FROM THE MANAGING DIRECTOR'S DESK

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FM GRANTS COS' WISH FOR FLEXIBLE PAY STRUCTURE

Finance minister Arun Jaitley made three proposals in his budget speech which will give salaried employees a choice in determining how their salaries should be used or paid out.

First, employees could opt to contribute to either Employees' Provident Fund (EPF) or the National Pension Scheme (NPS) from their salary. Second, for employees below a certain salary threshold, EPF contribution could be made optional. Then, in case of Employees' State Insurance Corporation (ESIC), the employee would have the option of choosing either ESIC or a health insurance product recognized by the IRDA.

Interestingly, these offerings come on the heels of a petition that recruitment consultant Team Lease Services had filed and 500 employers -including industry giants like Wipro, Saint-Gobain India, Bharti Airtel, Alstom, Biocon, TCSand Future Retail -are said to have signed in January, urging the government to tweak its `salary confiscation' regime and allow employees to choose how their contributions are invested. The petition had asked for all the three options that the finance minister granted in Saturday's budget.

"I think this is the most critical labour reform in any budget in the last 60 years. Almost 94% of work force prefers to remain in the unorganized sector where gross and net salaries are the same and this could change that, "said Rituparna Chakraborty, co-founder and senior vice-president of Team Lease Services.

(Source: The Times of India, Mar 02 2015 (Mumbai)

NSEL FRAUD- 'BROKERS MISLED INVESTORS, SHOWED FAKE TRANSACTIONS'

Amit Rathi of Anand Rathi Commodities, C P Krishnan of Geofin Comtrade and Chintan Modi of India Infoline Commodities were summoned for inquiry and placed under arrest by the EOW on Tuesday. All three will be kept at the Mumbai crime branch's lock-up in the police commissionerate compound near Crawford Market, and will be produced before a special court on Wednesday.

"During our probe, we found that around 139 broking firms and brokers had traded on the NSEL. There were several allegations against some brokers. We summoned them for questioning. However, the investigating officer was not satisfied. The trio gave evasive replies to certain queries and was not cooperating in the investigation. Hence, their custodial interrogation was necessary, "said additional commissioner of police (EOW) Rajvardhan Sinha.

Till date, 24 people, including Jignesh Shah, chairman of Financial Technologies (FTIL) group, and MCX CEO Sreekanth Javalgekar, have been arrested for alleged role in the biggest payment default in the Indian commodity market. Rathi's total client base is around 12,900 with trading exposure of Rs 19,130 crore, which is almost 16% of the total turnover of NSEL when it stopped trading in August 2013. The total trading exposure of India Infoline was Rs 9,183 crore while Geofin's cli ent base was around 1,000 with trading exposure of Rs 5,526 crore, said Sinha.

"Our basic findings during the questioning of the three are more or less common. They had given false assurance to investors leading to enticement for investing in NSEL. They also assured investors of fixed and high returns saying it was safe to invest but that was not the case, " he added. The trio had also given confirmation of stocks to the auditors of the NSEL.

"We have found certain fictitious transactions between the borrowers and investors. We also found large-scale market-capturing practices by using Unique Client Code, done at the brokers' end, "said Sinha.

The police found that bank accounts of certain investors were used without their knowledge in financial transactions.

"Transaction of Rs 1,061 crore was done without the knowledge of investors. The EOW has issued a letter to the FTIL asking for details of the Rs 84 crore paid to NSEL by FTIL as service charge."

In the NSEL scam, regulatory grey areas in the commodities trading space were used by brokers and investors to make a 14-16% guaranteed profit. Brokers and investors also manipulated the amount of goods kept in warehouses. A PR firm, on behalf of Anand Rathi Commodities, issued a statement: "Anand Rathi

Commodities Ltd and its directors and officials have fully cooperated with the agencies. "

(Source: Mar 04 2015, The Times of India

SEBI SIMPLIFIES TRADING, DEMAT ACCOUNT FORM

The Securities and Exchange Board of India has simplified stock market trading account opening form for local investors to encourage more participation in capital markets. Investors can now open a trading and demat account by filling up a simplified account opening form, termed as SARAL form. Individual investors will have to submit only one documentary proof of address while opening a trading account.

(Source: The Economic Times March 05 2015)

MERGING OF CAPS WILL GIVE MORE HEADROOM TO FOREIGN INVESTORS

Bank, defence stock likely to be biggest beneficiaries

The Budget proposal to have a composite cap for foreign investors is likely to give more room for foreign portfolio investments in India. According to experts, the move to do way with separate foreign portfolio investment (FPI) and foreign direct investment (FDI) caps will create headroom and flexibility for overseas investors. Currently, many sectors including banks and exchanges have sub-limits or separate caps for FPIs and FDIs. This restricts overseas investments in a lot of stocks because usually, the FDI limit remains under-utilised and the FPI portion gets exhausted. Analysts are of the opinion that banking, infrastructure, defence, ports and exchanges are likely to be the main beneficiaries of the move to have composite caps. For instance, the upper limit for foreign investment in banks is set at 74 per cent, while FPIs have a sub-limit of 49 per cent. The defence sector has a 26 per cent foreign investment limit, but FPIs are currently not permitted to invest in the sector. According to experts, the shares of listed companies in this space might appreciate once the Finance Bill gets notified. "This (merging of investment classes) is a welcome move, as it provides greater flexibility for stakeholders to structure foreign investment and it may create further investment headroom for specific category of investors," said leading corporate law firm Nishith Desai in a note. In the past two years, robust foreign flows into the Indian stock market have seen FPI investment hit the ceiling in a number of companies. The removal of sub-limits is expected to be a booster for these companies as it will lead to renewed FPI interest in these stocks and help them raise capital. FPIs have invested $20 billion into the Indian stock market since January last year. "It structurally simplifies the investments for these stocks. This could be a trigger for the stocks to move up because of the extra headroom now available for foreign investors to buy into these stocks," said Nikhil Gholani, head of institutional equity at Tata Capital. Shares of Axis Bank and YES Bank already saw a huge spurt on Saturday after Finance Minister Arun Jaitley said in his Budget speech: "I propose to do away with the distinction between different types of foreign investments, especially between foreign portfolio investments and foreign direct investments, and replace them with composite caps."Banking stocks have rallied first as they remain FPI favourites. However, other companies where foreign investment is restrained currently could be the next to rally. "In the defence sector, investment by FPIs is currently not permitted. Once the Bill has been notified, FPIs would be able to utilise the 26 per cent foreign investment limit currently reserved only for FDI investors," added the note by Nishith Desai. "A lot of Indian companies have seen expulsion from global indices such as MSCI due to lack of further room for FII investment. Once more limits get freed up, these companies could once again get reinstated, which will automatically lead to a lot of passive flows," said an analyst with a foreign brokerage who did not wish to be named. If FPI investments near the prescribed limits, companies have to approach the Reserve Bank of India (RBI), which regulates foreign capital flows in listed companies. Some of the companies that have in the past two years approached for an increase in FII limits include Titan Industries, Lupin, Tata Motors DVR, Strides Arcolab, Tech Mahindra, HDFC Bank, South Indian Bank, and Kotak Mahindra Bank."The impact will be the most on banking sector stocks, particularly the private sector where they have been increasing exposure. And since this would increase the free-float, chances of these stocks getting into the MSCI indices are also higher," said Rikesh Parikh, vice-president (equities) at Motilal Oswal Securities.

CREATING MORE ROOM

- FII, FDI categories to be merged into a composite cap
- Move to create more headroom for foreign investments.
- Bank, defence, port, exchanges limit FPI investments
- Stocks in these sectors could see buying interest
- Move will help cos raise capital, gain weight in global indices

(Source: Business Standard, March 2, 2015)

GST ROLL OUT NEEDS MORE CHANGES TO SERVICE TAX, EXCISE: SINHA

Amendments to RBI Act likely soon, minister of state for finance says in his first post-Budget interview

The government would within two months try to move amendments to the Reserve Bank of India (RBI) Act, required for formation of a monetary policy committee, Minister of State for Finance Jayant Sinha told Business Standard on Sunday. Speaking on a large number of issues in an exclusive post-Budget interaction, Sinha also said rollout of the goods & service tax

(GST) would require more changes on the service tax front, besides some tinkering in excise duties, to bring those on a par with the proposed tax regime. "A series of steps need to be taken for service tax and excise for a smooth GST rollout. We need to make sure goods and services come under the GST regime. Some increase will be required to service tax, to bring it on a par with the revenue-neutral rate. We are working on that," Sinha said. On the need to amend the RBI Act, Jaitley had said in his Budget speech: "We will move the amendments sooner rather than later. You can expect it in a month or two. A number of sections in the Act need to be changed." He had also announced that the government had concluded a Monetary Policy Framework Agreement with RBI to keep Consumer Price Index (CPI) -based inflation below six per cent over the long term. "We will move to amend the RBI Act this year, to provide for a monetary policy committee."

Sinha on Sunday said the Modi government was trying to overturn the tax administration's negative and confrontational impression among people which he said was created by the previous government. "We had inherited a legacy of bad tax administration that led to problems with taxpayers. There were overly aggressive targets and assessments. We have made 70 per cent more refunds this financial year," he said, adding the government would adopt a number of recommendations of the Tax Administrative Reforms Commission (Tarc).

He also said Custom duty on crude oil might not be introduced again, as the Centre was comfortable with the increase in excise duty on petrol and diesel announced before the Budget that was likely to fetch the government Rs 60,000-70,000 crore at current oil prices. On the larger fiscal situation, Jaitley had on Saturday said the government was actively working on plugging leakages in subsidies through various measures, including direct benefits transfers through the 'JAM trinity' (Jan Dhan Yojana, Aadhaar and mobile payments). "It is possible, through the JAM trinity, to be much more targeted and leakage-proof in subsidy transfers. That will reduce our subsidy burden by 25-30 per cent." On the Budget announcement of estimated Rs 28,500-crore proceeds from strategic disinvestment, Sinha said the government was looking at all options, including part-selling stakes in loss-making state-run companies to private investors. Sinha also said the newly announced National Infrastructure and Investment Fund (NIIF) would be a government-run fund but with professionals from the private sector. "NIIF will have an annual flow of Rs 20,000 crore a year. It will be a government fund but managed by professionals from the public and private sectors."

(Source: Business Standard, March 2, 2015)

GOVT PROPOSAL TO HALT TRADING IRKS MARKET PARTICIPANTS

Market raps disinvestment department's proposal to Sebi for suspension of trading in a stock during divestment as ill-conceived, unfair and unproductive.

The Union government's idea to suspend trading in scrips of public sector undertakings (PSUs) on their divestment day has not gone down well with market players, who feel the proposal is unfair and would put existing investors in a spot. The department of disinvestment (DoD) has sent a proposal to the markets regulator, Securities and Exchange Board of India, to suspend trading in a stock on the day of its share sale by the government. The Centre has set a disinvestment target of Rs 69,000 crore for 2015-16. Market players say the proposal is contrary to global practice. Arun Kejriwal, founder of advisory firm KRIS Research, says such a move would be unprecedented. "Just because secondary market volatility creates impedance for a share sale doesn't mean the trading should be suspended. Nowhere else is it done. It would shut investors and traders from accessing the market and that would be unfair," he said. Market players said disinvestment is an event in the company's lifecycle and investors should be allowed to freely buy and sell a listed stock, to factor in various variables impacting the company. The rationale behind the DoD proposal is to prevent bear-hammering or short-selling of a stock, which puts pressure on the scrip, leading to lower realisations for the government. Also, high volatility on the day of share sale impacts investor participation. For instance, if the secondary market price drops below the offer price, investors get dissuaded from participation.

Experts, however, say a halt in secondary market trading would

UPCOMING DISINVESTMENT ISSUES

Companies expected to be part of the government's divestment programme: Existing shareholders in these companies average about half a million

	Market-cap (₹ cr)	No. of existing shareholders*
ONGC	2,73,604.57	524,590
Indian Oil Corporation	84,541.31	182,389
PowerGrid	81,089.64	761,122
NMDC	50,490.66	191,586
NHPC	24,847.50	993,418

*As of December 2014 Source: BSE

lead to higher volatility before or after the event. The move could also clash with the future & options activity in the stock. "During the trading-halt period, the markets will not be able to discount any news about the company or the sector which it operates in. It will only be able to do so after trading re-opens, which could make the stock much more volatile," said the head of research of a domestic brokerage. Also, it could be unfair to investors who are looking to liquidate their positions urgently, he added. NMDC, NHPC, Neyveli Lignite, State Bank of India, Indian Oil, Oil and Natural Gas Corporation and Hindustan Copper are among the big names where the government is expected to pare its holding. Divestment Secretary Aradhana Johri has said the volatility witnessed during the Coal India offer for sale (OFS) prompted the trading halt idea. "We have suggested that we need to see whether secondary trading of the stock in question can be suspended on the day of the OFS. Secondary trading can bring about a whole lot of swing in the price of the stock, which can be detrimental to the interest of other retail investors," Johri said in a recent interview to Business Standard. Market players said if such a benefit is extended to PSU stocks; it should also be made available for private companies. "Even on the Budget day, this is the reason why we wanted markets to stay open. We did not want the volatility that comes from people adjusting their positions before or after an important event. And, a primary issuance could lead to similar volatility if the stock is not allowed to trade on or before that day," said the head of another domestic brokerage. Circuit filters could be one way of containing the volatility, analysts said. Kejriwal said a more successful way of protecting investor interest would be to conduct the issuance on a non-trading day. "Earlier, there was a proposal that the OFS be conducted on a Saturday, to avoid volatility. If that is brought back and merged with the current government proposal, it could work," he said.

(Source: Business Standard, March 5, 2015)

FTSE ADDS 9 INDIAN FIRMS AS LARGE-CAPS-IN ASIA-PACIFIC EX-JAPAN INDEX)

Move may lead to net inflows of nearly $150 million in Indian shares

Stock market index provider FTSE Group has added Bosch and raised the shares of eight other Indian companies, including YES Bank, to large-caps from mid-cap earlier in its Asia Pacific ex-Japan index. FTSE's changes, which came after a semi-annual review of indices, may lead to net inflows of nearly $150 million in Indian shares and may help soothe worries about huge India overweight positions after a potential rise in the country's weighting by peer MSCI, traders said. The government's budgetary proposal to make no distinction between foreign direct investment and foreign portfolio investment is expected to raise India's weight in MSCI indexes. Companies often see demand for their shares rise or fall after promotion or exclusion from indices, primarily due to funds tracking the indices in question or using them as benchmarks, market analysts say.FTSE's move, which will be effective after market close on March 20, also includes Eicher Motors, Motherson Sumi Systems, Zee Entertainment Enterprises, Godrej Consumer Products, Aurobindo Pharma, Shree Cement and Cadila Healthcare. In its review, FTSE also upgraded India's consumption related stocks such as Pidilite Industries, Britannia Industries and Marico to mid-cap series from small-cap earlier

(Source: Business Standard, March 5, 2015)

PLACE DRAFT OF GST LAWS IN PUBLIC DOMAIN: INDUSTRY TELLS FINMIN

Work on these laws almost complete, says ministry

Business representatives on Thursday pressed for putting proposed draft on the Goods and Services Tax (GST) laws in the public domain and asked the finance ministry to engage with it more regularly to prepare businesses for the new indirect regime, targeted to be rolled out from April 1, 2016. Meanwhile, the finance ministry has clarified that it is not encroaching into the states' domain of taxation by taxing commissions of agents of lotteries. At an interaction with officials of the department of revenue (DoR), organised by business chamber PHDCCI here, business representatives said they need a forum with the finance ministry to represent their views. They also wanted to know from the officials as to when the drafts of GST laws would be put in the public domain. Revenue secretary Shaktikanta Das said the government would try to get the constitutional amendment Bill on GST passed in by Parliament in the current session. The Bill is required to be passed with a two-third majority in each House. The ruling National Democratic Alliance is awfully short of even a simple majority in the Rajya Sabha. As such, it needs the opposition's support to pass the Bill.

A BIT WORRIED

Industry's concern is that it needs to understand these laws so that introduction of GST doesn't give it any surprises

Revenue secretary Shaktikanta Das clarified the Centre was not moving into the states' domain by imposing service tax on selling or marketing agent of lotteries To become a law, it also needs ratification by at least half of the states, 15, which also necessitate the ruling coalition to seek the support of the opposition. Das said the work on GST laws—central GST (CGST), state GST (SGST) and integrated GST (IGST)—is also getting almost finalised. "Once constitutional amendment Bill is through, these pieces of legislation will be taken up by Parliament in respect of CSGST and IGST and STST simultaneously by state legislatures," he said. Side by side work on GST-Network to create an IT backbone is also going on, Das said. Industry's concern is that it needs to understand these laws so that introduction of GST doesn't give them any surprises. As said public interaction with industry and trade on GST is actually taking place at various centres. "But we probably need much more interaction. We will have a greater level of interaction with industry and trade," he said. The revenue secretary said he was confident that GST would be introduced from 2016-17. Das also clarified that the Centre is not moving into the states' domain by imposing service tax on selling or marketing agent of lotteries. "We are not taxing business of lottery. It is on services provided by distributors and agents of lotteries. The tax is on the commission which they are earning. These are two different things," he said. The revenue secretary said the Union government is sensitive to the constitutional allocation of taxation powers between the Centre and states. "We are not interfering in what is assigned to the states by the Constitution," he added. The Budget has proposed to withdraw exemption from service tax given so far to selling or marketing agent of lottery ticket to a distributor of lottery. as reiterated a small window provided to those having money abroad to declare it to the government is not an amnesty scheme, but will not involve prosecution.

(Source: Business Standard, March 6, 2015)

GOVT ASKS ANGEL INVESTORS TO GET CERTIFIED AS GROUP FOR ENJOYING TAX WAIVER

MoS for Finance Jayant Sinha said Sebi was empowered to waive tax for defined groups

Investors could form a group that could with certification by the Securities and Exchange Board of India (Sebi) gains a waiver from the angel tax, Minister of State for Finance Jayant Sinha had suggested. He said this in response to the start-up community's displeasure over the Union Budget not resolving the angel tax issue. Section 56 of the Income-Tax Act taxes startups on investments they receive from angel investors if these are above the fair market value. Sinha said the Sebi was empowered to waive the tax for defined groups. Angel investors can register as a collective and avail of the exemption if they meet required criteria. However, Sinha defended the government position that it was difficult to "police" individual investors. Representatives of the industry said they were studying the minister's recommendation. Angel funds recognised by the Sebi are exempted from this tax under the alternative investment fund category. However, the criteria to qualify as an angel fund are stringent. The tax was introduced by the Finance Act, 2012, and is levied on start-ups that receive funding, based on the perceived difference in valuation of the company. If the perceived difference is 25 per cent and the invested amount is Rs 1 crore, the tax levied will be at the rate of 30 per cent on Rs 25 lakh.Padmaja Ruparel, president of the Indian Angel Network, said since start-ups were unlisted companies, their potential would be a matter of judgment. "The issue with this tax is money which could have gone into building the company is now going as tax," she added. "It is not as if the future of the startup ecosystem rests on it (a tax exemption)," said Sharad Sharma, co-founder of software industry think-tank iSpirit. "The government is evolving standard guidelines on this issue, which should address concerns," he added. IT industry body Nasscom has recommended "know your investor" norms to dispel concerns of money laundering. "Sinha's suggestion is on the lines of what we had recommended on forming a certified list," said Bishakha Bhattacharya, director, government relations and public policy, Nasscom.

(Source: Business Standard, March 7, 2015)

GOVT WANTS SEBI, NOT RBI, TO REGULATE MONEY MARKET

Move to shift powers from the central bank without discussion baffles many

The government has proposed to amend the Reserve Bank of India (RBI) Act to take away money market regulatory powers from the central bank and bring it under the purview of the Securities and Exchange Board of India (Sebi).Though the proposal wasn't mentioned in Finance Minister Arun Jaitley's Budget speech, the Finance Bill proposes to amend sections 45U and 45W of the RBI Act, which effectively takes away the central bank's powers to regulate government securities and other money market instruments. The amendment to section 45W says, "Any direction issued by the Reserve Bank of India, in respect of security, under chapter III D of the Reserve Bank of India Act, shall stand repealed."Usha Thorat, former deputy governor of RBI, said, "Certain powers in relation to regulating money market instruments and products and derivatives based on these instruments were given to RBI in 2005-06 by amending the RBI Act and this happened after a lot of discussion. Now, with this amendment in the Finance Bill, all these provisions are proposed to be withdrawn. RBI was given responsibility for financial stability and the power to regulate forex and money markets was given to RBI to enable it to fulfill its mandate for financial stability. "Before such sweeping changes are brought about through the Finance Bill, there has to be an understanding of the purpose for such changes and whether these are indeed in the interest of financial stability. It has to go through a lot of discussion and dialogue."If the proposed amendments go through, regulations relating to the issuance and investment of commercial papers, inter-bank repo or any other repo and reverse repo used as instruments to raise liquidity by keeping these as collateral as government securities will no longer be in RBI's hands. To be sure, these amendments are not an extension of the Public Debt Management Act, which essentially deals with primary issuances of government securities. After the proposal is enacted, public debt management will be under the purview of Public Debt Management Agency, not RBI.Speaking to analysts on Wednesday, RBI Governor Raghuram Rajan had said the proposed amendments weren't part of the finance minister's Budget speech. Answering a question on the shifting of regulatory powers over debt markets from RBI, Rajan said he expected the proposed changes wouldn't take place. "On the shifting of regulatory powers over debt markets from RBI, there are some clauses in the Finance Bill referring to this. But the finance minister's speech did not contain any reference to this; the speech generally flags the important actions of the government. I am not worried this will happen," Rajan had said. The proposal to shift the power to regulate money market operations from RBI was made by the Financial Sector Legislative

Reforms Commission. Though there were exhaustive discussions on most other proposals by the council, the proposal to shift money regulations from RBI wasn't discussed.

(Source: Business Standard, March 7, 2015)

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