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Message From The President

Dear Students

In the month of August, Saluting India and the people who had a stern will to fight for the cause of freedom of our country; India, where each day is celebration of unity, harmony and synthesis. I wish you all a Happy Swatantra Diwas 2017. Though we did not get an opportunity to 'die' for the country but we have the opportunity to 'live' for the country.

You are a proud student of an Institute that is making its contribution towards Nation Building by holding the torch of Corporate Governance Profession in India high since the last 49 years. This year, in the month of October, we would be commemorating our propitious Golden Jubilee as we enter the 50th year of our existence. I am glad to share with you all that Hon'ble Prime Minister Sh. Narendra Modi has extended his gracious consent to inaugurate the celebrations meant to mark the beginning of this Golden Jubilee 'in person'. Though, we are making every endeavour to make this event historical, yet, we also firmly believe that your invaluable and innovative inputs may make these celebrations even better. Therefore, we cordially invite your creative suggestions and innovative ideas for the same. You may please send the same to my Office by dropping a mail at harpreet.bahl@icsi.edu at the earliest.

The Institute is taking myriad initiatives for aiding learning of you all. Lately, ICSI has launched 'Missed Call facility' for students under Project – Sampark to provide guidance on Company Secretaryship Course by giving a missed call at number “8824401155”. You are advised to make the best use of this facility.

Furthermore, ICSI has also launched Mission “ICSI Giri Sagar Vidhyarthi Vikas Yojana”, unique mission of which is to reach out to the student community and schools/Colleges in the coastal areas/ hilly regions on pan India basis. Around 300 Cities have been identified for this Project.

Along with these endeavours by ICSI, we are also open to all ideas and suggestions sent by you to augment your learning and knowledge. But, as a mentor, I must assert that there should be a burning desire to learn and excel within you in your life as champions are a product of desire, dedication, determination, concentration and the will to win.

Keep excelling.

सी एस (डॉ.) श्याम अग्रवाल
अध्यक्ष, भारतीय कंपनी सचिव संस्थान
Date: 6th August, 2017

CONCEPT OF PAYMENTS BANKS IN INDIA

Vinod kumar
Principal
Dayanand Model School Town, Jalandhar
Email: dms.mt.jal@gmail.com

Traditionally with cash based economy India has limited penetration to banking and financial services. With the transformation of financial sector in India, new banks are forming and dream of fully banked society is now come to reality. Conceptualisation of payments banks is a bold policy reform well suited to both broadening access to and creating usage of financial services. In this article, author deliberates on concept of payments banks.

INTRODUCTION

The limited kind of financial service offerings and lack of access to organised banking for low income groups led to their domination by localised moneylenders or informal networks. Basically in earlier times most of the business owners depend upon unorganized financing to fulfil their monetary needs at high rates of interest. Improper and unorganized financial services act as growth hurdle which also leads to the heavy burden of poverty on society. For the purpose of enhancing efficiency, the concept of payments banks has been introduced.

The core objective behind the setting up of payments bank will be to further financial inclusion by providing small saving accounts and payments remittance services to migrant labour workforce, low income households, small businesses, other unorganised entities and other users. To keep basic banking services at low cost, these banks will develop multiple revenue streams. Basically these are the banks which will reach their customers through mobile phones rather than traditional bank branches. They can be also known as mobile wallets. Payments banks are permitted to offer basic bank accounts, current and savings with a balance limit of Rs. 1,00,000 but are not permitted to extend credit or accept term deposits.

FUNCTIONS OF PAYMENTS BANKS

- Payments banks provides facility of current and saving accounts with the deposit limit of Rs.one lakh.
- Services like issuing of loan and credit card facilities are not rendered by these banks. However, payments banks enable to issue ATM or debit card.
- Payment banks can be assimilate with the savings bank accounts *via* Immediate Payment Service('IMPS') and National Electronic Fund Transfer ('NEFT')
- For the purpose of successful implementation of financial inclusion , these

The core objective behind the setting up of payments bank will be to further financial inclusion by providing small saving accounts and payments remittance services to migrant labour workforce, low income households, small businesses, other unorganised entities and other users.

banks also promoting the NRI deposits.

- Payments banks enable transfers, remittances, cashless transactions and facilities like bills payments through a mobile phone.

HOW DO THEY EARN

- As we all know that traditional banks earn by charging a higher rate of interest for advances a lower rate of interest for deposits. The margin results in the profit for them
- Payments banks are not allowed to extend loans to the public and are yet expected to give interest rate at par with the commercial banks to remain competitive, as these banks are allowed to invest the customers deposit into securities from which they can raise money
- RBI has allowed these banks to invest 75 percent in government securities and 25 percent as deposit in other banks.

ELIGIBILITY

Following are the entities which are eligible for grant of licence for starting payments banks:

- Corporate business correspondents
- Non - banking finance companies
- Mobile telephone companies
- Super-market chains
- Real sector cooperatives that are owned and controlled by residents
- Promoter/promoter group have a joint venture with existing scheduled commercial bank may apply to set up payments bank.

However, scheduled commercial bank can take equity stake in payments banks to the extent permitted under the Banking Regulation Act, 1949.

CAPITAL REQUIREMENT

Reserve Bank of India specifies the minimum paid-up equity capital for payments bank will be Rs. 100 crore and its outside liabilities should not exceed 33.33 times its net worth.

REGISTRATION

On the recommendations of Dr. Nachiket Mor Committee, the Reserve Bank of India grants a licence for commencement of banking business under section 22(1) of the Banking Regulation Act 1949.

In August 2015, RBI gave in principle approval with a validity period of 18 months to 11 entities to start payment banks. These are :-

- Aditya Birla Nuvo Limited
- Airtel M Commerce Services Limited
- Cholamandalam Distribution Services Limited
- Department Of Posts
- Fino Paytech Limited
- National Securities Depository Limited
- Reliance Industries Limited
- Sun Pharmaceuticals
- Paytm
- Tech Mahindra Limited
- Vodafone M-pesa Limited

CURRENT STATUS OF PAYMENT BANKS

Current status of Payments Banks is listed as follows:

Airtel Payments Bank

By launching a pilot programme in Rajasthan, Airtel Payments Bank is the first payments bank to start their operations with features of 7.25% interest on deposits and 0.65% on withdrawal of above Rs. 4000 above. Airtel is going to invest Rs. 3000 crore and intends to convert 100 million out of 270 million Airtel customers with the bank.

Indian Post Payments Bank

Following the operations of Airtel Payments, Bank Indian Post Payments Bank is the second entity to start their operations by launching pilot project in Raipur and Ranchi. The bank is offering 4.5-5.5% on savings account. It is providing door step banking services by charging a nominal fee of Rs 15-35 per visit for amount below Rs. 10000. The Government has so far allocated Rs. 500 crore. The bank plans to open 650 branches by September 2017.

Paytm Payments Bank

Vijay Shekhar Sharma has received final licence from RBI in January to set up his payments bank. Paytm Payments Bank has started its operation and has received investments of Rs. 220 crore from Sharma and One 97 Communications. The bank has set itself a target of 200 million accounts, across current and saving accounts, and mobile wallets, within 12 months of the launch.

Fino Pay Tech Ltd.

The company is waiting to receive final nod from RBI. Fino Pay Tech plans to launch payments bank in Maharashtra, Madhya Pradesh, Uttar Pradesh and Bihar with 400 branches in the initial phase. It has indicated that the payments bank will keep the interest rate on its savings bank deposits within the current market range of 4-5%.

National Securities Depository Ltd.

Company is going to start their payments banks operations within two or three months and still in finalising their team members who are going to handle the payment bank operations.

Aditya Birla Nuvo Ltd.

There is no defined plans regarding operations released in the public domain.

Vodafone m-Pesa Ltd.

It received equity infusion worth Rs. 47,700 crore from its parent company. No defined plans regarding operations in the public domain.

Reliance Industries Ltd.

It signed an agreement with State Bank of India (SBI). No defined plans regarding operations are released in public domain.

Comparison Between the charges levied and interest rates offered by Airtel payments bank and Indian Post Payments Bank for rendering different services including deposits and withdrawals.

Airtel Payments bank charges Rs. 5 to Rs. 25 for cash withdrawals less than Rs. 4000 and 0.65% of the withdrawal amount which is equal to or greater than Rs. 4000. Indian Post Payments Bank does not charge anything for cash withdrawals from its branches and ATM's. However, it charges Rs. 15-35 for rendering doorstep banking for both deposits and withdrawals up to Rs. 10,000 .

Concept of Payments Banks in India

Interest offered			
Deposits in saving account up to Rs. 100000	7.25%	Quarterly Avg. Bal. up to Rs. 25000	4.50%
		Rs. 25000-50000	5%
		Rs.50000-100000	5.5%
Airtel Payments Bank		**Indian Post Payments Bank**	
Cash withdrawal amount	**Cash withdrawal amount**	**Cash withdrawal amount**	**Charges(Rs.)**
Rs. 10-500	**5**	< Rs. 2001	**15**
Rs. 501-1000	**10**	Rs. 2001-5000	**25**
Rs. 1001-2000	**15**	Rs. 5001-10000	**35**
Rs.2001-3000	**20**		
Rs.3001- 4000	**25**		
More than Rs. 4000	0.65% of withdrawal amount		

The remittance charges levied by both the banks also differ. Airtel Payments bank lists charges for transactions made through internet banking, through app and USSD (unstructured supplementary service Data) whereas Indian Post Payments Bank also recognises transactions through NEFT IMPS, AEPS (Aadhaar enabled payments system) and UPI (unified payments interface).

CONCLUSION

The public sector banks are just behaving sitting ducks and white elephants. They do not work efficiently. Recently Government has pumped huge capital to certain public sector banks. Even though public sector, private sector or foreign banks do not have reach to rural banking so there is need of introduction of new concept of banking, which is known as Payments Bank. This new concept is come into existence with the objective of implementation of financial inclusion. On the other hand, subsequent schemes (Pradhanmantri Jan Dhan Yojna, Atal Pension Bima Yojna, Pradhanmantri Jeevan Jyoti Bima Yojna) for the enhancement of the concept of financial inclusion came into existence but there is still some kind of hindrances which restricts the access to organized banking. In India around 20 crore banks are dormant, mobile payments will bring banking to fingertips, by overcoming infrastructure and adoption challenges and will also convert dormant bank accounts into active bank accounts. The hamlet dwellers without having investment knowledge can safely deposit their savings in payments bank not in chit fund or any high risk investment area. The small savings created in these banks provide a benefit of huge capital in the long run. Payments banks will help to reduce India's dependency on cash by enhancing the adoption of digital payments. With regards to the payment bank initiative, we hope these will be able to align their mobile strategy to the different segments of the market.

Mobile payments will bring banking to fingertips, by overcoming infrastructure and adoption challenges and will also convert dormant bank accounts into active bank accounts.

PAYMENTS ON CLICKS: E-ERA OF WALLETS AND GOVERNANCE OF E-WALLETS

Bhanu Shree Jain
B.Com. LL.B. (Hons.), CS, Bhilwara
Email:bhanushreejain28@gmail.com

With the advent of technology and demonetisation, there has been a lot of move towards the digital money. E-wallets are suggested to add one more dimension towards making India digital. Many new players in the market are going towards offering e- wallet facilities. This article will look into the regulations governing e-wallets.

INTRODUCTION

Primarily, the payment through e-wallets is covered under the Payment and Settlement Systems Act, 2007 wherein Reserve Bank of India('RBI') is authorised to make regulations to regulate the payment system. RBI has come up with Master Circular on Policy Guidelines on Issuance and Operation of Pre-paid Payment Instruments in India on 1st July , 2016 for governance of e-wallets. To ensure the security of these e-wallets Gateways RBI has issued notification dated 9th December, 2016 wherein RBI has instructed all the Pre-Payment instrument issuers to carry out technical audit of their systems by the qualified auditors and submit the audit report with RBI. However, instances of cyber frauds leads to some concern. In addition to it, there is low awareness among the Indian population in regard to making payments through wallets. Furthermore, we are still not able to develop adequate cyber infrastructure to ensure cyber security in regards to payment *via* e-wallets. RBI has not prescribed any standard for security to the pre-paid payment instrument Issuers ('PPIIs') which adds worry to the consumers who has suffered any fraud while using e-wallets. Therefore, a lot needs to be done to ensure a good and healthy revolution of wallets.

With the advent of e-wallets in the market there seems a kind of revolution happening in the banking as well as technology sector. Details of your credit cards, debit cards, e-cheques along-with personal and financial information and electronic cash including cash backs can now be kept in an e-wallet. It has been popularized due to easy accessibility and privacy wherein the bank details of the consumer is not shared with the merchant. It also allows customers to keep track of their billing and shipping information which can be used when doing transactions as the information is already stored. Further, it reduces the space in pocket to keep the physical cash and wallets. By way of allowing wallets and mobile wallets RBI has given a backdoor entry to the non-banking players into the area of payments which was previously considered as the impenetrable domain of banks. RBI has actively introduced non-banking players in issuing of prepaid payment Instruments like mobile and digital e-wallets.

To ensure the security of these e-wallets gateways RBI has issued notification dated 9th December, 2016 wherein RBI has instructed all the pre-payment instrument issuers to carry out technical audit of their systems by the qualified auditors and submit the audit report with RBI.

Currently, over 45 players offers prepaid payment Instruments to their customers. Non-bank PPII are allowed to issue semi-closed PPII which can be used for purchase of goods and services besides remittance requirements to some extent. However, given the nature of this instrument, there are certain restrictions that are placed for ring-fencing the risks while at the same time relaxing certain regulatory requirements in terms of their operations. Unlike traditional days, new entrants are not burdened with infrastructure and cost. It has given immense flexibility to the consumer and reduced the lines in the Bank. Everything is now on click of the consumers. Success of M PESA is example of the popularity of e-wallets.

E-wallets are governed by RBI which issues guidelines and provides framework for regulating and supervising the persons/entities that operates payment systems

Currently, in Indian market there are 4 types of Mobile wallets:

- ***Open e-wallet***- In these types of wallet the user/consumer is allowed to buy goods and services, transfer funds and withdraw cash at ATMs and banks. These kind of services can only provided if wallet is jointly launched with Bank. In addition to same it also allows the user to send money to any mobile number bank account. For example M-PESA by Vodafone and ICICI Bank.
- ***Semi-open e-wallet***- In these types of wallets user is allowed to transact with merchants that have contact with the wallet company. A user cannot withdraw cash or get it back. Additionally, user has to spend the money he has loaded; it cannot be transferred to his/her bank account. However, the guidelines on issuance and operation of PPIIs do not recognize these kinds of wallets. For example Airtel Money
- ***Closed e-wallet***- In these kinds of wallets certain amount is locked with the merchant and if there is cancellation or return of the order or cash back or gift cards. It is very popular with e-commerce companies. For example Flipkart e-wallet.

Semi-closed wallet: In these kinds of Wallets there is no permission to withdraw cash or get it redeemed, however, it allows users to buy goods and services at the listed merchants. For example Paytm.

ACTS AND REGULATIONS GOVERNING E-WALLETS

E-wallets are governed by RBI which issues guidelines and provide framework for regulating and supervising the persons/ entities that operates payment systems and are involved in issuance of Pre-paid payment instruments in India. This is done to ensure development of this kind of payment mode and ensure safety of consumers. Further, all necessary approvals and authorization are also done by RBI. Following are various laws governing E-wallets in India:

- ***Payment and Settlement Systems Act, 2007 (The Act)***: The Act provides for regulation and supervision of payment systems in India and designates RBI as the authority for that purpose. Thus, mobile wallets, in regard to payment, are governed by the Act. Authorisation by RBI for issuance of mobile wallets is done under the Act.

- ***Policy Guidelines on Issuance and Operation of pre-paid payment instruments in India:*** These guidelines were issued by RBI under section 18 of the Actand initial guidelines were issued in April 2009. As per guidelines pre-paid payment instruments include mobile wallets. Banks are permitted to launch mobile wallets only if they are permitted by RBI to provide mobile banking transactions. NBFCs can only issue closed and semi-closed e-wallets.Exemption from these guidelines is provided to foreign mobile wallets if it is issued by a person who are authorized under the Foreign Exchange Management Act, 1999 (FEMA) to issue such instruments and it is issued by such persons as participants of payment systems authorised by RBI. However, the use of such mobile wallets shall be limited to the permissible current account transactions and will be subject to the prescribed limits as provided under Foreign Exchange Management (Current Account Transactions) Rules, 2000. Persons seeking authorization has to meet the capital adequacy requirement of minimum paid-up capital of Rs. 5 crore and minimum positive net worth of Rs. 1 crore at all times. In regard to companies having foreign direct investment (FDI), they have to follow consolidated FDI policy. Also, only companies incorporated in India will be eligible to apply for authorization. Guidelines on KYC, Anti-money Laundering and Combating Financing of Terrorism will also apply on mobile wallets. Maximum value of mobile wallets will be Rs. 50,000 Issuer needs to open escrow account. E-wallets can be reloadable and non-reloadable. Further, Bank has to comply with KYC information. All mobile wallets have a minimum validity period of 6 months from the date of activation/ issuance to the holder. The issuer shall caution the user at reasonable intervals and give 30 days' period notice before expiry of validity of mobile wallet cash and forfeiting the outstanding balances in the mobile wallets. The same must be mentioned to the consumer before he/she reloads his/her e-wallet. Transaction limits and monthly caps are as per Domestic Money Transfer Guidelines. In cases of open e-wallets issued by the Indian Bank, cash withdrawal at Point of sale "POS"is permitted upto limit of Rs. 10,000 per day subject to same conditions as applicable to debit cards for cash withdrawal at POS. Mobile wallet issuers shall have to put in place adequate infrastructure and data security instrument and systems for prevention and detection of frauds. It is also, necessary to have a centralized database/ MIS by the issuer to prevent multiple purchases of

Persons seeking authorization has to meet the capital adequacy requirement of minimum paid-up capital of Rs. 5 crore and minimum positive net worth of Rs. 1 crore at all times.

payment instruments at different locations, leading to circumvention of limits for mobile wallets. All mobile issuers shall disclose all important terms and conditions in clear and simple language comprehensible to the consumer. Followings disclosures must be made to the consumers:

- All charges and fees associated with e-wallets
- Expiry period and terms and conditions pertaining to expiration of e-wallet currency
- Customer service telephone numbers and Website URL

Non- bank issuers shall put in place effective mechanism for redressal of customer complaints along-with escalation matrix and publicise the same for the benefit of customers. Besides this, reporting of customer complaints in the format and frequency is already mandated along-with reporting of frauds on quarterly basis. In cases of bank as issuer, customer shall have recourse to Banking Ombudsman Scheme for grievance redressal.

- ***Technical audit of systems' of pre payment instrument issuers:*** As per the directive issued by RBI on 9th December, 2016, all mobile wallet issuers are needed to carry out special audit by the empanelled auditors of the Indian Computer Emergency Response Team on a priority basis and take immediate steps to comply with the audit report given by these auditors. The audit will cover the compliances as per best practices, specifically the application security lifecycle and patch/vulnerability and change management aspects for the system authorised and adherence to the process flow approved by RBI. Issuers shall also take appropriate measures on mitigating phishing attacks. Further, safety and security best practices may be disseminated to the customers periodically.

Thus, these stringent laws make sure that the e-wallets are properly governed and no lacunas are left open in regards to their governance, authorization and customer support. Further they also ensure that there is no security issue remaining unresolved in this regard and consumers are provided with adequate safety standards.

CONCERNS AND CHALLENGES

Even after having such good and detailed regulations there are still certain worries in regards to the e-wallets:-

- *Cyber Security* - Although there are adequate security guidelines and auditing of the systems. However, recent media reports showing compromise in bank security and increasing cyber attacks creates worry in the minds of consumers.

Recent media reports showing compromise in bank security and increasing cyber attacks creates worry in the minds of consumers.

- *Frauds* - Even after securing the safety of transaction via use of additional authentication factors, fraudsters have played through different means. There are increasing number of cyber frauds and phishing e-mail attacks.
- *Customer awareness* - The large number of

rural population is still unaware about mobile wallets. Even elderly populations in urban areas are unaware about these wallets due to lack of technological knowledge. No awareness programs target this population. Further, Majority of Indians is still reluctant to use these wallets due to security and safety reasons. Also, there is lack of awareness about its usage and benefits. There is also a need to increase the reach of such e-wallets to places where there is low connectivity of internet.

- *Customer Protection* - There is also need to efficiently deal with the customer complaints/ grievances. Earlier, generally end-to-end payment services used to be offered by banks. Today's electronic payments are, however, made more complex(though not necessarily at customer level)with participation of other non-bank entities whose services may be used by banks in the form of outsourcing arrangements or through entities that offer specialised services integralto payment completion. Greater the number of players involved, more complex the process to address customer grievances within the shortest span of time. As a result, either customer complaints take a long time to resolve or remain unresolved, both of which situations needs to addressed in right earnest.

Low awareness among rural and elderly urban population limits the reach of e-wallets. There is need to do a lot in this field both on governance and regulation side.

CONCLUSION

E-wallets have seen rise in recent years due to advancement in technology and internet services. It has opened a new way wherein payments can be made electronically and data of cards can be maintained safely. Since such a sphere cannot be left unregulated RBI has issued detailed guidelines for the mobile wallet issuers and mandated a statutory audit of their system. Even after having such compliances there are chances of frauds and breach of cyber security which make such wallets vulnerable. Further, low awareness among rural and elderly urban population limits the reach of e-wallets. In addition to these factors customer protection also needs to be looked after. Thus, there need to do a lot in this field both on governance and regulation side.

Attention Students (Professional Stream)

ICSI is providing an e-library (CLAonline) to students in professional stream.

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REGULATORY REGIME OF INVESTMENT BANKING IN INDIA-AN OVERVIEW

Mayank Singhal
Vice President
UTI Mutual Funds, Mumbai
Email: mayanksinghal05@gmail.com

In this article, the author makes an attempt to understand and analyse the concept and prospects of investment banking alongwith contemporary regulatory regime governing the investment banking.

"Earn nicely, spend wisely and you will live happily ever after".

AULIQ ICE

"Get into Investment Banking".

I BHACKER

INTRODUCTION

Banking in general comprises of consumer banking, commercial banking, global corporate, investment banking and asset management. Out of all, an investment banking in an imperative shore of raising finances and enhancing the capital market transactions in toto. It is the investment banking which offers financial services to its clients in the form trading of derivative, fixed income, foreign exchanges, commodity and equities or advisory services for mergers and acquisitions. Indeed, Investment banking help the clients to prudently invest and get more then desired returns of their hard earned money under the proficient management of investment bankers. In the emergent economy, inclusive growth is now considered essential even to sustain the growth momentum and in the growth momentum, investment banking is considered as one of the substantial tool for emerging market economies. Henceforth, with the initiation towards inclusive growth and ever growing role of financial market in the country, the pursuits of investment banking is also growing parallel.

Investment banking has a huge prospect of growth in a developing economy like India now, especially with the benefits that Start-ups can obtain through the Start-up Action Plan launched this year along with various untapped sectors and the eagerness of entrepreneurs for coming up with win/win solutions. Therefore, to avail the composed structure of investment banking with the prospective benefit to the inclusive growth of the nation, regulatory regime in all the developed and emergent countries including India has been established at par.

INVESTMENT BANKING: MEANING AND SIGNIFICANCE

As per the definition provided by Investopedia, 'Investment banking' is a specific division of banking related to the creation of capital for other companies, governments and other entities. Investment banks underwrite new debt and equity securities for all types of corporations, aid in

As per the definition provided by Investopedia, 'Investment banking' is a specific division of banking related to the creation of capital for other companies, governments and other entities.

the sale of securities, and help to facilitate mergers and acquisitions, reorganizations and broker trades for both institutions and private investors. Investment banks also provide guidance to issuers regarding the issue and placement of stock.

Broadly speaking, investment banks assist in large, complicated financial transactions. This may include advice as to how much a company is worth and how best to structure a deal if the investment banker's client is considering an acquisition, merger or sale. It may also include the issuing of securities as a means of raising money for the client groups.

An investment bank is typically a banking company that provides various financial-related and other services to individuals, corporations, and governments such as raising financial capital by underwriting or acting as the client's agent in the issuance of securities.

Investment Banking – Sell Side and Buy Side

The two main lines of business in investment banking are called the sell side[1] and the buy side.[2]

Sell Side	Buy Side
Trading securities for cash or for other securities (i.e., facilitating transactions, market-making), or the promotion of securities (i.e., underwriting, research, etc.	Dealing with pension funds,
	Mutual funds,
	Hedge funds,
	And the investing public (who consume the products and services of the sell side in order to maximize their return on investment)

Functions of Investment Banking

In order to understand the significance of regulatory regime of investment banking in the emerging economy of India, one need to understand the significance of investment banking first towards the inclusive growth and development of Indian economy. This significance of the investment banking towards the comprehensive growth of the nation is can be easily understood by analysing the functions of investment banking. Few major functions of investment banking are listed as below:

- Raising Capital & Security Underwriting
- Mergers & Acquisitions
- Sales & Trading and Equity Research
- Retail and Commercial Banking
- Front Office vs Back Office

Apart from the above mentioned functions, Investment banking also serve following recompenses which contribute effectively towards the all-encompassing growth of the nation:

- Investigation, analysis and research (origination)
- Underwriting (public cash offerings)
- Distribution

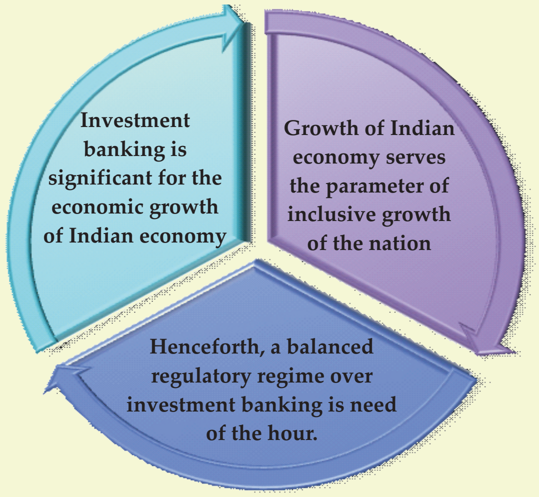
INVESTMENT BANKING - NEED OF REGULATORY REGIME IN INDIA

Investment banking is among the most complex financial mechanisms in the world. They serve many different purposes and business entities. They provide various types of financial services, such as proprietary trading or trading securities for their own accounts, mergers and acquisitions advisory which involves helping organizations, leveraged finance that involves lending money to firms to purchase assets and settle acquisitions, restructuring that involves improving structures of companies to make a

1. *The "sell side" involves trading securities for cash or for other securities (e.g. facilitating transactions, market-making), or the promotion of securities (e.g. underwriting, research, etc.).*

2. *The "buy side" involves the provision of advice to institutions that buy investment services. Private equity funds, mutual funds, life insurance companies, unit trusts, and hedge funds are the most common types of buy-side entities.*

business more efficient and help it make maximum profit, and new issues or IPOs, where these banks help new firms go public.



The above discussion on the functions played by the investment banking in the country towards enriching the global participation and strong emergence of economy internationally confirms the very fact that investment banking is one strong tool to channelize directed growth of the strong economy of the country. Further, it enhances the trust among the customers for investing their savings into a specialized regime of investment which ensures the inflow the required money as well as desired returns to many related stakeholders. For example, investment banker offers security to both corporation issuing securities and investors buying securities. For corporations investment banker offers definite price guaranty on a certain date for securities to offer. Further, investment banker play very important role in issuing new security offerings. This call for the robust regime of investment banking India to serve dual purpose:

- To maximize the benefits and usage of investment banking services to even the remotest masses of the country confirming their trust and reliance.
- To establish a check and balance in the investment banking organizations in order to diminish all or any possibility of the misuse of the investment baking culture which could destroy the customers money and could ultimately result into the failure of financial market of the country, which, if not regulated effectively, could be a blow to the progressive economy as a whole.

REGULATORY REGIME OF INVESTMENT BANKING IN INDIA

Investment banking in India is regulating in its various facets under separate legislations or guidelines issued under the statute. The regulatory powers are also distributed between different regulators depending upon the constitution and status of investment bank. Pure investment banks which do not have presence in the lending or banking business

Investment banking in India is regulating in its various facets under separate legislations or guidelines issued under the statute.

are governed primarily by the capital market regulator However, Universal banks and NBFC investment banks are regulated primarily by the Reserve Bank of India ('RBI') in their core business of banking or lending and so far as the investment banking segment is concerned, they are also regulated by SEBI. An overview of the regulatory framework is furnished below:

Regulatory Regime of Investment Banking in India- An Overview

- At the constitutional level, all invest banking companies incorporated under the Companies Act, 1956 are governed by the provisions of that Act.
- Investment banks that are incorporated under a separate statute such as the SBI or IDBI are regulated by their respective statute. IDBI is in the process of being converted into a company under the Companies Act, 2013
- General banks that are regulated by the Reserve Bank of India under the Reserve Bank of India Act, 1934('RBI Act') and the Banking Regulation Act, 1949 which put restrictions on the investment banking exposures to be taken by banks.
- Investment banking companies that are constituted as non-banking financial companies are regulated operationally by the RBI under sections 45H to 45QB of RBI Act. Under these sections the RBI is empowered to issue directions in the areas of resources mobilization, accounts and administrative controls.

Various SEBI Regulations along with the regulations, asserted under other statutes like Prevention of Money Laundering Act, 2002,confirm the very fact that the Indian regime of regulations for the investment banking is quite robust.

- Functionally, different aspects of investment banking are regulated under the Securities and Exchange Board of India Act, 1992 and guidelines and regulations issued there under.
- Investment banks that are set up in India with foreign direct investment either as joint ventures with Indian partners or as fully owned subsidiaries of the foreign entities are governed in respect of the foreign investment by the Foreign Exchange Management Act, 1999 and the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000 issued there under as amended from time to time through circulars issued by the RBI.
- Apart from the above specific regulations relating to investment banking, investment banks are also governed by other laws applicable to all other businesses such as tax law, contract law, property law, local state laws, arbitration law and the other general laws that are applicable in India.
- Securities and Exchange Board of India (SEBI), an Independent Regulator, which regulate each and every activity of the market in the investor's interest and towards the holistic development of the nation at global fora.

CONCLUSION

The various SEBI Regulations along with the regulation, asserted under other statutes like Prevention of Money Laundering Act, 2002, confirm the very fact that the Indian regime of regulation for the investment banking is quite robust and henceforth leading to a robust financial market of the country paving way towards the inclusive growth of nation.

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Dear Students

We are pleased to inform you about the introduction of Goods & Services Tax (GST) in the Taxation Curriculum of CS Executive Programme under **Tax Law and Practice Paper** (Module - 1 Paper - 4) for December 2017 Examination. GST has been made applicable for knowledge enhancement and updation of students and to equip them in the new indirect taxation regime.

The applicability of GST for Examination purposes is limited only to the four Acts and no Rules will be included in the course. A Supplement on GST is available at ICSI website under academic corner at the following weblink **https://www.icsi.edu/AcademicCorner.aspx** which will be self contained from Examination point of view.

We will be organizing webinars regularly for updating the students about nuances of GST. Also, a crash course will be launched for students in October, for those interested.

We wish to share with you the following Notification, as available on ICSI Website **:https://www.icsi.edu/WebModules/Notification_GST_CS_Executive_Programme.pdf**

With kind regards,

Sonia Baijal
Director of Studies

July 21, 2017

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KNOWLEDGE UPDATE

BANKING LAW

ENFORCEMENT DEPARTMENT OF REGULATORY COMPLIANCE

RBI has set up an Enforcement Department (EFD) which would serve as a centralised department to speed up regulatory compliance. EFD has been entrusted with the responsibility of enforcement action on commercial banks.

ORDINANCE {BANKING REGULATION (AMENDMENT) ORDINANCE, 2017}

An Ordinance has been promulgated, authorising RBI to issue directions To any Banking company to initiate insolvency resolution process in respect of a default under the provisions of the Insolvency and Bankruptcy Code, 2016 (IBC). It also enables the Reserve Bank to issue directions with respect to stressed assets and specify one or more authorities or committees with such members as the Bank may appoint or approve for appointment to advise banking companies on resolution of stressed assets.

APPOINTMENT OF STATUTORY CENTRAL AUDITORS (SCAS) – MODIFICATION OF REST PERIOD

- As per DBS. No.ARS.BC.8/ 08.91.001/2000-2001 dated 30th January, 2001 addressed to private sector banks in terms of which, an audit firm, subject to its fulfilling the prescribed eligibility norms will be allowed to continue as the SCA for a particular bank for a period of four years and, thereafter, the said firm will be compulsorily rested for a period of two years.
- It has been observed in a review of the appointment of statutory auditors in private sector/foreign banks that, in some cases, the same audit firm was reappointed after a gap of two years' rest. In a few other private sector/foreign banks, the immediately preceding statutory auditor firm was appointed on completion of the four year tenure of the current statutory auditor. The statutory central audit responsibility in such banks, thus, remained confined to two audit firms which were appointed on a cyclical basis.
- The Rest and Rotation Policy in appointment of SCAs for banks has been mandated in order that audit functions are looked at afresh.
- To address the above and ensure that rest and rotation policy is followed in letter and spirit, it has been decided that, henceforth, an audit firm, after completing its four year tenure in a particular private/foreign bank, will not be eligible for appointment as SCA of the same bank for a period of six years.
- The above guidelines are also applicable to foreign banks.

CORPORATE LAW

COMPANIES (APPOINTMENT AND QUALIFICATION OF DIRECTORS) (AMENDMENT) RULES, 2017/SCHEDULE IV OF COMPANIES ACT

- An independent director who resigns or is removed from the Board of the company shall be replaced by a new independent director within "three months" instead of 180 days from the date of such resignation or removal, as the case may be
- The independent directors of the Company shall attend at least one meeting in a "financial year" instead of a year, without the attendance of non-independent directors and members of management.

–S.O.2113(E) dated-5th July, 2017

COMPANIES (MEETINGS OF BOARD AND ITS POWERS) (SECOND AMENDMENT) RULES, 2017

- Clause *(e)* of sub-rule (3) of rule 3 has been substituted to provide that any director who intends to participate in the meeting through electronic mode may intimate about such participation at the beginning of the calendar year and such declaration shall be valid for one year. Such declaration shall not debar him from participation in the meeting in person in which case he shall intimate the company sufficiently in advance of his intention to participate in person.

- Clause *(a)* of sub rule (11) of rule 3 has been amended to provide that the draft minutes so recorded shall be preserved by the company till the conformation of the draft minutes in accordance with sub-rule (12). Rule 6, has been substituted to provide that the Board of directors of every listed company and a company covered under rule 4 of the Companies (Appointment and Qualification of Directors) Rules, 2014 shall constitute an 'Audit Committee' and a 'Nomination and Remuneration Committee of the Board.

APPLICABILITY OF EXEMPTION GIVEN TO CERTAIN PRIVATE COMPANIES UNDER SECTION 143(3)(i) OF THE COMPANIES ACT, 2013

It has been clarified regarding applicability of exemption given to certain private companies under section 143(3)(i) of the Companies Act, 2013. In case of the private company, the requirements of reporting under section 143(3)*(i)* of the Companies Act, 2013 shall not apply to a private company.

It has been clarified that the exemption shall be applicable for those audit reports in respect of financial statements pertaining to financial year commencing on or after 1st April, 2016, which are made on or after the date of the said notification. – *General Circular No. 8/2017 dated July 25, 2017*

GUIDELINES FOR ISSUANCE OF ODI WITH DERIVATIVE AS UNDERLYING BY THE ODI ISSUING FPI'S

It has been clarified that ODI issuing FPIs shall not be allowed to issue ODIs with derivative as underlying, with the exception of those derivative positions that are taken by the ODI issuing FPI for hedging the equity shares held by it, on a one- to- one basis. In the case of the existing ODIs derivatives are not for purpose of hedging the equity shares held by it, the FPI has to liquidate such ODIs latest by the date of maturity of the ODI instrument or by 31st December, 2020, whichever is earlier. However, ODI issuing FPIs should endeavour to liquidate such ODI instruments prior to said timeline. In the case of issuance of fresh ODI, a certificate has to be issued by the compliance officer, certifying that the derivatives position, on which the ODI is being issued, is only for hedging the equity shares held by it, on a one-to-one basis. It is also clarified that the term "hedging of equity shares" means taking a one-to-one position in only those derivatives which have the same underlying as the equity share.

ONLINE FILING SYSTEM FOR FOREIGN VENTURE CAPITAL INVESTORS

SEBI has introduced online system for filings related to Foreign Venture Capital Investors (FVCI). which can be used for application for registration, reporting and filing under the provisions of FVCI Regulations. All applicants desirous of seeking registration as a FVCI are now required to submit their applications online only, through SEBI Intermediary Portal at https://siportal.sebi.gov.in. Furthermore, all SEBI registered FVCIs are now required to file their compliance reports and submit applications for any request, through the online system only. – *SEBI/HO/IMD/DF1/CIR/P/2017/75 dated 6th July 2017*

SEBI (DEPOSITORIES AND PARTICIPANTS (SECOND AMENDMENT) REGULATIONS, 2017

Sub-regulation (3) of regulation 58 of the SEBI

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Published on 9, 10 & 11 August 2017

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Place of posting : NIEHO, Naraina

(Depositories and Participants) Regulations, 1996 has been substituted to provide that within fifteen days of receipt of the application, the depository shall after concurrence of the pledgee through its participant, create and record the pledge and send an intimation of the same to the participants of the pledger and the pledgee.

MISCELLANEOUS

E-PATENTING

The Government has launched the system of issuing e-patent certificates after grant of patent, by issuing a public notice on 3rd July, 2017. The salient features are enumerated below :

- The patent certificate will be generated through an automated system after the patent is granted by the Controller and shall be transmitted to the applicant concerned or his authorised patent agent on record to the email address recorded with the office.
- The patent certificate shall also be made available along with status of the application concerned on the official website (www.ipindia.gov.in), so that the same may be downloaded and printed, as desired by applicants.

The main advantages of the system are that it eliminates the delays in despatch of patent certificates to the applicants concerned who can download and print certificates from the website, thus, ushering in greater transparency. It also enables them to take further action in a timely fashion.

GST

ANNUAL SUBSCRIPTION/ FEES CHARGED AS LODGING/ BOARDING CHARGES BY EDUCATIONAL INSTITUTIONS

No GST would be levied from its students for hostel accommodations, services provided by an educational institution to its students, faculty and staff.

SERVICES PROVIDED BY THE HOUSING SOCIETY RESIDENT WELFARE ASSOCIATION (RWA)

Services provided by the housing society Resident Welfare Association (RWA) not to become expensive under GST. There is no change made to services provided by the housing society (RWA) to its members in the GST regime.

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