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THE GREEN DIGEST

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E-COMMERCE

"EAST INDIA CO 2.0" – CAIT

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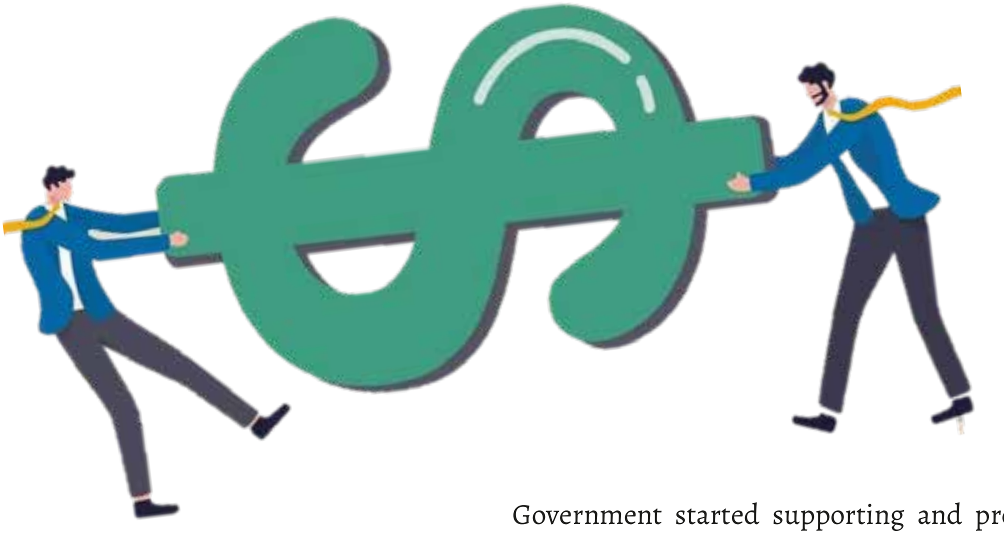
E-Commerce vs Retailers – Traders' body refers E-commerce companies as "Second edition of East India Company with a defined mandate of emerging as masters of economic slavery", the complete debacle explained.



Prologue

"India missed one bus with the Industrial Revolution – a certain boost in muscle power and we were not able to catch up for 300 years. Maybe, we didn't jump on the second bus on time and that is – the electronic revolution or the computer revolution. And now we might have to run behind that bus, catch up to it and jump on to it. I think we are capable of doing this," said Rajiv Gandhi while speaking at a conference of 'All India Manufacturers Organisations' during his tenure as Prime Minister from 1984 to 1989.

India bought its first digital computer, a British-built HEC 2M computer, which was imported and installed in the Indian Statistical Institute, Kolkata in 1955, by paying a hefty price of INR 10 lakh. Although India progressed with the formation of various IT companies and other developments, it wasn't until Rajiv Gandhi became the Prime Minister that the Government started supporting and promoting the use of computers nationwide to catch up with the Computer Revolution that led to the beginning of a digital revolution in India. Even in those early days, many people protested and argued that computers are 'job-killers and would lead to unemployment. Interestingly, even after decades, although India has become the global market for internet and e-commerce, the situation and the hesitancy amongst many remain the same.

On June 28, the Confederation of All India Traders (CAIT) sent a letter to Prime Minister, requesting the Government to ensure mandatory compliance of rules in case of E-commerce business in India and that there is no dilution in the draft e-commerce rules in favour of the E-commerce companies. The letter seemed reasonable until it went on to remark "It is regretted to note that these E-commerce companies are treating India as a banana republic having weak laws and rules. It appears that their objective is to become the second edition of East India Company with a defined mandate of emerging as masters of economic slavery which can not be accepted under any circumstances." Well, firstly, that is some enthralling analogy - 'Second edition of East India Company' and 'Masters of Economic Slavery', even if the E-commerce companies are on the wrong side of the laws. Secondly, it reminds us of how we lag behind the world and even today, 'have missed a bus and need to catch up.'

Draft Amendments

Earlier on June 21, the Ministry of Consumer Affairs released draft amendments in the Consumer Protection (E-commerce) Rules, 2020 which tighten various norms for the e-commerce companies. While the E-commerce companies affected by the amendments have expressed their concerns, the trader's body jumped on to grab the opportunity and express their concerns as well, although the amendments have no bearing on the retailers.

Before you try to understand the long-standing battle between the e-commerce giants and retail traders, and the underlying reasons for the same, let us first get acquainted with the latest amendments in the e-commerce rules. The changes proposed by the Department of Consumer Affairs have a wide-ranging effect on the way the e-commerce business conduct their business, as the rules cover multiple aspects and sectors beyond just e-commerce platforms like Amazon and Flipkart but also covers the food delivery apps like Zomato and Swiggy.

Flash Sales

Flash sales are usually pre-decided sale events for new products, usually smartphones, with limited units up for sale and may or may not be offered at a discount. Smartphone companies often use such flash sales as a marketing strategy when the product is new and to create unrest amongst those looking to buy smartphones, as something going out of stock, usually appears to the audience as something in high demand. The original proposal submitted by the Government seemed to have introduced a blanket ban on flash sales, however, clarification was given later said that it won't apply to 'conventional' flash sales. Now what comprises a 'Conventional flash sale' is defined nowhere.

Promotion or Advertisements

E-tailer companies should not display 'misleading' ads which potentially affect the understanding of pricing, quality and guarantee. The platforms are expected not to advertise specific sellers offering discounts. E-commerce platforms often display the same product offered by one company in highlight or on top of search results or with something specific to identify differently. The E-commerce platforms charge for the same as a part of their advertising business, however, the same may no longer be possible under new rules.

Country of Origin

E-tailers are expected to ensure that the product listed on their website has the details of the country of origin in the details. This has been an arduous task for E-commerce platforms, as they have millions of products listed on their websites. Further, it would be a more difficult task to recommend a local alternative whenever the consumer looks to buy an imported good or service.

Cancellation Charges and explicit consent

E-commerce platforms usually highlight various products on their websites as non-returnable while looking at the product details and description, and also offer free exchange or refund to consumers, depending on the product. The platforms are now expected to explicitly ask for consumer consent while buying non-returnable products and concerning cancellation charges. This is a good move as it will strengthen the online shopping experience for consumers.

No mis-spelling goods or services

Often products listed on various E-commerce websites are deliberately misspelt to make them look similar to another popular brand. This happens because the product listing process involves the input of the product details by the seller which is verified by the platform before uploading the same and making it available for buying. However, various sellers produce fake, duplicate or low-quality products and have packaging or name with close resemblance to the popular product. Now, the e-commerce platforms are expected not to allow the sale of such products, identify such products and delist them. Strangely, such products are openly sold in real markets, however, the e-commerce platforms are expected to provide oversight and compliance.

No manipulation in search results

In India, a few popular e-tailers have been accused of promoting brands owned by them and group company sellers by tweaking search results. As most consumers are keen on the product details and the pricing, the seller of the product is of least importance. However, for e-commerce platforms, it has been a means of earning profits.

The platforms are equipped with a large database of past purchases and can easily determine which products sell the most. Further research into the product profitability and margins and with the power of bulk buying, the companies can make more profits than other sellers, while the competition seems all fair. This is not just the e-commerce platforms as the departmental stores and chain stores also apply the same technique – placing products of brands owned by them next to popular products, and offering a discount on the same, makes it easy to sell products and earn profits at the expense of other brands. Thus, the search results or the shelves are manipulated and own brands receive a preference over the others. However, now the e-tailers are expected not to indulge in any such practices.

Usage of brand name

Private brands E-commerce platforms if having the name of e-commerce platform attached to their name will now be under scrutiny if it results in anti-consumer interest and anti-competitive.

Data to agencies within 72 hours

The E-commerce platforms are now expected to provide information to the investigative agencies within a certain period, provided there is adequate reasoning for the same. Social media platforms were also recently brought under similar rules and expected to provide the data requested by Indian agencies within time limits. While the rules ask for adequate reasoning before opting for such measures, what amounts to adequate hasn't been specified anywhere.

Differential treatment by the logistics service provider

The logistics service provider of the e-commerce platform is also now expected to ensure that they do not provide differentiated services to the e-commerce platform's preferred sellers or group companies. Often e-commerce platforms partner with the seller for quicker delivery of products. While such a partnership may not be affected by the new rules, the parties involved are expected to ensure that the logistics services are not differentiated against the other sellers.

Fall back liability

E-commerce platforms selling goods and services have maintained that the liability concerning the goods and services is of the sellers while the platforms will continue to have their internal checks. However, the new rules now expect the platforms to face the repercussions for the product and services, if the seller fails to address the same.

A long battle ahead

There's no doubt that e-commerce platforms have become the first choice preference of many urban consumers, as they provide the convenience of choice along with discounts and home delivery. E-commerce platforms have also achieved a breakthrough in small villages, thanks to the rapid spread of the internet reach. This has resulted in consumers becoming more aware of the product they purchase and are choosing before buying, as compared to the traditional habit of buying whatever the shopkeeper has got to offer, as the product of choice may not be available within a few kilometre reach.

At the same time, the local traders, retailers or the Kirana shops have suffered owing to the muscle power that the e-commerce platforms exercise. Bulk buying allows them to offer deeper discounts. Equipped with data and buying trends e-commerce platforms can influence the prices and also provide unfair competition by promoting their brands. For corporates, it is easy to circumvent the rules as the companies can promote their own brands even without owning them!

The retailers have lost their business charm, as it was before, however, these are changing times. Celebrities are no longer the only people conducting photoshoots or videos to entertain people, thanks to social media platforms. Similarly, e-commerce platforms are giving opportunities to many shops and even households selling products right from the comfort of their place to a huge marketplace, without worrying about the payments and no big marketing budget. E-commerce has been a boon to those who have evolved with it and a curse for those who have maintained a distance from it.

One deserving argument that never gets the spotlight is that the rules are way stricter for the e-commerce way lenient for the retailers. A poor quality food delivery costs a lot more to the food delivery app than it would have to a restaurant.

The e-commerce platforms may bend many rules, but also have to face the bigger wrath of non-compliances. It's not uncommon for the local Kirana stores to sell products where they have bigger margins. Even the doctors are known to issue prescriptions of specific companies who secretly provide them with kickbacks for pushing their brand instead of others. In the end, it seems fair and square that the ones benefitting from power are also facing the repercussions while the ones who are powerless and weak are living average.

Who benefits the most?

It's new and it will take time to settle – that's how revolution happens. New participants enter, break the conventional methods, build new rules and a new normal, others protest the change, the Government intervenes lately, laws are introduced but leave behind loopholes, Courts pass judgements, fair rules are brought in and over time the dust settles. It has happened before and it will happen again. Thus, it is going to take time before this debacle between the E-commerce platforms and the retailers settles.

However, one thing is for sure – the consumers are going to be the ones who derive the most benefit. While the new norms make products accessible to the consumers, it also challenges the traditional retailers to be competitive and evolve with the change. The rules bring the e-commerce companies in check and also promote the indigenous retailers which ensure that the economy isn't hurt by the change. Thus, the consumer is truly the king and while all this happens, let's stay on the shores and watch how everything takes care of everything by itself.

Helicopter Money – When Government goes on Shopping Spree!

By Amit Chandak, Associate Director, Greenvissage

Prologue

"It's not raining money", a phrase that I have heard my parents say several times in my childhood whenever I went out of bounds to buy something expensive. I teach the same to my kids today! The implied meaning is simple – we work day in and day out to earn money and it is not easy to earn money, although spending it is the opposite. Life would have been so easier if the earning was equally simpler as spending and much better if it rained money every monsoon! As hilarious as that idea seems, it is a real and an accepted monetary measure aimed at improving the economic conditions of the country.

American Economist and Statistician, Milton Friedman who also received the Noble Memorial Prize in Economic Sciences for his research work first introduced the concept to the world in 1969 through his famous paper 'The Optimum Quality of Money'. Helicopter money is an unconventional monetary policy tool that involves printing large sums of money and distributing it to the public to spur economic growth. Of course, the money isn't exactly dropped from the helicopter, however, when a helicopter drop does happen, the money is given for free to all citizens without any expectations in return.

Fascinating, isn't it?

Backdrop

We are in the middle of the biggest pandemic that we might see in our lifetime and it is not surprising that the economies around the world aren't stable. When people are in fear, especially fear of life, owing to war, famine, floods, earthquakes, or pandemics like the one we are experiencing, the demand and consumption automatically fall as people aren't purchasing things. Lockdowns make the situation worse as it further makes it mandatory even for the suppliers to shut down and stop selling entirely. In such situations, the flow of money in the economy is at its lowest levels and this impedes the economic growth of the economy or it is rather fair to say it rolls back the progress made in the past. In such situations, it is important to boost consumer confidence and increase demand and consumption, which in turn would increase the flow of money in the economy.

When economies are in a dire state, the Governments have a key role to play here. Unlike retail consumers, when Government buys, it can buy in huge amounts i.e. place large orders, owing to the purchasing power of the Government. Say, if the Government decides to construct roads or even improve the existing ones, it would automatically give employment to many workers, business to many contractors and profits to corporations selling the materials who also have employees at their factory producing the required products. Thus, many people are employed who in turn, save some money and spend the rest and the cycle goes on. The economy is up and running to some extent. This is how the Government routinely increases the economic flow of money during recessionary times and decreases the flow by spending less, amongst other measures.

Quantitative Easing

For increasing the demand and boosting the economy, the money that the Government requires for its spending plans is borrowed from the Reserve Bank who accepts deposits from the commercial banks apart from its reserves. The Reserve Bank lends money to the Government by purchasing securities issued by the Government. The money received in exchange for the securities such as bonds is then used for spending by the Government, as there is enough liquid money available in its hands. This is a usual method and known as 'Quantitative Easing' in economic terms. The important note here is that the total flow of the money in the economy is still the same i.e. no new money is created. When there's no demand, the money is lying idle in the bank accounts and there are no loans required. The money lying idle with the banks goes back to Reserve Bank who in turn gives it to the Government and the spending plans of the Government distributes it back to the public, except that the Government is creating demand while circulating the money back in the economy.

Helicopter Money

Helicopter Money or also referred to as 'Helicopter Drop' tries to solve the same problem but in an unorthodox manner. Firstly, similar to quantitative easing, the helicopter drop involves boosting the circulation of money, however, the money here isn't being spent on infrastructure projects or other government assets, instead, it is directly given to the general public by way of subsidies, grants, incentives or simply a gift. Yeah, it is raining money! The government simply announces a scheme such that maximum people are covered by it and targets citizens who might benefit from the receipt and would also necessarily spend it when received, as boosting spending is the aim here. Secondly, the money is received from Reserve Bank, however, the central bank isn't using the money deposited by commercial banks, but instead, printing the money – new currency notes. This means that the total currency notes in the economy are increasing. The money received is distributed amongst the public without any expectation –a literal 'reverse tax'.

Implementation

Although the helicopter money describes a situation where the Government or central banks distribute cash directly to individuals, the implementation usually involves granting a universal tax rebate to all households, financed by the central bank. The United States did the same during the Economic Stimulus after the global recession in 2008. This is also the reason why the Helicopter drop is as a fiscal stimulus rather than a monetary policy tool.

The most important part of implementing helicopter drop is identifying or deciding the target public and the means of reaching out to them. In a country like India where until recently many people didn't have bank accounts, a direct transfer is rather feasible. Indian Government's rebate to the farmers can be an example of a helicopter drop, as it involves giving money directly to the farmers for no consideration, merely to support them. In 2016, the European Central Bank (ECB) launched a TLTRO programme lending money to banks at negative interest rates. The use of TLTROs is believed by economists to provide a legal and administratively tractable means of introducing transfers to households.

The Criticisms

As fascinating as the idea might be, Helicopter drop is a risky and rarely used concept – or may be used, yet not expressly spoken about in the public. Various criticisms surround the helicopter drop, as against quantitative easing.

Firstly, helicopter money is irreversible - Money directly provided to the citizens, as opposed to quantitative easing, makes it irreversible. Economists argue that helicopter money is not a suitable long-term solution to spur economic growth. Quantitative easing involves the issue of Government securities that can be mature, redeem or can be bought back to reduce the flow of money in the economy.

Helicopter money can also lead to hyperinflation as it undermines the value of the local currency. Consumers would lose the sense of what the currency is worth and may result in over-inflation. The idea involves the printing of money which in today's world isn't backed by any asset, but merely dependent on the demand and supply to derive its value.

If currency notes are printed, the supply of money increases and this results in reducing the value of money. Similarly, if currency notes are scrapped, the supply of money decreases and this boosts the value of money. However, while circulating new money in the economy is easier, scrapping it later is difficult. Thereby, the value of the currency decreases. And thus, there's no free lunch!

Helicopter drop also devalues the domestic currency against the foreign currency as more of the domestic currency is printed, the value of the domestic currency could decrease significantly. This may discourage the purchase of domestic currency by currency speculators.

Another major argument that doesn't go in favour of helicopter drop is that there is no surety that the money distributed would be spent or spent in entirety since it is the general tendency of the people to save money. And thus, it's a full circle – it ain't raining money, and even if it rains, we may not spend it!

Government Policies

- India along with a majority of the members of OECD Inclusive Framework on Base Erosion and Profit Shifting (BEPS) have adopted the outline of a consensus solution to address the tax challenges arising from the digitalisation of economies. The solution consists of two pillars – 1) reallocation of an additional share of profit to the market jurisdictions 2) minimum tax and subject to tax rules. The new framework seeks to address the concerns over cross-border profit shifting and bring in subject-to-tax rule to stop treaty shopping.

- Union Finance Minister Nirmala Sitharaman has announced new additional measures to help the revival of the economy battered by the Covid-19 pandemic. These includes:

  a) INR 1.1 lakh crore loan guarantee scheme for Covid-affected sectors with INR 50,000 crore dedicated for the health sector to scale up the medical infrastructure in the underserved areas.

  b) The Emergency Credit Line Guarantee Scheme (ECLGS) has been equipped with an additional INR 1.5 lakh crore

  c) To increase the funding of ICU beds, oxygen availability, medical equipment availability etc. funding of INR 23,220 crore has been reserved

  d) Additional corpus to National Export Insurance Account (NEIA) over 5 years to allow it to underwrite an additional INR 33,000 crore of project exports. The NEIA trusts provide covers to buyer's credit given by the EXIM Bank to less creditworthy borrowers and supporting project exporters. It also proposes INR 88,000 crore boost to export insurance cover.

  e) Working capital or personal loan to people in the tourism sector to restart their businesses impacted due to the Covid pandemic. The loan would be provided under the new loan guarantee scheme and will cover 10,700 regional level tourist guides recognised by the Ministry of Tourism and by the State Governments. The loan would be provided with a 100% guarantee up to the following limits a) INR 10 lakh for Travel and Tourism Stakeholders b) INR 1 lakh for tourist guides licensed at regional or state level. There will be no processing charges or any other additional collateral requirement.

  f) The first five lakh tourist visas will be issued free of charge once visa insurance restarts, applicable till March 31, to boost tourism in India.

  g) The Aatmanirbhar Bharat scheme Rozgar Yojana has been extended from June 30 to March 31, whereby the Government shall extend the wage subsidy scheme for 9 more months via the Employees Provident Fund Organisation (EPFO) to boost job creation and increase the take-home pay of new employees or those who are re-joining after being retrenched during the covid-19 pandemic.

  h) A new policy to be formulated for appraisal and approval of PPP proposals and monetization of core infrastructure assets, to ensure speedy clearance of projects to facilitate the private sector's efficiencies in financing construction and management of infrastructure.

- According to the World Investment Report 2021 by the United Nations Conference on Trade and Development (UNCTAD), global FDI flows have been severely hit by the pandemic as they plunged by 35% in 2020 to USD 1 trillion from USD 1.5 trillion the previous year. However, India turned to be the fifth-largest recipient of inflows in the world as the country received USD 64 billion in Foreign Direct Investment during 2020.

- Commerce and Industry Minister, Piyush Goyal, has said the government could issue a clarification on its Foreign Direct Investment (FDI) policy for e-commerce shortly, to clarify it further without bringing in any change. It is expected the norms could force players like Amazon and Flipkart to restructure their existing marketing tie-ups. The FDI policy bars e-tailers having foreign investments from offering discounts directly or indirectly.

- National Cyber Security Coordinator Rajesh Pant has announced that the government is planning to roll out a new cybersecurity strategy this year with a strategy to cover the entire ecosystem of cyberspace in India.

- The government of Japan has promised assistance of USD 9.3 million to India with cold chain equipment (CCE) including cold-storage facilities to ensure vaccines reach all, channelled through UNICEF. Cold chain system building is critical to strengthen the immunization service delivery during the pandemic.

Goods and Services Tax

- The Goods and Services Tax law has completed four years since its implementation in July 2017. Finance Ministry announced that it will issue a certificate of appreciation to 54,000 taxpayers for timely filing of returns and a cash payment of the tax, on the occasion.

- The Goods and Services Network (GSTN) which handles the technology backbone of the Goods and Services Tax, has enabled a new utility to lodge complaints relating to misuse of PAN for obtaining GST registration to curb the creation of bogus entities for tax evasion. Any person whose PAN has been misused can lodge such a complaint and the concerned tax officer under whose jurisdiction the registration has taken place fraudulently would take further action.

- The Goods and Service Tax Council has announced has reduced the GST rates for Covid drugs, testing kits, medical equipment and even ambulances to provide relief to people amid the pandemic, however, the GST on vaccines shall remain unchanged at 5%. The new rates will be effective till September 30.

(For queries or more information relating to GST, contact our colleague Ashish Gandhi at ashish.gandhi@greenvissage.com)

Income Tax

- The New Income Tax Return filing website was launched on June 7. However, as numerous glitches emerged within the functioning of the new filing portal for two weeks since its launch, the finance ministry called Infosys for a meeting to hear out stakeholder concerns and suggest remedial measures for fixing the issues and asked Infosys to fix all issues on the new Income Tax portal immediately while the company has responded that at least five technical glitches including viewing past ITRs and e-proceedings are expected to be resolved within a week.

- The Central Board of Direct Taxes (CBDT) has declared that the financial aids or ex-gratia received by people for Covid treatment or on account of the death of their family members, shall be tax-exempt, a decision taken given the severe impact of the pandemic on the economy. The exemption shall not have any upper limit if received from employers, and in other cases, shall be limited to a maximum of INR 10 lakhs.

- The Central Board of Direct Taxes (CBDT) has notified the Cost Inflation Index (CII) for the FY 2021-22 to be 317. The cost inflation index is used for calculating long-term capital gains arising from the sale of immovable property, securities and jewellery.

- The Central Board of Direct Taxes (CBDT) has extended the due dates for various compliances. The revised tax compliance due dates are as follows:

  a) Time to invest in a residential house, for a tax deduction, investments required to be made on or after April t1 can now be made up to September 30

  b) The payment due date for the Vivad Se Vishwas Direct Tax Dispute Resolution scheme has been extended to August 31. Taxpayers can also make payments till October 31 with additional interest.

  c) The last date to furnish TDS Certificate Form 16 is extended to July 31

  d) The due date for furnishing TDS return for Quarter 4 of FY 2020-21 has been extended to July 15

  e) The due date for furnishing the Equalisation Levy Statement in Form No. 1 for FY 2020-21 has been extended to July 31 while for processing equalisation levy returns, the time limit has been extended to September 30

  f) The last date of linkage of Aadhaar with PAN from June 30 to September 30.

- The Income Tax Appellate Tribunal (ITAT), Agra Bench in the case of Uma Agrawal of Gwalior who declared income of INR 1,30,810, however later deposited INR 2,11,500 cash in her bank account, has ruled that cash deposits of up to INR 2.5 lakh by housewives during the demonetisation period will not be subjected to tax scrutiny as the deposits cannot be treated as income of the assessee and asked the same to be precedent for all other cases.

- Businesses purchasing shares or commodities traded via recognised exchanges for any value even above INR 50 lakh will not be required to deduct TDS on the transaction under section 194Q which is effective from July 1.

- New Income Tax Appellate Tribunal (ITAT) e-filing portal has been launched to provide an option to present Appeals, Cross Objections, Stay Applications and Miscellaneous Applications online.

- The Central Board of Direct Taxes (CBDT) in its latest order has given new postings to 19 principal chief commissioners of income tax and principal director generals of income tax who head the income tax department ranges and special wings, of which 14 are by way of promotions while the balance involves transfer.

- The Income Tax Department has launched a new utility to help TDS deductors and TCS collectors identify the 'specified persons' on whom a higher rate of taxes will be levied from July 1. The utility can be accessed from the Income Tax Reporting portal www.report.insight.gov.in and is equipped with functionality for bulk PAN verification. A taxpayer can register on the website through income tax's new e-filing website where the option appears after logging in using TAN credentials and updating the details of the Principal Officers.

(For queries and more information relating to Income Tax, contact our colleague Sneha Halder at sneha.halder@greenvissage.com)

Corporate Laws

- The Ministry of Corporate Affairs (MCA) has notified Companies (Accounting Standards) Rules, 2021 under the Companies Act, 2013 which includes a new definition of MSMEs and increases the turnover limit to INR 250 Crores from INR 50 Crores and the borrowings threshold to INR 50 Crores from INR 10 Crores. Accounting Standards 1 to 5, 7 and 9 to 29 as recommended by the Institutee of Chartered Accountants of India (ICAI) have been specified as the applicable accounting standards for MSMEs and shall be applicable from April 1, 2021, if a company exceeds the threshold as mentioned above, at the end of the relevant financial year.

- The Ministry of Corporate Affairs (MCA) has granted additional time to companies and LLPs required to file forms under the Companies Act, 2013 or the LLP Act 2008, due for filing between April 1 and July 31, to August 31 without any additional fees, to overcome the hardships faced due to lockdown and pandemic.

- The Ministry of Corporate Affairs (MCA) has amended the board meeting rules to permanently allow resolutions on matters such as approval of financial statements and matters relating to mergers and acquisitions through videoconferencing or other audiovisual means.

- The Securities and Exchange Board of India (SEBI) has deferred the requirement for foreign investors to disclose their mobile number, email ids and income details to depositories, a move aimed at curbing practices such as round-tripping and money laundering. The rule shall now be applicable from July 1.

- The Securities and Exchange Board of India (SEBI) has enhanced the overseas investment limit for a mutual fund house to USD 1 billion from the existing USD 600 million and overall limit of USD 7 billion for the entire mutual fund industry, to allow allocating a higher share of corpus for foreign securities. Further, mutual funds can now make investments in overseas Exchange Traded Fund (ETFs) subject to a maximum of USD 300 million per mutual fund, and an overall industry limit of USD 1 billion.

- To enhance transparency and efficiency of the delisting process, the Securities and Exchange Board of India (SEBI) has notified that independent directors will have to give reasoned recommendations on delisting proposals. The promoters of the company will also be responsible to disclose their intention to delist the company, through an initial public announcement.

- The Securities and Exchange Board of India (SEBI) has announced establishing 'Investment Adviser Administration and Supervisory Body (AASB)' to regulate investment advisers with BSE Administration & Supervision Limited (BASL), a wholly-owned subsidiary of BSE Limited, being appointed as the IAASB for a period of three years from June 1. The body will supervise the investment advisors, redress the grievance of clients, issue warnings and refer to SEBI for enforcement action and also monitor activities of investment advisors by obtaining periodical reports and maintaining a database.

- The Securities and Exchange Board of India (SEBI) has clarified that Investment advisers cannot manage funds and securities on behalf of their clients, can only provide investment advice to clients and should not contemplate for power of attorney, as part of informal guidance sought by Waterfield Financial and Investment.

(For queries and more information on Corporate Laws, contact our colleague Adnan Ginwala at adnan.ginwala@greenvissage.com)

Customs and Foreign Trade

- The Southern India Mills' Association (SIMA) has appealed to the Finance Minister to withdraw the basic customs duty (BCD) and the Agriculture Infrastructure Development Cess (AIDC) levied on 'Cotton' to create a level playing field for the Indian textile industry. Import of cotton currently attracts 5% BCD and 5% AIDC.

- After a stagnant period of three years, the export of agriculture and allied products grew 17.34% to USD 41.25 billion during 2020-21. In 2017-18 and 2018-19, the same hovered around USD 38 billion and declining to USD 35.16 billion in 2019-20. In the first two months of the current fiscal year, there was a 43% jump. India is experiencing a growth in the export of cereals, non-basmati rice, wheat, millets, maize, and other coarse grains in the global markets of the US, China, Bangladesh, the UAE, Vietnam, Saudi Arabia, Indonesia, Nepal, Iran, and Malaysia.

- In a new development, a consignment of Dragon fruit sourced from the farmers of Tadasar village in Sangli district of Maharashtra was exported after being processed and packed at an Agricultural and Processed Food Products Export Development Authority (APEDA) recognized exporter. Agricultural and Processed Food Products Export Development Authority (APEDA) promotes the export of agricultural and processed food products by assisting the exporters for infrastructure development, quality development and market development. Dragon fruit is grown mostly in Karnataka, Kerala, Tamil Nadu, Maharashtra, Gujarat, Odisha, West Bengal, Andhra Pradesh, and Andaman & Nicobar Islands.

- Refined palmolein has been removed from the restricted list and can now be freely imported till December 31. Earlier, the Government had reduced the import duty on palm oil by 10% to make cooking oils cheaper for the consumers. However, the edible oil industry believes allowing imports may hurt domestic crude palm oil processing.

(For queries and more information relating to Foreign Trade, contact our colleague Adnan Ginwala at adnan.ginwala@greenvissage.com)

Banking and Finance

- The Reserve Bank of India (RBI) did not sell any of its planned INR 14,000 crore benchmark 10-year bond in the latest auction as market appetite for the paper is on the wane. It is expected a new 10-year bond could be introduced in the next auction as the government has raised more than INR 1.19 trillion against the existing bond and continuing the same bond may lead to the high pressure during redemption. The 10-year bond is the sixth most traded paper in the market.

- The Reserve Bank of India (RBI) has cautioned that the bad loans of the banking system may hit 11.22% of the advances under a severe stress scenario with signs of stress among medium and small units.

- In new guidelines for managing risk outsourcing of financial services by cooperative banks released by the Reserve Bank of India (RBI), a cooperative bank intending to outsource any of its financial activities should put in place an outsourcing policy and also the criteria for selection of such activities and service providers, parameters for defining material outsourcing based on the broad criteria, a delegation of authority depending on risks and materiality, and systems to monitor and review the operations. RBI has asked cooperative banks to ensure that the outsourcing policy does not diminish the bank's ability to fulfil its obligations to customers and RBI and that the policy should also not impede supervision by RBI or NABARD.

(For queries and more information on banking and finance, contact our colleague Kethaan Parakh at ksparakh@greenvissage.com)

Accounting and Auditing

In Focus: IndAS-23

- *If a company in the business of producing wine and finances the production of wine through external loans, should interest incurred for the production of wine, be capitalised as borrowing cost along with the inventory?* Certain items of inventories require a substantial period for their production due to the processes the products undergo. Production of wine requires an ageing process which may require a substantial period, say more than 12 months for wine to be ready for sale. During this period an entity bears the financing costs for the production of such inventory. Paragraph 4 of Ind AS 23 states, "An entity is not required to apply the Standard to borrowing costs directly attributable to the acquisition, construction or production of inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis." Thus, the finance costs must not be capitalised.

- *If a company is constructing a large manufacturing plant in a backward area and due to the unavailability of housing resources, it has also purchased a residential building to be used for housing the workers engaged in the construction of the plant. The purchase cost of the building is met by raising a long-term loan from a bank. If the company intends to dispose off the building once the construction of the manufacturing plant is complete, should the borrowing costs incurred to purchase the residential building be capitalised?* Paragraph 8 of Ind AS 23 gives guidance on the recognition of borrowing costs which states that: "An entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. An entity shall recognise other borrowing costs as an expense in the period in which it incurs them." In the given scenario, the expenditure incurred to construct the residential building is related to the construction of a qualifying asset and is incidental thereto. Furthermore, if the company intends to dispose off the residential building on completion of the construction of the manufacturing plant and the only reason it has purchased the said residential building is for the construction of the manufacturing plant. Therefore, it can be said that the finance costs incurred to purchase the residential building are borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset i.e. manufacturing plant and thus must be capitalised.

- *If a company incurs borrowing costs for construction of a qualifying asset for its use and the construction gets completed, however, the decoration work is under process and on completion of the same the company will be able to start using the asset, should the company capitalise the eligible borrowing costs incurred up to the completion of construction or completion of decoration?* Paragraph 22 Ind AS 23 states "An entity shall cease capitalising borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete." Further, Paragraph 23 states "An asset is normally ready for its intended use or sale when the physical construction of the asset is complete even though routine administrative work might continue. If minor modifications, such as the decoration of a property to the purchaser's or user's specification, are all that is outstanding, this indicates that substantially all the activities are complete." Following the above, the capitalisation of borrowing costs shall cease when substantially all the activities necessary to prepare the qualifying assets for their intended use or sale is completed. Thus, the company must capitalise on borrowing costs only up to the date of completion of construction.

- *As part of the capital management process, all borrowings for projects above the current requirements* *are deposited into the cash credit account of the company to reduce the overdraft costs. Should the savings of interest on the cash credit account be deducted from the borrowing costs before capitalisation?* Paragraph 12 of Ind AS 23 states "To the extent that an entity borrows funds specifically to obtain a qualifying asset, the entity shall determine the value of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings." The company has no income from the temporary investment of funds as such and is merely saving in interest costs that would have been otherwise incurred on the cash credit account. Consequently, the saving of interest on a cash credit account should not be deducted from the borrowing costs for capitalisation.

- *If a company uses its cash resources to finance the construction of a qualifying asset and does not borrow any funds, can the company capitalise the interest that could have been earned on the cash that has been used for the qualifying asset representing the forgone benefit?* As per paragraph 5 of Ind AS 23, "Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds." Further paragraph 3 of Ind AS 23 states "The Standard does not deal with the actual or imputed cost of equity, including preferred capital not classified as a liability." The Standard uses the term 'incurs' and hence the amount that can be capitalised is the actual borrowing costs incurred by an entity. 'Notional' borrowing cost cannot be capitalised as per Ind AS 23.

- *A company engaged in the business of construction and development of shopping malls has an ongoing project of construction of a mall for which it borrows INR 75 crores. What should be the accounting treatment of borrowing costs if 1) the construction is suspended for a period of 10 days on completion of each floor for the concrete to settle 2) if there is a delay of two months due to extreme floods 3) if there is a a further delay of 15 days (being considered as normal) due to rectification of the faulty electric wirings discovered during final inspection?* As per Paragraph 20 of IndAS 23, "An entity shall suspend capitalisation of borrowing costs during extended periods in which it suspends active development of a qualifying asset." Further, as per paragraph 21, an entity does not suspend capitalisation of borrowing costs when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale. Delays due to suspension of construction for settlement of concrete (10 days) or rectification of faulty electric wirings (15 days) are necessary and/or normal for getting the asset ready for its intended use and accordingly borrowing costs should not be suspended during this period. However, the company had suspended active development of its project during the two months affected by floods. In such case, the capitalisation of the borrowing costs must be suspended.

- *A company in the business of exploration and production of oil and gas has operations which are generally conducted in joint ventures with other partners. The company acquires oil and gas properties by way of acquisition of participating interest (PI) in these joint ventures through acqusition of shares of company which holds the PI in the project. The company finances the acquisition partly by external borrowings and partly by internal accruals. Whether the borrowing cost incurred in acquiring interest in project be capitalised?* Paragraph 17 of IndAS 23 states "An entity shall begin capitalising borrowing costs as part of the cost of a qualifying asset on the commencement date. The commencement date for capitalisation is the date when the entity first meets all of the following conditions: a) it incurs expenditures for the asset; b) it incurs borrowing costs; and c) it undertakes activities that are necessary to prepare the asset for its intended use or sale." In the given case, the company is acquiring the assets through subsidiary, and is acquiring only the investment in the company and not the qualifying asset. Accordingly, borrowing costs incurred on such acquisitions cannot be capitalised, since the capitalised asset itself does not appear.

(For queries and more information relating to Accounting, contact our colleague Rahul Mundada at rahul.mundada@greenvissage.com)

Payroll and Personal Savings

In Focus: Public Provident Fund

- Public Provident Fund is designed for planning long-term expenditure or retirement funds for individuals who are not already covered by Employees Provident Fund.
- Anybody can open a PPF account. Even employees covered by Employees Provident Fund are also eligible to open a Public Provident Fund in addition to the Employees Provident Fund. However, only one PPF account can be opened.
- The minimum amount to be deposited every year is INR 500 and the maximum deposit can be INR 1,50,000 in a financial year. The interest rates change every quarter, however, the same is not volatile.
- All deposits made in the PPF account are tax-deductible investments under section 80C. Further, the interest earned on the public provident fund is tax-exempt and the amount withdrawn on maturity is also tax-exempt.
- With the digitalisation of banking, many banks offer instant PPF account opening. One can maintain an account with Post Office or any other bank, without the risk of losing money, as the deposits in the PPF account are guaranteed by the Government of India and thus, the bankruptcy of the bank does not affect the deposits.
- A PPF account matures on completion of 15 complete financial years from the end of the year in which the account was opened.
- After maturity, the account can be extended any number of times, for a block of 5 years with further deposits. The account can be retained indefinitely without further deposit after maturity with the prevailing rate of interest.
- One can also avail loan facility from the third financial year up to the sixth financial year. Withdrawal is permissible every year from the seventh financial year onwards. The loan is available at an interest rate 2% higher than the interest rate applicable to the PPF.
- The most unique benefit of the Public Provident Fund deposits is that the amount in the PPF account is not subject to attachment under any order or decree of a court of law. This is helpful to people who are subject to financial risk from business or other activities and can safely protect their funds for retirement, even if bankrupt.
- The rate of return of various small savings schemes of the post office as compared to prior period are as follows:

Scheme	Current	Prior	%
Savings	4.00	4.00	0.00
FD (5 years)	6.70	6.70	0.00
RD (5 years)	5.80	5.80	0.00
NSC	6.80	6.80	0.00
PPF	7.10	7.10	0.00
KVP	6.90	6.90	0.00
SSA	7.60	7.60	0.00

(For queries and more information relating to Payroll, contact our colleague Kumari Snigdha at kumari.snigdha@greenvissage.com)

Economic Indicators

- Latest statistics relating to the key economic indicators of Indian economy stand as follows:

Indicator	As on	Current	Prior
GDP Growth (%)	Mar-21	1.60	0.50
Inflation (%)	Apr-21	6.30	4.23
Unemployment (%)	Mar-21	11.90	8.00
Trade Balance ($m)	May-21	−9400	−6280
GOI Bond 10yr (%)	Jun-21	6.07	6.01

- The movement in the major indices of various stock exchanges across the world, during the month of June, 2021 was as follows:

Equity Index	Country	%
NIFTY 50	India	0.33
BSE SENSEX	India	0.74
INDIA VIX	India	−24.15
NIFTY BANK	India	−1.37
DOW JONES	USA	0.09
NASDAQ	USA	5.97
S&P 500	USA	2.89
FSTE 100	UK	0.77
NIKKEI 225	Japan	−0.55
SHANGHAI COM	China	−2.03
MOEX	Russia	1.52
CAC 40	France	0.57
DAX	Germany	−0.27
ASX 200	Australia	0.18
BOVESPA	Brazil	−1.92
FTSE STI	Singapore	−0.01
KOSPI	South Korea	1.29
HANG SENG	Hong Kong	−2.30

- The movement in the major commodities futures with latest expiry, as per MCX during the month of June, 2021 was as follows:

Commodity	Expiry	Price	%
Gold	05-Aug	47,339	−4.60
Silver	05-Sep	70,280	−2.85
Crude Oil	19-Jul	5,588	12.43
Natural Gas	27-Jul	278	22.38
Aluminum	30-Jul	200	3.59
Copper	30-Jul	722	−5.48
Cotton	30-Jul	24,770	4.47

- The movement in the reference rates of major global currencies during the month of June, 2021 was as follows:

Currency Pair	Current	Prior	%
INR/1 USD	74.18	72.80	−1.89
INR/1 GBP	103.30	103.31	0.01
INR/1 EUR	88.57	89.07	0.56
INR/100 YEN	66.92	66.97	0.07

- Movement in the major cryptocurrencies during the month of June, 2021 was as follows:

Currency	Pair	Price	%
Bitcoin	BTC/USD	33,348	−9.94
Ethereum	ETH/USD	2,102	−20.12
Tether	USDT/USD	1.00	0.01
XRP	XRP/USD	0.65	−34.61
Btc Cash	BCH/USD	487.31	−29.60

- India's exports rose by 47% to USD 32.46 billion in June on account of growth in engineering, gems and jewellery and petroleum products, however, the trade deficit aggregated at USD 9.4 billion during the month, offset by the increase in oil imports during the month.

Corporate News

- **National Thermal Power Corporation (NTPC)** and Oil and Natural Gas Corporation (ONGC) have decided to improve the development of offshore wind energy in India, a country blessed with a coastline of about 7,600 km surrounded by water on three sides and has good prospects of harnessing this clean source. NTPC and ONGC have a memorandum of understanding (MoU) to accelerate their footprint in renewable energy.

- **Honda** has decided to raise the prices of its vehicles from August, on various models in its lineup owing to the rising input costs incurred to produce each vehicle and offset the impact of a sharp increase in the procurement cost of various essential commodities like steel and precious metals.

- **Oye! Rickshaw**, the electric mobility startup, has set the target on bringing USD 500 million (over INR 3,700 crore) funding within the next 3 years to set up battery swapping infrastructure for electric three-wheelers in India. The company is supported by Matrix Partners, Chiratae Ventures, Xiaomi and industrialist Pawan Munjal.

- **Reliance Jio** has rolled out an 'Emergency Data Loan' facility for its phone users which provides instant mobile data, payable at a later date. The company believes that every user is in a position to immediately purchase a data top-up due to various reasons and emergency data loan offers flexible 'Recharge Now and Pay Later' service to solve the problem.

- **Coinbase** CEO and co-Founder Brian Armstrong have declared the company is expanding its team in India and is building an office in India signalling its plans to expand business in India.

- **Federation of Indian Export Organisations (FIEO)** has signed a memorandum of understanding with logistics service provider Aramex India to assist micro, small and medium enterprise (MSME) exporters in India, by providing preferential cost to FIEO members, as well as access to online services for cross-border express shipments.

- India has become the largest market for **Disney+** with 38 million subscribers as of March 2021 which is over one-third of its 110 million global subscriber base. Its growth in home markets of the US and Canada has slowed down considerably.

- **Uber** and **Lyft** have introduced incentives for drivers in United States to return to driving after the pandemic, to alleviate the scarcity and solve the hiked fares problem in some areas. The shortage of drivers in the United States is driving prices for Uber and Lyft rides to record highs and company had to rethink how they attract drivers.

- **Bharat Biotech**, the Hyderabad-based producer of the Covid-19 vaccine 'Covaxin' have announced that they are setting up four vaccine manufacturing facilities within India increasing its total capacity to producing 1 billion doses per annum. The company said it has already started multiple production lines at its Hyderabad and Bengaluru campuses and will utilise the Ankleshwar-based production for 200 million doses. Bharat Biotech is also conducting a clinical trial to determine the safety and immunogenicity of a booster dose.

- Barely two days after its IPO, **Didi**, China's ride-hailing company is facing an investigation from China's Cyberspace Administration of China (CAC). The Cyberspace agency has announced that the agency has launched an investigation into the ride-hailing giant to protect national security and the public interest and that the company is not allowed to register users during its investigation.

- **Alankit Insurance** third party administrator's renewal of license has been disapproved by the Insurance Regulatory and Development Authority of India (IRDAI) due to the non-submission of business data and as a result, Alankit cannot use the word 'TPA' in its company name and all existing agreements with insurance companies and network providers will be discontinued.

- **Zomato**, a food delivery app, backed by China's Ant Group, has received approval from the Securities and Exchange Board of India (SEBI) for the public issue of the company. Zomato is one of the most keenly awaited share sales in recent history who is believed to be looking to raise to USD 1.2 billion through IPO.

- **Realme**'s spinoff company Dizo has introduced GoPods D and neckband earphones in India at economic pricing of INR 1,599 and INR 1,499 respectively. Dizo is a new brand under Realme that makes ecosystem and audio products in affordable range leaving premium product range to Realme.

- **LIC Housing Finance** has announced that it has reduced the home loan interest rates to 6.66% for a special limited period up to September 30. This is the company's all-time lowest rate.

- **Vodafone Idea** has reported that the company is in talks with potential investors for fundraising.

- **Twitter** has offered 140 NFTs for free, days after CEO Jack Dorsey auctioned his first tweet off as a special Non-Fungible Token for a hefty amount. The microblogging platform did not organise any auction and simply chose to give away the NFTs through the 'rarible' platform. Users just have to reply to a set of tweets and be lucky enough to get a response from the Twitter team.

- **Indian Railways** has announced that it earned INR 11,186 crores as revenue from freight loading in the month of June, 4.5% higher than June 2019 and 26.7% higher than June 2020. In 2020-21, during the first four months, the freight handled by the railways was much below the numbers achieved in 2019-20, due to the outbreak of the COVID-19 pandemic.

- **Upstox** has reported that more than 70% of its 2 million new customers are first-time investors and under the age of 36. According to the data from the National Securities Depository, and Central Depository Services, a record 14.2 million new demat accounts were opened in FY21, the figure is an almost three-fold rise from the previous year's 4.9 million.

- **Bharti Airtel** has introduced Airtel Black – India's first all-in-one solution for homes which brings various of its offerings under one recharge plan for the convenience of the customers. Customers can bundle 2 or more of Airtel services i.e. Fiber, DTH, Mobile together to become Airtel Black members which entitle the customer to one single bill and one customer care.

- **Licious** has garnered USD 192 million in its Series F funding round led by Temasek and other private equity investors. The funds raised are expected to be deployed towards investment in technology, supply chain, and expansion into a greater number of Indian cities.

- **Tata Consultancy Services (TCS)** has announced collaboration with John Wiley & Sons, an American multinational publishing house, to modernize its e-commerce platform with SAP Commerce, and develop a unified, seamless customer experience. Wiley collaborated with TCS to modernize its e-commerce platform for the North America region, with a roadmap to extend it to the UK, Europe and Asia.

- **Paytm**, ahead of its IPO, has announced an allocation of INR 50 crore for cashback on transactions done by merchants and customers through its app. Celebrating Six years of digital India, the company has planned to conduct on-ground activities in more than 200 districts to train merchants on digitisation and reward them for increased adoption of cashless payments.

- **Cadila Healthcare** has announced its plans to launch its COVID-19 vaccine ZyCoV-D in 45-60 days subject to regulatory approvals and manufacturing scaleup. The company believes that it can produce 4 to 5 lakh doses at its old facilities and expects to produce 1 crore doses monthly from mid of August.

- **Adani Green Energy**'s acquisition of SB Energy Holding has been approved by the Competition Commission of India (CCI) under Section 31(1) of the Competition Act, 2002. According to the Ministry of Corporate Affairs (MCA), the proposed combination envisages the acquisition of the entire shareholding from the existing shareholders. Gautam Adani has plans to transform his ports-to-power business conglomerate carbon negative and expand India's renewable power capacity fivefold by end of the decade. Adani Group intends to continue investing in clean energy technologies, such as green hydrogen and renewables-powered data centres to fulfil the group's environmental goals.

- **Jet Airways India** creditors may receive only 5% of what they're owed as the new owners of Jet Airways - Dubai-based businessman Murari Lal Jalan and Kalrock Capital Management in London, have proposed paying INR 380 crore of the INR 7,810 crore they owe to financial institutions.

- **Shree Renuka Sugars** has surpassed Eid Parry and Balrampur Chini to emerge as India's most-valued sugar firm with the stock has surged nearly 300% over the last two months. Shree Renuka's market capitalisation stands at INR 8,375 crore while that of EID Parry and Balrampur Chini is INR 7,627 crore and INR 7,444 crore respectively.

- **Tanla Platforms**, wholly-owned subsidiary Karix Mobile has collaborated with Swedish Caller ID firm Truecaller to introduce Verified Business Caller ID solutions for enterprises to enrich the user experience by fostering a communication ecosystem built on trust and safety. Enterprises in India can now leverage this solution to connect better with customers over voice calls.

- **Facebook** and **Google** officials have been dismissed by the Parliamentary Standing Committee on Information Technology chaired by Shashi Tharoor, on the issue of misuse of social media platforms.

- Britain's **Natwest Group** has set limits on the daily amount the customers can send to cryptocurrency exchanges including major platform Binance, amid concerns over investment scams and fraud. The interim cap is imposed varies depending on the platform.

- **FamPay**, has announced that it has garnered USD 38 million (about INR 278 crore) in funding led by Elevation Capital and existing investor Sequoia Capital India. The company will use the funding to build a leadership team to further fuel growth. FamPay makes it convenient for teenagers to make online and offline payments through FamPay app.

- **DigiBoxx**, India's first indigenous public cloud storage, launched by NITI Aayog CEO Amitabh Kant, has got more than 10 lakh users. The company said that it has witnessed more than 16% active users daily. Digiboxx's objective is to fulfill the Centre's vision of Atmanirbhar Bharat.

Cryptocurrencies – Volatility and other problems Bitcoin, the most popular cryptocurrency, is not yet recognized as legal currency by any government. However, any person can buy, hold or sell and even trade cryptocurrencies, subject to rules and regulations in their countries. Buying cryptocurrencies is similar to buying stocks – Investors can purchase bitcoins through cryptocurrency exchanges and store them in their ...

Bitcoin – The journey so far In 2008, when the world met eyes with reality, as the global financial crisis emerged, an anonymous person 'Satoshi Nakamoto' was developing a new 'peer to peer network' to create a system for electronic transactions without any third party involved – a system like nature, where trust is no longer required, as the network is capable of taking care of itself based on cryptography. The result of the same was the first cryptocurrency ...

Why India's Oxygen Supply Chain failed to deliver? Explained Oxygen – ironically earth's most freely available resource, and yet short in supply. Hospitals are suddenly running out of medical oxygen and there is more panic amidst the pandemic than ever before because the belief that the doctors and hospitals could save us has been shaken, as people have died in bulk owing to shortage of oxygen supply. Nobody would have imagined a day where oxygen would be out of ...

Amount paid for use of software is not 'Royalty'. "During the assessment year 1997-98 and 1998-99, several payments were made to foreign parties for the license to use the software. However, no tax has been deducted at source and thus, following section 40(a) these expenses must be disallowed. Therefore, I have reason to believe that income has escaped assessment as the assessee has failed to disclose material facts in the return filed. Reassessment proceedings are ...

Newsletter by:

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