

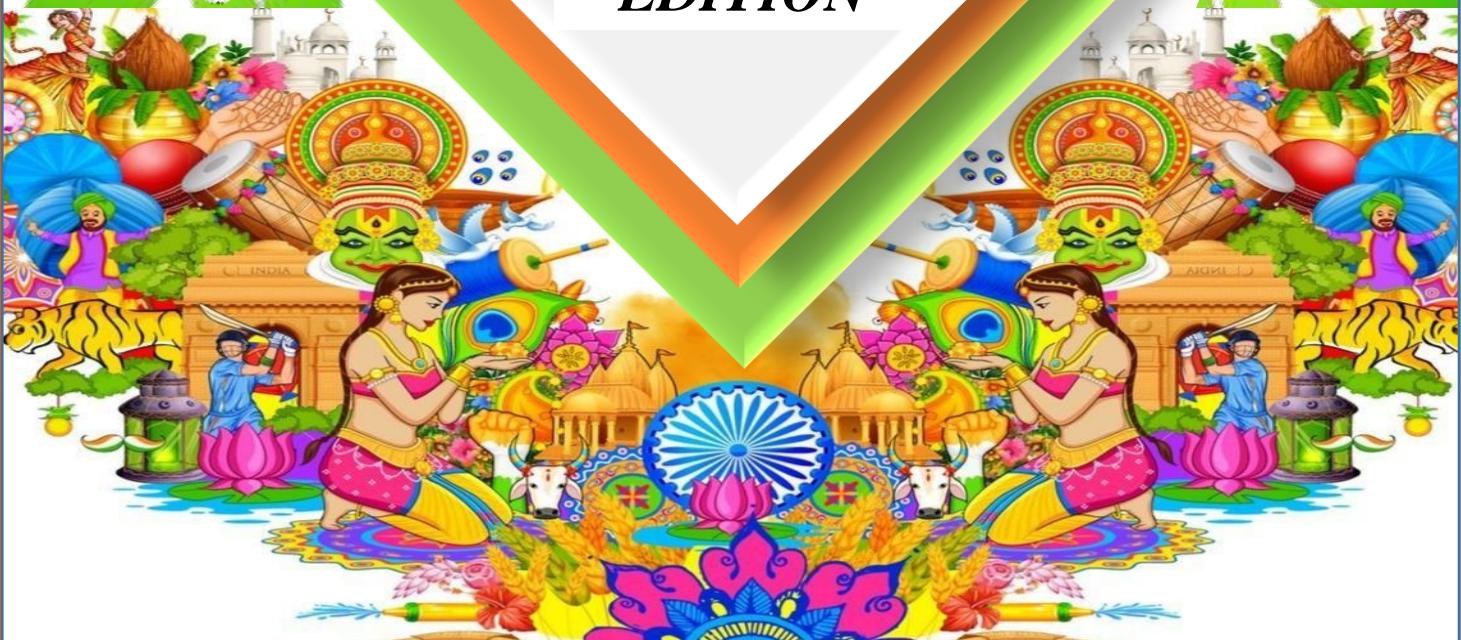


**A CA STUDENT E NEWSLETTER BY WICASA NAVI
MUMBAI BRANCH OF WIRC OF ICAI**

PRERNA

I CAN & I WILL

**AUGUST 2020
EDITION**



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Chairman's Communication

Core Managing Committee

**Chairman
CA Sanjay Bhujbal**

**Vice Chairperson
Shivani Murali**

**Secretary
Arti Shinde**

**Treasurer
Pushpinder Singh**

Dear Students,

Our Institute has announced the dates for Foundation, Intermediate and Final exam. The exams will be held in November, 2020. Students who would be appearing for November, 2020 attempt have an extended Preparation time available, which can be put into effective utilization. The need of the hour is to utilize the extra time productively and effectively with plan in face to make the best of it. Students must believe in what Walt Disney once said,

'All our dreams can come true if we have courage to pursue them.'

Believe in the impossible and make your dream come true. You need to get out of your comfort zone and invest time and energy for achievement of your goal. You should be courageous, tenacious and persistent in every single step you take. While luck, fate and genes could play a small part of your success, for the most part, making your dreams come true is based on hard work, self-awareness and focus. Great performers are made not born. With the same fighting spirit that we have shown as a country, our parent Institute ICAI has proactively responded to the challenges of COVID-19 pandemic faced by accountancy profession. Amidst the chaos caused by the life-threatening global pandemic - COVID-19, Navi Mumbai Branch of ICAI, under the able guidance of WIRC, initiated several enabling measures and initiatives for the benefit of members as well as students.

While the whole world is reeling under the influence of the Covid-19 pandemic and its consequences, it is the students who are worst affected. There is no clarity on how soon the world will return to normalcy. The story of human evolution shows how we have always adapted to survive extraordinary circumstances. Human beings have shown remarkable tenacity in exploring and creating new options when they are accustomed to, is no longer available. Now, is the time to be agile and adapt to digital channels of education. We realized that with the help of technology we can work remotely and that too with more or less same efficiency.

With this communication I request Students and members to contribute articles by mailing us at **wicasanavimumbai703@gmail.com** which will be published in our WICASA E-Newsletter. I am happy to share that we have got excellent response from students and members. I look forward for similar support in future.

Our mind is a powerful thing, if you allow yourself to keep a positive state of mind, your attitude will follow. Staying at home can be quite nice for some time, but can also be boring and restricting. Here are some ways to keep positive and cheerful – be busy, have a regular study schedule, help in doing work at home, distract yourself from negative emotions, eat well and drink plenty of fluids, be physically active and strictly follow the instructions laid down by the government. Hold on to your nerves for some more time; face the exam positively and confidently.

May this Independence Day bring fortune and success for each and every one of us. May our country see more progress in the coming years.

Happy 74th Independence Day

**CA Sanjay Bhujbal
WICASA Chairman
Navi Mumbai Branch of WIRC of ICAI**



Managing Committee Members of Navi Mumbai WICASA Of WIRC of ICAI – 2020-2021



CA. Sanjay Bhujbal
WICASA Chairman



Shivani Murali
Vice-Chairperson



Arti Shinde
Secretary



Pushpinder Singh
Treasurer



Rishab Jain
Member



Akshata Shelar
Member



Bhoomik Kotak
Member



Kaushiki Rajha
Member

Editor in Chief
Ms. Shivani Murali

Co-editor
Ms. Kaushiki Rajha

Creative Head
Mr. Pushpinder Singh

Special Thanks
CA Sanjay Bhujbal

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Nikhil Ramdas Kadu
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Key Audit Matters

Introduction

Dear Friends,

The purpose of an audit is to enhance the degree of confidence among intended users of the Financial Statements. This can be achieved by expressing an opinion on whether the Financial Statements are prepared in all material respects in accordance with an applicable Financial Reporting Framework. In case of most General Purpose Framework, that opinion is on whether the Financial Statements are presented fairly, in all material respects, or give a true and fair view in accordance with the framework. While performing the attest function of expressing the opinion on the financial statements auditors needs to comply with the Standards on Auditing (SAs) issued by the Institute of Chartered Accountants of India.

However in recent days, stakeholders are expecting the auditor not only to express the opinion on the financial statements but also bring out and communicate the critical audit issues which may go against the interest of the company as a whole. To fulfil this expectation there arise need for improvement in the audit reporting.

India is undergoing various changes in the accounting practices to match up with global standards. This transitional phase is resulting in complexities in the financial reporting framework. To bring out and communicate such complexities and its treatment in the financial reporting framework there was need of additional audit reporting.

To fulfill the stakeholder's expectation, to deal with complexities and to bring more transparency, Auditing and Assurance Standards Board (AASB) of the Institute of Chartered Accountants of India (ICAI) has come up with one more Standard on Audit Reporting titled '**SA 701- Communicating Key Audit Matters in the Independent Auditor's Report.**'

The scope of said standard outlined in para 2 is:

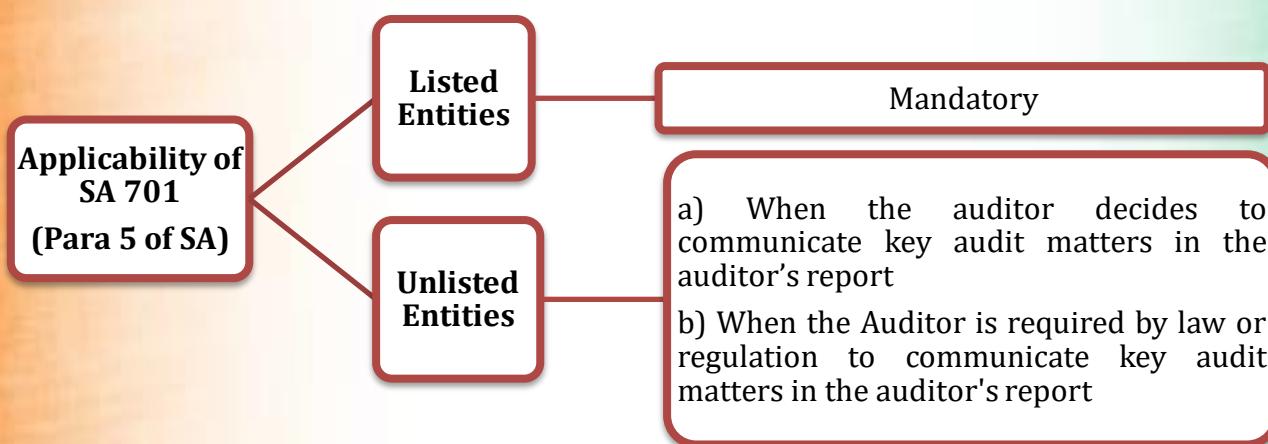
- + to enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed,
- + to provide the additional information to intended users of the financial statements to assist them in understanding those matters that, in the auditor's professional judgment, were of most significance in the audit,
- + to assist intended users in understanding the entity and areas of significant management judgment in the audited financial statements.

By issuing SA 701, Auditors are empowered to speak out their mind in terms of what they believe are the key audit matters with reference to the performance of the audit and how they went about doing it. All these years this used to be communicated with those charged with governance which is the audit committee and board of directors. After implementation of SA 701 such matters will be communicated to the stakeholders at large. This will help them to take prudent decisions

In this article we will understand the requirement and reporting under SA 701.

Applicability of SA 701 (Para 5 of SA 701)

This SA applies to audits of complete sets of general purpose financial statements for periods beginning on or after April 1, 2018 in case of the following entities:



Requirement of SA 701

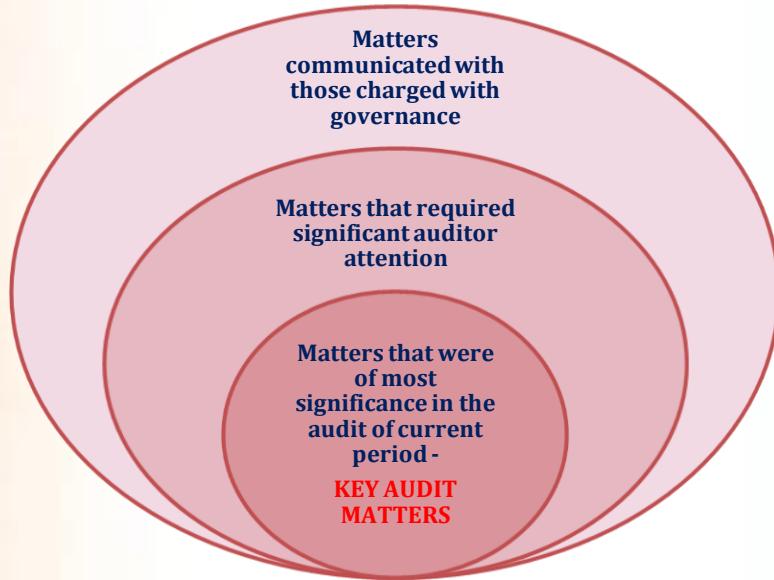
What is Key Audit Matters ? (Para 8 of SA 701)

Those matters that, in the auditor's professional judgment, were of **most significance in the audit of the financial statements** of the current period. Key audit matters are selected from matters communicated with those charged with governance.

How to Determine Key Audit Matters? (Para 9, A9 to A30 of SA 701)

The auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit.

A funnel approach may be adopted to determine which matters are required to be reported as key audit matter in the auditor's report. The starting point would be the matters that are communicated to those charged with governance, filtered for those matters that required significant auditor attention and then finally filtered for matters of most significance in the audit, which then would be the key audit matter for inclusion in the auditor's report. The pictorial representation of the same is as follows:



Determining which, and how many, of those matters that required significant auditor attention were of most significance in the audit of the financial statements of the current period is a matter of **professional judgment**. The number of key audit matters to be included in the auditor's report may be affected by the size and complexity of the entity, the nature of its business and environment, and the facts and circumstances of the audit. In general, the greater the number of matters initially determined to be key audit matters, the more the auditor needs to reconsider whether each of these matters meets the definition of a key audit matter. Lengthy lists of key audit matters are contrary to the notion of such matters being those of most significance in the audit.

In making this determination, the auditor shall take into account the following:

- a) Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with SA 315
- b) Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty.
- c) The effect on the audit of significant events or transactions that occurred during the period.

How to Communicate Key Audit Matters? (Para 11, 13, 15, 16, A31 to A33 of SA 701)

A separate section with title “Key audit matters” is to be included in the auditor’s report. In this section the language should clearly cover the following:

- ✚ Key audit matters are those matters that, in the auditor’s professional judgment, were of most significance in the audit of the financial statements of the current period; and
- ✚ These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor’s opinion thereon, and the auditor does not provide a separate opinion on these matters.

Separate Key Audit Matters Section in the Auditor’s Report

If There are Key Audit Matters

The auditor shall describe each key audit matter, using an appropriate subheading, in a separate section of the auditor’s report under the heading “Key Audit Matters,” unless the circumstances in paragraphs 14 or 15 apply. KAM shall be reported in the following manner:

- a. Descriptions of Individual Key Audit Matters
- b. Reference to Where the Matter is Disclosed in the Financial Statements
- c. Why the Auditor Considered the Matter to Be One of Most Significance in the Audit
- d. How the Matter Was Addressed in the Audit

If There are NO Key Audit Matters

If the auditor determines, depending on the facts and circumstances of the entity and the audit, that the only key audit matters for communication are those matters that relate to a modification, then the auditor shall include a statement to this effect in a separate section of the auditor’s report under the heading “Key Audit Matters.”

Eg. Except for the matter described in the Basis for Qualified (Adverse) Opinion section or Material Uncertainty Related to Going Concern section, we have determined that there are no other key audit matters to communicate in our report.

However under following Circumstances a Matter Determined to Be a Key Audit Matter is not communicated in the Auditor’s Report

- ✚ Law or regulation precludes public disclosure about the matter; or
- ✚ In extremely rare circumstances, the auditor determines that the matter should not be communicated in the auditor’s report because the adverse consequences of doing so would reasonably be expected

to outweigh the public interest benefits of such communication. This shall not apply if the entity has publicly disclosed information about the matter.

Now we will understand the interplay between Key Audit Matter and Other Elements of the Audit Report and its reporting:

1) Key Audit Matter v/s Modified Opinion (*Para 15, A6, A7 of SA 701 & Para 29 of SA 705(R)*)

Key Audit Matter Para	Modified Opinion Para
Applicable SA : SA 701 When Auditors decides to communicate the Key Audit Matters in the Audit Report, he shall use the ‘Key Audit Matter Para’ and same should be placed after Basis for Opinion Para.	Applicable SA : SA 705(R) When Auditor Modifies the Audit Opinion, the Auditor shall use ‘Modified Opinion Para’ instead of Opinion Para. There are three type of Modified Opinion namely Qualified Opinion, an Adverse Opinion, and a Disclaimer of Opinion.
Interplay: a) Auditor should not communicate a matter as Key Audit Matter if that matter requires modification of auditor’s opinion. b) Matters giving rise to modified opinion are by their nature Key Audit Matters. However these should be reported as per SA 705(R) and not as per SA 701. c) Paragraph 29 of SA 705(R) prohibits a Key Audit Matters section from being included in the auditor’s report when the auditor disclaims an opinion on the financial statements, unless the auditor is otherwise required by law or regulation to communicate key audit matters or to report on other information.	

2) Key Audit Matter v/s Emphasis of Matter Para and Other Matter Para

Key Audit Matter Para	Emphasis of Matter Para and Other Matter Para
Applicable SA : SA 701 When Auditors decides to communicate the Key Audit Matters in the Audit Report, he shall use the ‘Key Audit Matter Para’ and same should be placed after Basis for Opinion Para.	Applicable SA : SA 706(R) If the auditor considers it necessary <u>to draw users' attention to a matter presented or disclosed in the financial statements</u> that, in the auditor’s judgment, is of such importance that it is fundamental to users’ understanding of the financial statements, the auditor shall include an Emphasis of Matter paragraph in the auditor’s report.

Key Audit Matter Para	Emphasis of Matter Para and Other Matter Para
<p>Interplay:</p> <p>a) Emphasis of Matter and Other Matter para cannot be used as a substitute for Key Audit Matter. Para 8 and 10 of SA 706(R) expressly prohibits including under Emphasis of Matter Para and Other Matter Para, a matter that has been determined as Key Audit Matter.</p> <p>b) Sometimes, a matter determined as Key Audit Matter may also be, in auditor's judgment, fundamental to users' understanding of Financial Statement. In such cases, auditor may highlight such matter by presenting it more prominently than other matters in Key Audit Matter Section or by including additional information in its description to indicate its importance to users' understanding of Financial Statements.</p>	<p>If the auditor considers it necessary <u>to communicate a matter other than those that are presented or disclosed in the financial statements</u> that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, the auditor shall include an Other Matter paragraph in the auditor's report</p>

3) Key Audit Matter v/s Going Concern

Key Audit Matter Para	Going Concern Para
<p>Applicable SA : SA 701</p> <p>When Auditors decides to communicate the Key Audit Matters in the Audit Report, he shall use the 'Key Audit Matter Para' and same should be placed after Basis for Opinion Para.</p>	<p>Applicable SA : SA 570</p> <p>Situation 1 : If in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is <u>inappropriate</u>, the auditor shall express an <u>adverse opinion</u>.</p> <p>Situation 2 : If in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is <u>appropriate but a Material Uncertainty Exists</u>, and the <u>adequate disclosure of such material uncertainty is made</u> in the financial statements, the auditor shall express an <u>unmodified opinion</u> and the auditor's report shall include a <u>separate section</u> under the heading "<u>Material Uncertainty Related to Going Concern</u>".</p>

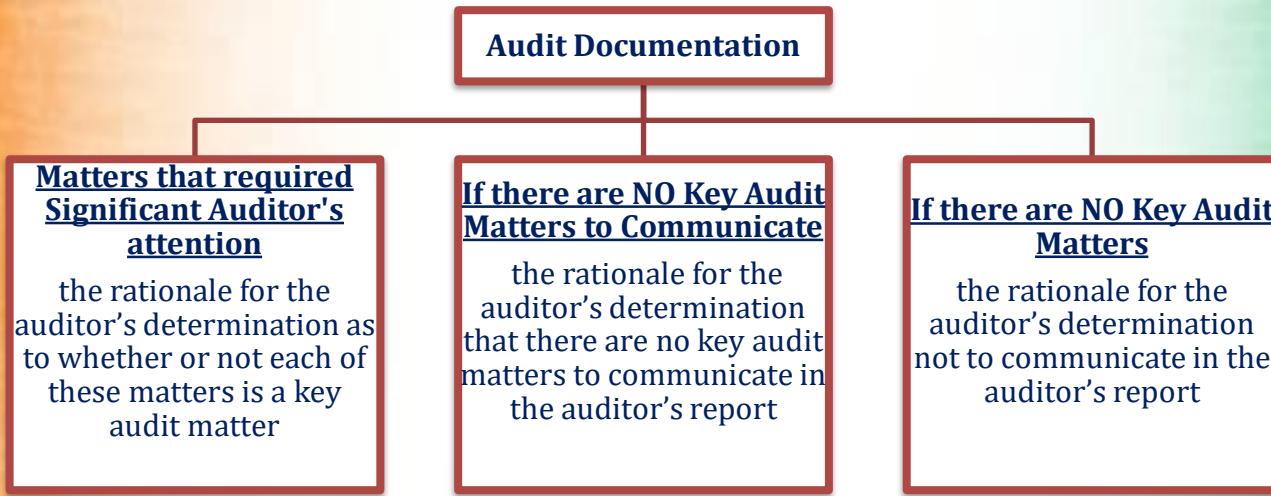
Key Audit Matter Para	Going Concern Para
	<p>Situation 3 : If in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is <u>appropriate</u> but a <u>Material Uncertainty Exists</u>, and the <u>adequate disclosure of such material uncertainty is NOT made</u> in the financial statements, the auditor shall express a <u>qualified opinion or adverse opinion, as appropriate</u> in accordance with SA 705(R)</p>
<p>Interplay: A material uncertainty related to Going Concern is by its nature Key Audit Matter. However it should be reported as per SA 570(R) and under SA 701.</p> <p>b) In the case of a listed entity, in addition to the disclosure under the aforesaid separate section, under the key audit matters section also, the auditor is required to make a reference.</p>	

Communication with Those Charged with Governance (Para 17, A60 to A63 of SA 701)

The auditor has an obligation to communicate to those charged with governance (Audit Committee and Board of Directors) the key audit matters that he has identified for communication in the auditor's report. Depending on the facts and circumstances of the entity and the audit if the auditor determines that there are no key audit matters to communicate in the auditor's report, then also auditor shall communicate the same with Those Charged with Governance.

Documentation (Para 18 and A64 of SA 701)

As per SA 230-Audit Documentation, Preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalized. In compliance with SA 230, auditor need to maintain the documentation under SA 701 as well which is as follows:



Where applicable, a written representation from management as to why public disclosure about a matter determined to be a key audit matter is not appropriate, including management's view about the significance of the adverse consequences that may arise as a result of such communication.

Some practical key audit matters reported in audit reports issued for F.Y. 2019-20 is case of certain listed entities:

1) Reliance Industries Limited

- ⊕ Capitalization of Property Plant and Equipment
- ⊕ Estimation of oil reserves, decommissioning liabilities and impairment evaluation of development rights
- ⊕ Litigation matters (Oil and Gas)
- ⊕ IT systems and controls over financial reporting
- ⊕ Fair value measurement
- ⊕ Impact due to significant volatility in crude prices
- ⊕ Investments in Reliance Energy Generation and Distribution Limited
- ⊕ Transfer of identified liabilities from Reliance Jio Infocomm Limited

2) Infosys

- ⊕ Fixed price contracts using the percentage of completion method
- ⊕ Allowance for credit losses

3) Tata Motors

- ⊕ Impact of COVID-19 pandemic on Going Concern assessment of the Company
- ⊕ Impairment of property, plant and equipment and intangible assets of passenger vehicles cash generating unit
- ⊕ Recognition of product development cost as an intangible asset

4) HUL

- ⊕ Revenue Recognition related to Rebates and Discounts
- ⊕ Provision and Contingent Liabilities relating to taxation, litigations and claims

5) Larsen & Toubro

- ⊕ Revenue Recognition – accounting for construction contracts
- ⊕ Measurement of contract assets in respect of overdue milestones and receivables in respect of overdue invoices.
- ⊕ Assessment of the carrying value of unquoted equity instrument and debt instrument in loss making joint ventures.
- ⊕ Physical verification of inventory

Conclusion:

To sum-up I would like to say that the profession of Chartered Accountants is all about being accountable and when it comes to audit reporting, accountability to all the stakeholders is fundamental to our profession. SA 701 permits auditors to raise their hands and communicate certain critical audit issues which will help stakeholders to take wise decisions.

Also after implementation of SA 701, the Audit Report of each and every company will be unique and communicative report unlike copy pasted template types audit reports. It will be company specific as well as period specific.

For effective implementation and understanding of SA 701, I strongly recommend the thorough study of Implementation Guide to Standard on Auditing (SA) 701 issued by the Institute of Chartered Accountants of India.



Shivani Murali
WRO0612263

74 Years of Independence

This year India celebrated its 74th Independence Day remembering the sacrifices made by the freedom fighters, political leaders and citizens in order to free the motherland. Independence Day is annually celebrated on 15th August to commemorating the nation's independence from the British. Every year our Prime Minister of India hoists the national flag at the Red Fort to commemorate the big day. Independence Day is celebrated with huge enthusiasm and zeal across the country and is observed with flag-hoisting ceremonies, parades and cultural events throughout the country.

The Indian national flag is a horizontal tricolour of saffron, white and green. The wheel in the center is a representation of the chakra, which appears on the abacus of Ashoka's pillar. The colour saffron, represents courage, sacrifice and renunciation. The white denotes truth and purity and the green stands for life, faith and chivalry. The wheel symbolizes unceasing motion and progress.

Independence Day is a reminder of the sacrifices of our valiant freedom fighters who stood up against the colonizers and even suffered harsh consequences unflinchingly, so that the later generations could breathe free air. Slaving for 200 years and claiming back our country makes us marvel at the great leaders. People symbolize their patriotism for the country by using the flag in different sizes and also decorate their homes and belongings with the colours of the national flag. Indians living in other parts of the world also celebrate Independence Day, and several cities in the United States have declared India's Independence Day, August 15 as India Day.

On August 15, 1947, the first Prime Minister of Independent India Jawaharlal Nehru unveiled India's tricolour flag at the Red Fort in Delhi. This practice continues till date as along with the flag hoisting, the Prime Minister delivers a speech from the historic monument.

The day August 15 is also marked as the anniversary of partition of British ruled India into two countries, India and Pakistan due to the violence between Muslims and Hindus. The partition was accompanied by violent riots and mass casualties, and the displacement of nearly 15 million people due to religious violence. On the 74th Independence Day, Prime Minister Narendra Modi hoisted the national flag from the ramparts of the historic Red Fort in Delhi and addressed the nation. Our Prime Minister greeted the nation and said



that "In this extraordinary time of Corona, Corona warriors have lived the mantra of 'Seva Parmo Dharma.' Our doctors, nurses, paramedical staff, ambulance personnel, safai karmacharis, policemen, service personnel and many people are working

round the clock continuously." Owing to the ongoing coronavirus pandemic, there was no social gatherings, instead, all states and government offices had webcasted their events and celebrations and also there was no grand performances with the military bands either.

Expressing grief over loss of lives in various parts of the country due to natural calamities, our Prime Minister reassured fellow citizens of full support in this hour of need. While addressing the nation he said India's freedom struggle has inspired the entire world. He said that amid the Covid pandemic, 130 crore Indians took the resolve to be self-reliant, and 'Aatmanirbhar Bharat' is in the mind of Indians. This dream is turning into a pledge. Aatmanirbhar Bharat has

become a 'mantra' for the 130 crore Indians today.

Remembering our past is extremely important but we also have to think about building our future. Let's do everything to keep our freedom and carry it through the years.

Happy Independence Day to the whole nation.

Jai Hind!!!



Harshit Chanduka
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IQ vs EQ vs MQ

Probably we all have heard the name of IQ and many times we think that our IQ is high or low or it should have been more. But very few of us know the term EQ i.e. Emotional quotient and MQ i.e. Moral quotient. These terms are so much underrated still they play equal role in the development of a person along with IQ. Let us understand all the terms with a single example of a little child. Many times we notice that a child always try to do the things he sees. Like, when a child see that a person is operating his phone, he also try to use the phone in the same manner he saw. That defines his IQ. His ability to learn and grasp the things quickly. Some learn the things quickly and some takes time, this describe their level of IQ. With respect to EQ, let say a child is crying and his mother plays a song for him on the radio or mobile or TV but still he is crying. But when his mother sings for him, he gets okay. Although the song she played electronically is more melodious than mother's voice but still the child likes mother song because he has emotional connect with his mother. This describes his emotional quotient i.e. the level of emotion for certain things or person and ability to recognize their own emotions. With respect to Moral quotient, morality lies in the Centre of moral intelligence. How does a child behave with others or his parents describes his moral intelligence. The integrity, respect, tolerance, fairness, self-control, conscience, empathy etc. are the part of moral intelligence. All the terms have equal importance in our personal and professional life. The effort should always be there to focus on all the three quotients. Along with the intelligence, morality and emotions are also vital for our better personal and professional life. Our better IQ make others believe that we are not dumb but knowledgeable, our better EQ make others believe that we have emotions too and we know very well to recognize our emotions and to differ between feelings. Our better MQ make others believe that we know very well how to behave with others and we are honest with our work. Having all the three quotient together can help us a lot in our daily life and helps to create better future.



Siddhartha
SRO475755

Depository System in India

Earlier, trading was done through paperwork and buyers had to keep checking for the confirmation of shares/amount transferred to their accounts. This carried the risks of theft, loss, and damage along with it. But the establishment of a central depository eliminated these risks by cutting down on the need for physical securities.

With a depository system, individuals can hold or transfer their shares electronically. In addition to making the process more secure, the introduction of depositories allowed for faster processing alongside reducing the dependency on paperwork. Now, depositories managing the entire transactions electronically, DPs serve numerous investors in trading over several stocks and managing their investment portfolios.

The depository system will maintain the accounts of the shareholder and also undertake to collect dividends, bonus shares, etc., on behalf of the shareholder. Periodically, the shareholders will be informed of their holdings by DP through a statement of accounts. Any sale or purchase of shares will take place through the Depository. The use of electronic system in the transfer of shares is an important aspect of Depository system.

Structure of Depository System

- Central Depository
- Share Registrar and Transfer Agent
- Clearing and Settlement Corporation of Stock exchanges
- Depository Participant

1. Depository: Depository is an entity which helps an investor to buy or sell securities in a paper-less manner. Depository keeps shares, debentures, mutual funds, derivatives, F&O and commodities in a dematerialized form that can be transacted as and when required.

In India, there are 2 depositories,

CDSL (Central Depository Services Limited) &
NSDL (National Securities Depository Limited).



However, we can't directly interact with depository to get your account opened and start trading. The intermediaries perform their actions in variety of securities at Depository on behalf of their clients. These intermediaries are known as Depositories Participants (DPs). Every Depository Participant (DP) needs to be registered under this Depository before it begins its operation or trade in the market.

Services provided by a Depository:

- The opening of DEMAT accounts
- Dematerialization (converting physical securities into electronic form)
- Rematerialisation (converting electronic securities into physical form)
- Maintaining records of securities held by the beneficial owner in electronic form.
- Settlement of trades by delivery or receipt of securities form/ in beneficiary a/c
- Settlement of off-market transaction between beneficial owners.
- Receiving electronic credit respect of securities allotted by issuers under IPO or otherwise on behalf of DEMAT account holders
- Receiving non-cash corporate benefits such as allotment of bonus and rights shares or any other non-cash corporate benefits given by the issuers in electronic form on behalf of its DEMAT account holders
- Pledging of dematerialized securities & facilitating loans against shares
- Freezing of the DEMAT account for debits, credits, or both

2. **Share Registrar and Transfer Agent:** Share Registrar is an authority who controls the issue of securities. Along with this, the transfer agent arranges for the transfer of securities in the case of buying or selling of securities



3. **Clearing and Settlement Corporation:** This agency settles the transfer of funds between the seller and buyer. Clearing is the process of determination of obligations, after which the obligations are discharged by settlement. Settlement is a two way process which involves transfer of funds and securities on the settlement date.

4. **Depository participant (DP):** DP is described as an Agent of the depository. They serve as intermediaries between the depositories (NSDL and CDSL) and investors. Considered similar to a bank, traders can get a Demat account opened with a DP along with other facilities that help them invest and/or trade efficiently. The relationship between the DPs and the depository is governed by an agreement made under the Depositories Act. DP is responsible to execute the final transfer of shares between depository and the investors. Offered as an electronic record, the investor receives a confirmation of the transaction with the exchange.

DP is an entity who is registered as such with SEBI under u/s 12(1A) of the SEBI Act,1992. As per the provisions of this Act, a DP can offer depository-related services only after obtaining a certificate of registration from SEBI.

Any financial entity that passes the eligibility criteria of the SEBI norms for providing Demat-related services can serve as a DP. It can be:

- Public Financial Institutions
- State Financial Corporations
- Banks
- A foreign bank operating in India with the approval of RBI
- Non-banking Financial Companies
- Clearing Corporation or Clearing House of a Stock Exchange
- A custodian of securities registered u/s 12(1A) of SEBI Act
- Stock Brokers
- Registrar & Transfer Agents

Functions of a Depository Participant

- **Materialization and Dematerialization:** DP allows investors & traders to interact with the electronic trading system. On behalf of an investor, the DP converts their physical securities into electronic form.
- **Maintaining and Settling Records:** DP needs to maintain the electronic records of holdings of traders. DPs deliver (or receive from) underlying securities to Beneficial Owner's account as part of Trade settlements.
- **Off-market Settlement:** A depository participant also offers services to settle transactions made outside of the stock exchange.
- **Electronic Credits:** When an investor buys any financial asset through a DP, the respective entity needs to provide electronic credit of securities that an issuer has allotted through IPO or any other form.

Costs involved:

- There are 3 operations can be done to the securities in Depository Debit:
Securities are debited to the Depository (Selling of securities) Credit: Securities are credited to the Depository (Buying of securities) Custody: Securities will remain with Depository
- Depository charges Depository Participants only for the Debit transactions, not for Credit or custody of securities.
- Depository does not charge the investors directly but charges its DPs, DPs have their own charge structure for their clients. Depository charges to DPs are uniform for all DPs. Some charges are payable by Issuers and other users also.
- DP charges are applicable whenever you sell any shares from your Demat account. This charge is a source of revenue to the depositories and its participants. It is similar to how exchanges charge a transaction fee or how brokers charge brokerage.



Karishma Gandhi
CRO0397577

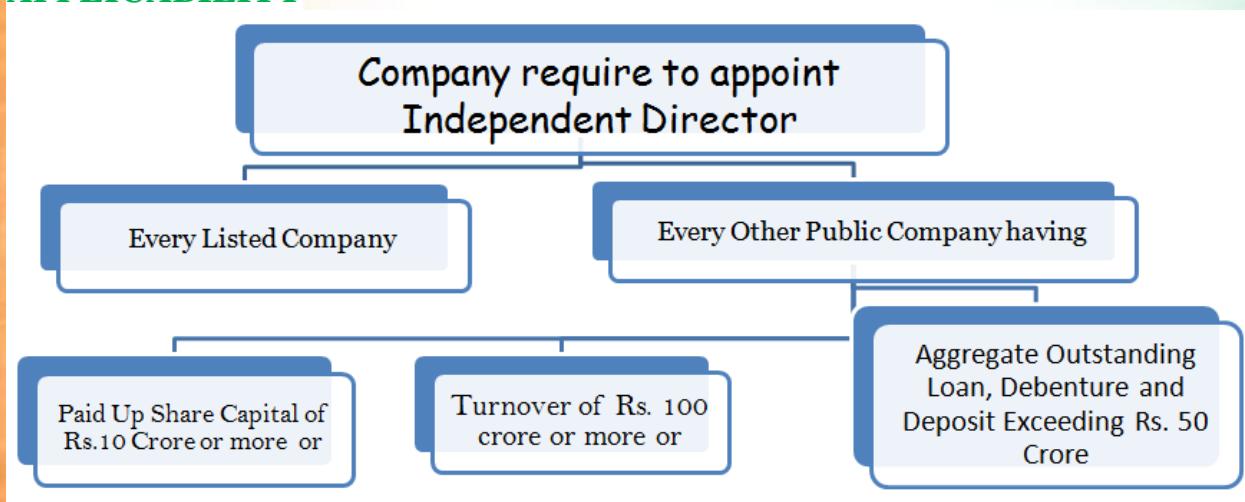
INDEPENDENT DIRECTORS

WHY THIS PROVISION WAS INSERTED?

Directors are entrusted with the management of the company. The funds of the shareholders are utilized by the directors for the benefit of company and shareholders.

But over a period of time directors stops working in the best interest of co. & starts working in their own interest. This lead to LOSS of INDEPENDENCE and then to FRAUD. Thus for good corporate governance practice the INDEPENDENT DIRECTOR IS REQUIRED

APPLICABILITY



WHO IS AN INDEPENDENT DIRECTOR?

According to sub-section (6) of section 149 of the Companies Act, 2013 an independent director in relation to a company, means a director other than a managing director or a whole-time director or a nominee director,—

- He should not be the shareholder of company.
- He must meet all the prescribed criteria of Independence as defined under section 149(6) of the companies act, 2013
- who is neither a promoter nor related to Promoters or directors of the company or its holding, subsidiary or associate company
- not been an Employee, proprietor or Partner -
 - # Firm or Auditor or PCS or Cost auditor
 - # Legal or Consulting Firm
- who himself nor his relative has no pecuniary relationship with the company, its holding, subsidiary or associate company, or their promoters, or directors, during the two immediately preceding financial years or during the current financial year
- who, neither himself nor any of his relatives—
 - (i) holds or has held the position of key managerial personnel or is or has been employee of the company or its holding, subsidiary or associate company
 - (ii) holds together with his relatives two per cent. or more of the total voting power of the company
 - (iii) is a Chief Executive or director, of any nonprofit organization that receives twenty-five per cent. or more of its receipts from the company, any of its promoters, directors or its holding, subsidiary or associate company.
- who possesses such other qualifications as may be prescribed .

An independent director is a member of the board of directors who

- (1) do not have a material relationship with the company,**
- (2) is not part of the company's executive team, and**
- (3) is not involved with the day-to-day operations of the company.**

WHO IS AN INDEPENDENT DIRECTOR?

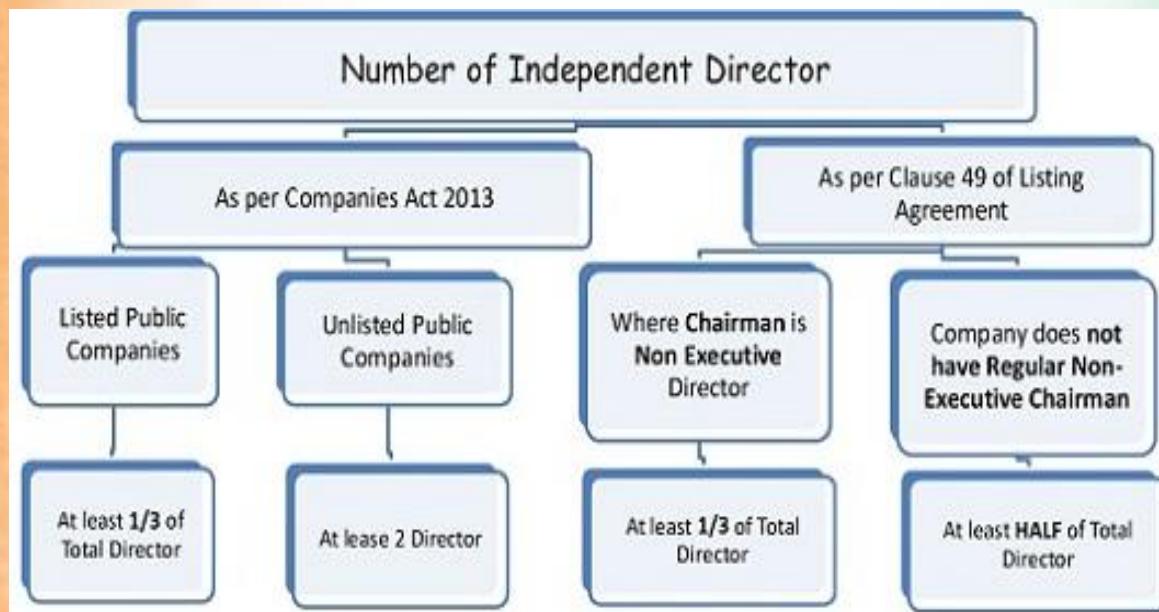
According to sub-section (6) of section 149 of the Companies Act, 2013 an independent director in relation to a company, means a director other than a managing director or a whole-time director or a nominee director,—

- He should not be the shareholder of company.
- He must meet all the prescribed criteria of Independence as defined under section 149(6) of the companies act, 2013
- who is neither a promoter nor related to Promoters or directors of the company or its holding, subsidiary or associate company
- not been an Employee, proprietor or Partner -
 - # Firm or Auditor or PCS or Cost auditor
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NUMBER OF INDEPENDENT DIRECTORS NEEDED?



WHO CAN BE ENROLLED?

One who wishes to offer the candidature as Independent Director may enroll the name at The Independent Directors repository (DATA BANK). The Independent Directors repository is a joint initiative of the three professional statutory bodies namely “**The Institute of Chartered Accountants of India, The Institute of Company Secretaries of India and The Institute of Cost Accountants of India**” under the active encouragement of the Ministry of Corporate Affairs, Government of India.

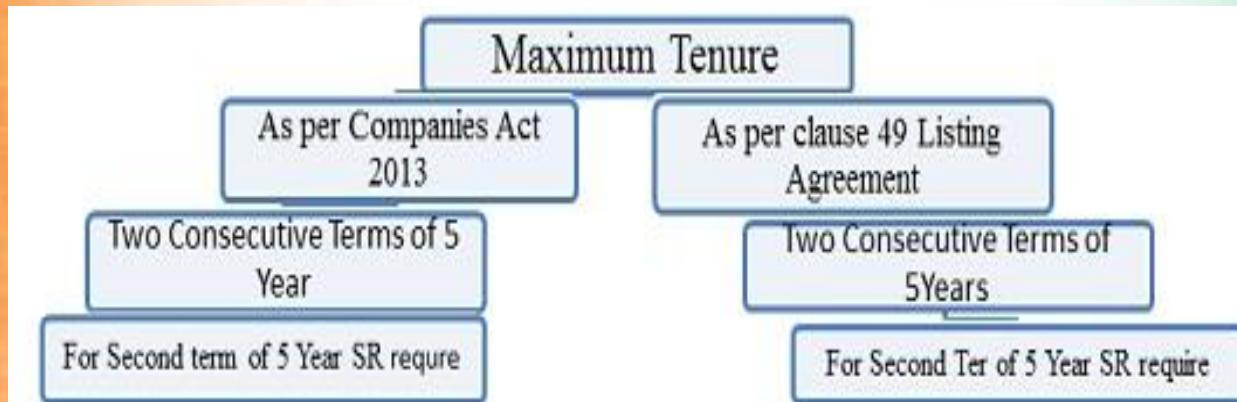
HOW IS HE/SHE APPOINTED?

The Independent Director has to submit the Consent to act as Director in FormDIR-2 to the Company. The Independent Director has to submit a declaration that he/ she is not disqualified to be appointed as a Director as per provisions of Section 164 of the Companies Act, 2013 in Form DIR-8 to the Company. The declaration of his independence is to be submitted before the appointment.

Such declaration must be placed before the 1st board meeting in which he participates as a director and the subsequent Board Meeting in each Financial Year.

Terms and conditions of Independent Director’s appointment have to be posted on the company’s website. Company has to file the consent of Independent Director with Registrar of Companies within 30 days of his/her appointment in Form DIR-12

TENURE



RESTRICTION ON INDEPENDENT DIRECTOR

Independent Director **NOT** be entitled to receive any **STOCK OPTION (ESOP)** but may receive Remuneration by way of Fee, Reimbursement of Expenses for participation in the Board and other Meetings and Profit related commission as may be approved by the Members.

SOME EXAMPLES OF INDEPENDENT DIRECTOR

S.NO.	MANAGEMENT	NAME
1.	HDFC BANK	a) Sandeep Parekh b) M D Ranganath c) Malay Patel
2.	RELIANCE INDUSTRIES LTD	a) R.A. Mashelkar b) Adil Zainulbhai c) Dipak C. Jain
3.	TATA MOTORS	a) O.P Bhatt b) Vedika Bhandarkar c) Hanne Sorensen

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