

Annexure I**REVISED SYLLABUS (APPLICABLE FROM NOVEMBER, 2019 EXAMINATION)****FINAL NEW COURSE****PAPER – 1: FINANCIAL REPORTING**

(One paper – Three hours – 100 Marks)

Objectives:

- (a) To acquire the ability to integrate and solve problems in practical scenarios on Indian Accounting Standards for deciding the appropriate accounting treatment and formulating suitable accounting policies.
- (b) To gain the prowess to recognize and apply disclosure requirements specified in Indian Accounting Standards while preparing and presenting the financial statements.
- (c) To develop the skill to prepare financial statements of group entities which includes subsidiaries, associates and joint arrangements based on Indian Accounting Standards.
- (d) To develop an understanding of the various forms of reporting (other than financial statements) and accounting for special transactions, and apply such knowledge in problem solving.

Contents:

1. **Framework for Preparation and Presentation of Financial Statements** in accordance with Indian Accounting Standards (Ind AS).
2. **Application of Indian Accounting Standards (Ind AS)** with reference to General Purpose Financial Statements
 - (i) Ind AS on First time adoption of Indian Accounting Standards

- (ii) Ind AS on Presentation of Items in the Financial Statements
- (iii) Ind AS on Measurement based on Accounting Policies
- (iv) Ind AS on Income Statement
- (v) Ind AS on Assets and Liabilities of the Financial Statements including Industry specific Ind AS
- (vi) Ind AS on Items impacting the Financial Statements
- (vii) Ind AS on Disclosures in the Financial Statements
- (viii) Other Ind AS

3. Indian Accounting Standards on Group Accounting

- (i) Business Combinations and Accounting for Corporate Restructuring (including demerger) (as per Ind AS)
- (ii) Consolidated and Separate Financial Statements (as per Ind AS)

4. Accounting and Reporting of Financial Instruments (as per Ind AS)

5. Analysis of Financial Statements

6. Integrated Reporting

7. Corporate Social Responsibility Reporting

Notes:

1. If either a new Indian Accounting Standard (Ind AS) or Announcements and Limited Revisions to Ind AS are issued or the earlier one are withdrawn or new Ind AS, Announcements and Limited Revisions to Ind AS are issued in place of existing Ind AS, Announcements and Limited Revisions to Ind AS, the syllabus will accordingly include / exclude such new developments in the place of the existing ones with effect from the date to be notified by the Institute.
2. The specific inclusions / exclusions in any topic covered in the syllabus will be effected every year by way of Study Guidelines.

Paper 3: Advanced Auditing and Professional Ethics

A. List of topic-wise inclusion in the syllabus

I. List of applicable Statements and Standards for November, 2020 Examination:

1. Statement on Reporting under Section 227(1A) of the Companies Act, 1956 (Section 143(1) of the Companies Act, 2013).
2. Framework for Assurance Engagements.

II. List of applicable Engagements and Quality Control Standards on Auditing for November, 2020 Examination

S.No	SA	Title of Standard on Auditing
1	SQC 1	Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements
2	SA 200	Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing
3	SA 210	Agreeing the Terms of Audit Engagements
4	SA 220	Quality Control for Audit of Financial Statements
5	SA 230	Audit Documentation
6	SA 240	The Auditor's responsibilities Relating to Fraud in an Audit of Financial Statements
7	SA 250	Consideration of Laws and Regulations in An Audit of Financial Statements
8	SA 260	Communication with Those Charged with Governance (Revised)
9	SA 265	Communicating Deficiencies in Internal Control to Those Charged with Governance and Management
10	SA 299	Joint Audit of Financial Statements (Revised)
11	SA 300	Planning an Audit of Financial Statements
12	SA 315	Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment
13	SA 320	Materiality in Planning and Performing an Audit
14	SA 330	The Auditor's Responses to Assessed Risks
15	SA 402	Audit Considerations Relating to an Entity Using a Service Organization
16	SA 450	Evaluation of Misstatements Identified during the Audits
17	SA 500	Audit Evidence
18	SA 501	Audit Evidence - Specific Considerations for Selected Items
19	SA 505	External Confirmations
20	SA 510	Initial Audit Engagements-Opening Balances
21	SA 520	Analytical Procedures
22	SA 530	Audit Sampling

23	SA 540	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures
24	SA 550	Related Parties
25	SA 560	Subsequent Events
26	SA 570	Going Concern (Revised)
27	SA 580	Written Representations
28	SA 600	Using the Work of Another Auditor
29	SA 610	Using the Work of Internal Auditors (Revised)
30	SA 620	Using the Work of an Auditor's Expert
31	SA 700	Forming an Opinion and Reporting on Financial Statements (Revised)
32	SA 701	Communicating Key Audit Matters in the Independent Auditor's Report (New)
33	SA 705	Modifications to the Opinion in the Independent Auditor's Report (Revised)
34	SA 706	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report (Revised)
35	SA 710	Comparative Information – Corresponding Figures and Comparative Financial Statements
36	SA 720	The Auditor's Responsibility in Relation to Other Information (Revised)

III. List of applicable Guidance Notes and other publications for November, 2020 Examination:

1. Guidance Note on Audit under Section 44AB of the Income-tax Act.
2. Guidance Note on Audit of Banks.
3. Guidance Note on Audit of Internal Financial Controls over Financial Reporting.
4. Guidance Note on the Companies (Auditor's Report) Order, 2016.

IV Applicability of the Companies Act, 2013 and other Legislative Amendments for November, 2020 Examination

- (i) Students are expected to be updated with the notifications, circulars and other legislative amendments made up to 6 months prior to the examination. Accordingly, the relevant notified Sections of the Companies Act, 2013 and legislative amendments including relevant Notifications / Circulars / Rules / Guidelines issued by Regulating Authority up to 30th April, 2020 will be applicable for **November, 2020** Examination. It may be noted that the

significant notifications and circulars issued which are not covered in the August 2019 edition of Study Material, would be given as Academic Update in the Revision Test Paper for **November, 2020** Examination.

- (ii) SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and Companies (Auditor's Report) Order, 2016 are applicable for **November, 2020** Examination.

(iii) Audit provision under GST Laws are applicable for November, **2020** Examination.

B. List of topic-wise exclusions from the syllabus

I. Chapter 14 : Special Audit Assignment topic has been **excluded**.

II. **Following Engagement and Quality Control Standards excluded:**

(1)	(2)	(3)
S. No	Topics of the syllabus	Exclusions
1	SA 800	Special Considerations-Audits of Financial Statements Prepared in Accordance with Special Purpose Framework
2	SA 805	Special Considerations-Audits of Single Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement
3	SA 810	Engagements to Report on Summary Financial Statements
4	SRE 2400	Engagements to Review Historical Financial Statements (Revised)
5	SRE 2410	Review of Interim Financial Information Performed by the Independent Auditor of the Entity
6	SAE 3400	The Examination of Prospective Financial Information
7	SAE 3402	Assurance Reports on Controls At a Service Organisation
8	SAE 3420	Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus (New)
9	SRS 4400	Engagements to Perform Agreed Upon Procedures Regarding Financial Information
10	SRS 4410	Compilations Engagements (Revised)

***Note:** In view of Exclusion of SA 800 Series, SREs, SAEs and SRSs series Chapter 7 will be excluded from the syllabus for November, 2020 Examination.

III. Following Guidance Notes and other publications are excluded:

1. Code of Ethics publication is excluded whereas **Chapter 18 on Professional Ethics is in syllabus**
2. Guidance Note on Independence of Auditors.
3. Guidance Note on Audit of Inventories.
4. Guidance Note on Audit of Debtors, Loans and Advances.
5. Guidance Note on Audit of Investments.
6. Guidance Note on Audit of Cash and Bank Balances.
7. Guidance Note on Audit of Liabilities.
8. Guidance Note on Audit of Revenue.
9. Guidance Note on Audit of Expenses.
10. Guidance Note on Computer Assisted Audit Techniques (CAATs).
11. Guidance Note on Audit of Payment of Dividend.
12. Guidance Note on Audit of Capital and Reserves.
13. Guidance Note on Reporting under section 143(3)(f) and (h) of the Companies Act, 2013
14. Guidance Note on Reporting on Fraud under section 143(12) of the Companies Act, 2013

Paper 4: Corporate and Economic Laws

The provisions of Companies Act, 2013 along with significant Rules/ Notifications/ Circulars/ Clarification/ Orders issued by the Ministry of Corporate Affairs and the laws covered under the Economic Laws, as amended by concerned authority, including significant notifications and circulars issued up to 30th April, 2020 are applicable for November 2020 examination.

Inclusions / Exclusions from the syllabus

(1)	(2)	(3)	(4)
S. No. in the syllabus	Chapters/ Topics of the syllabus	Inclusions (Provisions which are included from the corresponding chapter of the syllabus)	Exclusions (Provisions which are excluded from the corresponding chapter of the syllabus)
Part I: Section A- Company Law	Chapter 1: Appointment and	The entire content included in the August 2019 edition of the Study	Except the Relevant rules to the extent covered in the August

	Qualifications of Directors	Material and the Legislative amendments covered in RTP for November 2020 examinations (to be hosted on the website), shall only be relevant for the said examinations.	2019 edition of the Study Material and RTP for November 2020, all other Rules of the Companies Act, 2013 are excluded.
Part I: Section A- Company Law	Chapter 2: Appointment and remuneration of Managerial Personnel	The entire content included in the August 2019 edition of the Study Material and the Legislative amendments covered in RTP for November 2020 examinations (to be hosted on the website), shall only be relevant for the said examinations.	Except the Relevant rules to the extent covered in the August 2019 edition of the Study Material and RTP for November 2020, all other Rules of the Companies Act, 2013 are excluded.
Part I: Section A- Company Law	Chapter 3: Meetings of Board and its powers	The entire content included in the August 2019 edition of the Study Material and the Legislative amendments covered in RTP for November 2020 examinations (to be hosted on the website), shall only be relevant for the said examinations.	Except the Relevant rules to the extent covered in the August 2019 edition of the Study Material and RTP for November 2020, all other Rules of the Companies Act, 2013 are excluded.
Part I: Section A- Company Law	Chapter 4: Inspection, inquiry and Investigation	The entire content included in the August 2019 edition of the Study Material and the Legislative amendments covered in RTP for November 2020 examinations (to be hosted on the website), shall only be relevant for the said examinations.	Except the Relevant rules to the extent covered in the August 2019 edition of the Study Material and RTP for November 2020, all other Rules of the Companies Act, 2013 are excluded.

Part I: Section A- Company Law	Chapter 5: Compromises, Arrangements and Amalgamations	The entire content included in the August 2019 edition of the Study Material and the Legislative amendments covered in RTP for November 2020 examinations (to be hosted on the website), shall only be relevant for the said examinations.	Except the Relevant rules to the extent covered in the August 2019 edition of the Study Material and RTP for November 2020, all other Rules of the Companies Act, 2013 are excluded.
Part I: Section A- Company Law	Chapter 6: Prevention of Oppression and Mismanagement	The entire content included in the August 2019 edition of the Study Material and the Legislative amendments covered in RTP for November 2020 examinations (to be hosted on the website), shall only be relevant for the said examinations.	Except the Relevant rules to the extent covered in the August 2019 edition of the Study Material and RTP for November 2020, all other Rules of the Companies Act, 2013 are excluded.
Part I: Section A- Company Law	Chapter 7: Winding Up	Sections related to winding up by Tribunal (from sections 271-303); and Sections applicable to every mode of winding up (from sections 324-336 and 344-347 and 352- 358) and the Legislative amendments covered in RTP for November 2020 examinations (to be hosted on the website), shall only be relevant for the said examinations.	Remaining provisions other than given in column (3), are excluded.
Part I: Section A- Company Law	Chapter 8: Producer Companies	-	Entire topic is excluded

Part I: Section A- Company Law	Chapter 9: Companies incorporated outside India	The entire content included in the August 2019 edition of the Study Material and the Legislative amendments covered in RTP for November 2020 examinations (to be hosted on the website), shall only be relevant for the said examinations.	Except the Relevant rules to the extent covered in the August 2019 edition of the Study Material and RTP for Legislative amendments covered in RTP for November 2020 examinations (to be hosted on the website), shall only be relevant for the said examinations. 2020, all other Rules of the Companies Act, 2013 are excluded.
Part I: Section A- Company Law	Chapter 10: Miscellaneous Provisions	The entire content included in the August 2019 edition of the Study Material and the Legislative amendments covered in RTP for Legislative amendments covered in RTP for November 2020 examinations (to be hosted on the website), shall only be relevant for the said examinations. 2020 examinations (to be hosted on the website), shall only be relevant for the said examinations.	<ol style="list-style-type: none"> Sections 366 to 378, 396 to 404, 405, 448, 449, 451-453, 456-470 are excluded. Except the Relevant rules to the extent covered in the August 2019 edition of the Study Material and RTP for Legislative amendments covered in RTP for November 2020 examinations (to be hosted on the website), shall only be relevant for the said examinations, 2020, all other Rules of the Companies Act, 2013 are excluded.
Part I: Section A- Company Law	Chapter 11: Compounding of offences,	The entire content included in the August 2019 edition of the Study	<ol style="list-style-type: none"> Compounding of offences covered under section 441

	Adjudication, Special Courts	Material and the Legislative amendments covered in RTP for November 2020 examinations (to be hosted on the website), shall only be relevant for the said examinations.	is excluded. 2. Except the Relevant rules to the extent covered in the August 2019 edition of the Study Material and RTP for November 2020, all other Rules of the Companies Act, 2013 are excluded.
Part I: Section A- Company Law	Chapter 12: National Company Law Tribunal and Appellate Tribunal	The entire content included in the August 2019 edition of the Study Material and the Legislative amendments covered in RTP for November 2020 examinations (to be hosted on the website), shall only be relevant for the said examinations.	1. Provisions dealing with constitution of NCLT/NCLAT and qualification of chairman and NCLT/NCLAT members, their salary, allowances etc. (i.e. section 408 to 419) are excluded. 2. Except the Relevant rules to the extent covered in the August 2019 edition of the Study Material and RTP for November 2020, all other Rules of the Companies Act, 2013 are excluded.
Part I: Section A- Company Law	Chapter 13: Corporate Secretarial Practice– Drafting of Notices, Resolutions, Minutes and Reports	The entire content included in the August 2019 edition of the Study Material and the Legislative amendments covered in RTP for November 2020 examinations (to be	-

		hosted on the website) shall only be relevant for the said examinations.	
Part I: Section B- Securities Laws	Chapter 1: The Securities Contract (Regulation) Act, 1956 and the Securities Contract (Regulation) Rules, 1957	The entire content included in the August 2019 edition of the Study Material and the Legislative amendments covered in RTP for November 2020 examinations (to be hosted on the website), shall only be relevant for the said examinations. The following Securities Contract (Regulation) Rules, 1957 to the extent covered in the study material, shall only be relevant for the said examinations: 3, 4, 4A, 5, 5A, 6, 7, 8, 12, 13, 14, 15, 16, 17, 17A, 19 & 21.	1. Following sections of the SCRA, 1956- Sections 4A, 4B, 20, 25, 26B, 26D, 26E, 29, 29A, 30, 30A, 31, 32 are excluded. 2. Except the Securities Contract (Regulation) Rules, 1957 given in the Column (3), all other rules of the Securities Contract (Regulation) Rules, 1957 are excluded.
Part I: Section B- Securities Laws	Chapter 2: The Securities Exchange Board of India Act, 1992, SEBI (ICDR) Regulations, 2009 and SEBI (LODR) Regulations, 2015	The entire content included in the August 2019 edition of the Study Material and the Legislative amendments covered in RTP for November 2020 examinations (to be hosted on the website), shall only be relevant for the said examinations. In particular, SEBI (LODR) Regulations, 2015 to the extent covered in the study material, shall only be applicable for the examination.	1. Following provisions of the SEBI Act, are excluded – Sections 2(1)(b), 2(1)(c), 2(1)(d), 2(1)(da), 2(1)(f), 2(1)(fa), 2(1)(g), 20, 21, 25, 28 & 33. 2. SEBI (ICDR) Regulations is excluded

Part II: Economic Laws	Chapter 1: The Foreign Exchange Management Act, 1999	<p>The FEMA, 1999 along with the following Rules/Regulations to the extent covered in the study material and the Legislative amendments covered in RTP for November 2020 examinations (to be hosted on the website), shall only be relevant for the said examinations-</p> <ul style="list-style-type: none"> • Fem (Permissible Capital Account Transactions) Regulations, 2000 • Fem (Current Account Transactions) Rules, 2000 • FEM (Export of Goods & Services) Regulations, 2015 • Overseas Direct Investment • Import of Goods and Services • External Commercial Borrowing Policy 	<ol style="list-style-type: none"> 1. Following provisions of the FEMA, 1999 is excluded for the examination- Sections 2(cc) & Section 2(gg), 16(2)- 16(6), 17(4) 17(6), 19 to 34, 37(2) – 37(3), 37A, 45, 46, 47 & 48. 2. All other FEM (Regulations)/ Rules except given in column (3), are excluded.
Part II: Economic Laws	Chapter 2: SARFAESI Act, 2002	Entire content to the extent covered in the study material of August 2019 edition and the Legislative amendments covered in RTP for November 2020 examinations (to be hosted on the website), shall only be relevant for the said examinations covering-	Remaining provisions (i.e. section 20 and onwards) are excluded.

		<ul style="list-style-type: none"> • Relevant definitions covered in the Study Material • Management of asset by the bank and the financial institutions 	
Part II: Economic Laws	Chapter 3: Prevention of Money Laundering Act, 2002	The entire content included in the August 2019 edition of the Study Material and the Legislative amendments covered in RTP for November 2020 examinations (to be hosted on the website), shall only be relevant for the said examinations.	<p>1. Following Sections are excluded for examination: 2(1)(a), (b)(c), (d), (da), (f), (g), (h), (i), (ia), (ib), (j), (ja), (k), (m), (na), (o), (q), (r), (rc), (s), (sa), (sb), (sc), (t), (va), (z), (zb) & (2)- Definitions, 6(3)-6(15), 7, 10, 11, 16 to 24, 35(1), 35(3)- 35(5), 36-37, 39- 40, 49 to 54, 58A - 58B, 59-60, 61, 67-68, 73, 74 & 75.</p> <p>2. Rules related to PMLA is excluded in its entirety.</p>
Part II: Economic Laws	Chapter 4: Foreign Contribution Regulation Act, 2010	<p>The entire content included in the August 2019 edition of the Study Material and the Legislative amendments covered in RTP for November 2020 examinations (to be hosted on the website), shall only be relevant for the said examinations.</p> <p>Rules related to FCRR, 2011 is relevant for November 2020 to the</p>	<p>Following Sections are excluded for examination: Section 2(1)(a), (b), (c), (d), (e), (f), (k), (l), (o), (p), (q), (s), (t), & (u)- Definitions, 21, 23 – 27, 44, 45, 49, 53 & 54.</p>

		extent covered in the August 2019 edition of the Study Material.	
Part II: Economic Laws	Chapter 5: The Arbitration and Conciliation Act, 1996	The entire content included in the August 2019 edition of the Study Material and the Legislative amendments covered in RTP for November 2020 examinations (to be hosted on the website), shall only be relevant for the said examinations.	-
Part II: Economic Laws	Chapter 6: The Insolvency and Bankruptcy Code, 2016	<p>Content of this chapter of the Study Material is covering an overview of the Insolvency and Bankruptcy Code with the broad coverage (not in entirety) of the provisions upto section 59 of the Code.</p> <p>Rules related to Insolvency and Bankruptcy Code, is relevant for November 2020 to the extent covered in the August 2019 edition of the Study Material.</p> <p>The entire content included in the August 2019 edition of the Study Material and the Legislative amendments covered in RTP for November 2020 examinations (to be hosted on the website), shall only be relevant for the said examinations.</p>	Provisions from section 60 onwards are excluded.

Notes:

- (1) In the above table of exclusion, in respect of the Chapters of the syllabus specified in column (2) the related exclusion is given in column (4). Where an exclusion has been so specified in any topic of the syllabus, the provisions corresponding to such exclusions, covered in other topic(s) forming part of the syllabus, shall also be excluded.
- (2) August 2019 edition of the Study Material is relevant for November 2020 examinations. The amendments, made after the issuance of this Study Material, to the extent applicable for November 2020 examinations alone shall be relevant for the said examinations. The Legislative amendments will be available through RTP hosted on the BoS Knowledge Portal.
- (3) Except the exclusions mentioned in the column (4) of the table, the entire content of the syllabus included in the August 2019 edition of the Study Material and the Legislative amendments for November 2020 examinations (to be hosted on the website) shall be relevant for the said examinations.