

NEWSLETTER

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From Director's desk

War and sanctions in an integrated world: All getting hurt

The Russo-Ukraine war is still going on. With no clear winner in sight. However, the loser is clearly visible. The entire world. All of us. Take just one number put out by the WTO. World trade, which was estimated to grow @ 4.7 % in 2022 is now revised down to 3%, mainly due to the impact of the war and the war-induced sanctions. Sanctions are being described as new 'weapons of mass destruction'. Even economies of faraway countries having no connection with either Russia or Ukraine have been seriously impacted. Many nations which were doing alright are tottering. And the ones with some degree of troubles are facing uphill tasks. Wars and sanctions are not the only WMDs destroying nations. Faulty economic policies too are home-made weapons of mass destruction. Like Sri Lanka now; the 'banana republics' earlier. Great lessons indeed; but will anything be learned?

HDFC-HDFC bank merger: Breaking the regulatory 'Berlin walls'

The main story in the corporate-financial sector in India this month, at the dawn of the FY, has been the big merger of the HDFC-HDFC Bank twins. That too the parent getting merged with the progeny [call son or daughter, as the reader likes]. This short write up is not about the strengths and magnitudes of this mega merger [which is at page 6], but about its enablers. It was made possible by the RBI, by reducing the regulatory arbitrage between banks and large NBFCs. It underscores how removing intra/inter-regulatory barriers aplenty, haunting the Indian financial sector, can benefit from consolidation and harmonization of financial services that would reduce their costs, reap scale economies and benefit the consumers and the economy at large.

Interesting stories on interest rates

CPI inflation in India has hit 6.95% in March 2022. [Wholesale prices have been around 13% for some time now]. It was hovering above the Monetary policy mandated upper band of 6% in January and February. MPC predicted a 4.5% inflation rate in its February Policy, and revised it to 5.7% in its April policy, for FY 2022-23. The EPFO recently reduced the rate of interest for its account holders from 8.5% to 8.1%. Other deposit rates continue to be much lower; broadly in the range of 5-7%. Confused? Quite. Apparently, there is something strange about the way inflation and interest rates are 'behaving' in India. Some blame it on continuing 'financial repression'. One thing is clear; there is no real return on most of the fixed income instruments.

Dr. CKG Nair
Director, NISM

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FINANCIAL MARKETS

1. Lok Sabha Passes Finance Bill; Completes Budgetary Exercise for FY23

The Lok Sabha approved the Finance Bill, which gives effect to new taxation, thus completing the budgetary exercise for 2022-23 fiscal. The Finance Bill was approved by the Lower House after accepting 39 official amendments moved by Finance Minister Nirmala Sitharaman.

2. Alternative investment funds grow 38 per cent in 2021, cross ₹6 lakh crore

Alternative investments are increasingly becoming mainstream. Thanks to their low correlation to public markets, alternative investment funds (AIF) are emerging as the preferred investment route for high net worth individuals (HNIs) and family offices, who seek higher risk-adjusted returns and diversification from traditional equity, debt and other asset classes.

3. Net FDI, FPI and FII data (2020-2021)

Monthly data about FDI, FPI and FII data are out for ready reference and the same can be viewed in RBI Bulletin – point 34 under Foreign Investment Inflows.

4. HDFC - HDFC bank merger: A mega event

The merger of India's largest mortgage lender HDFC with private sector lender HDFC Bank will be good for the economy and it is expected to get the required regulatory approvals. Only upon attaining all approvals by RBI, SEBI and such other regulatory approvals, the merger will become effective.

5. EPFO interest rates: Misaligned

The Employees' Provident Fund Organisation (EPFO), recently, slashed interest rates on provident fund (PF) deposits for 2021-22 from 8.5% to 8.1%.

6. RBI shifts towards policy tightening; expect bond yields to harden this year

RBI's Monetary Policy Committee (MPC) unanimously voted to keep the benchmark policy rate (repo rate) unchanged at 4.0%. The marginal standing facility (MSF) rate and the Bank rate remain unchanged at 4.25%.

CORPORATE WORLD

1. PE/VC investors rake in record \$41.3 bn. via exits in 2021

Private equity (PE) and venture capital (VC) firms have harvested a record \$41.3 billion across 275 exit deals in 2021, thanks to increasing liquidity events triggered by a free flow of global capital to the country. The numbers mark a 68 per cent jump over the previous record of \$24.6 billion in 2018, according to data from Praxis Global Alliance, a management consulting and advisory services firm based in India.

2. Timeline for start-ups to convert debt investment into equity extended

The government has extended the timeline [up to ten years] for startups to convert debt investments made in the company into equity shares, a decision which is likely to give a relief to budding entrepreneurs to deal with the impact of Covid-19 pandemic, according to a press note of the DPIIT. Earlier the option of changing convertible notes into equity shares was allowed for up to five years from the day when initial convertible note was issued.

3. Fintechs focus on gig workers to expand their reach

Gig workers and freelancers represent a growing portion of the workforce, but they usually don't qualify to get financial products like insurance, home loan, credit cards, among other things. This is because companies usually evaluate the financial profile of borrowers with the help of salary slips, tax returns, bank statements, and other income documentation.

4. Parliament panel seeks constituency-wise CSR spending by top 10 companies

The parliamentary Standing committee on finance has asked the ministry of corporate affairs (MCA) to analyse the Corporate Social Responsibility spending of top 10 private companies, sector by sector as well as parliamentary constituency-wise and submit a report within three months.

5. Access to technology key to M&A strategies of Indian firms: survey

The merger and acquisition decisions of Indian companies for 2022 will be driven by their need to access key technologies to achieve strong and sustainable growth. Considering that technology is at the core of value creation for most industries currently, India Inc. is increasingly recognizing the need to own technology instead of outsourcing critical functions to third-party vendors. This realization is driving the M&A strategies for Indian companies.

REGULATORY DEVELOPMENTS

1. Ashwani Bhatia appointed SEBI whole-time member

Ashwani Bhatia, who was the managing director of State Bank of India (SBI) has been appointed as a whole-time member (WTM) of the Securities and Exchange Board of India (SEBI) for a period of three years.

2. SEBI has made representations to the Govt. on Crypto Regulations

SEBI has been in discussion with the government on regulating crypto assets. The government has been working on a bill on cryptocurrencies.

3. SEBI comes out with clarifications on transactions in mutual funds units

SEBI has come out with certain clarifications on transactions in the units of mutual funds and has also given guidelines for authentication in case of redemption of units. The clarifications pertain to transactions in units of mutual funds on stock exchange platforms and also for entities including online platforms other than exchanges.

4. Not every interpretation of law would amount to a question of law : Supreme Court explains scope of appeal under section 15Z SEBI Act

The Supreme Court explained the scope and ambit of statutory appeal under Section 15Z of the Securities and Exchange Board of India Act, 1992.

5. SEBI board overhauls rules for collective investment schemes

The board of SEBI approved the proposal to tighten rules on collective investment schemes (CIS). The capital markets regulator also approved changes to the listing and disclosure norms and allowed custodians to provide custodial services in respect of silver-related instruments held by silver exchange traded funds (ETFs) of mutual funds.

6. RBI announces \$5 billion dollar-rupee swap

In an attempt to soak up liquidity from the system, the Reserve Bank of India (RBI) announced a \$5 billion rupee-dollar swap – the second one this year. The auction will be multiple-price-based in other words; successful bids will be accepted at their respective quoted premiums.

7. SEBI comes out with terms of usage of market data

With an aim to enhance the ease of accessibility and usability of data disseminated in public by various data sources in securities market, SEBI has asked market intermediaries to make available such data to users, 'free of charge' both for 'viewing' and for download.

DEVELOPMENT IN RELATED AREAS

1. Impact of Russia-Ukraine war on Global Trade

WTO has revised down the change in global trade from 4.7% to 3% in 2022. Moreover, it will just recover to 3.7% in 2023. This shows how the spillover effect of even a limited war can adversely impact nations globally in a magnified manner.

2. Value of UPI transactions declined to Rs 8.27 lakh crore in Feb: NPCI data

India's cashless retail transactions on UPI platform were worth Rs. 8.27 lakh crore in February, slightly lower than the amount recorded in the previous month, data from the National Payments Corporation of India (NPCI) showed on March 01, 2022.

3. BE(A)WARE – A Booklet on Modus Operandi of Financial Frauds

The Reserve Bank of India (RBI) has released a booklet, "BE(A)WARE" on the common modus operandi used by fraudsters and precautions to be taken while carrying out various financial transactions. The surge in the digital modes of payments witnessed in the past few years gained further momentum during the COVID-19 induced lockdowns. The booklet released by RBI, aims to enhance public awareness about various types of financial frauds perpetrated on gullible customers while carrying out digital payments and other financial transactions.

4. Reserve Bank of India launches (a) UPI for feature phones (UPI123pay) and (b) 24x7 helpline for Digital Payments (DigiSaathi)

The Reserve Bank of India has launched two key initiatives on March 08, 2022 – (1) UPI123Pay – Option to make Unified Payments Interface (UPI) payments for feature phone users, and (2) DigiSaathi - a 24x7 Helpline to address the queries of digital payment users across products. While launching the two initiatives, RBI Governor Shri Shaktikanta Das highlighted the importance of these initiatives in enhancing the diversity, utility and transformational power of digital innovations in the country.

5. India crosses \$ 400 bn. milestone in exports

The country's exports for the first time crossed the USD 400 billion mark in a fiscal on healthy performance by sectors such as petroleum products, engineering, gems and jewelry, and chemicals, according to the commerce ministry's data released on Wednesday. The merchandise exports rose by 37 per cent to USD 400.8 billion in 2021-22 until March 21 against USD 292 billion in 2020-21. Previously, the outbound shipments had touched a record of USD 330.07 billion in 2018-19.

6. Retail inflation in India rises to 6.95% in March

Retail inflation, which has been on the rise since September last year, touched 6.95 per cent in March 2022. This is well above the tolerance limits set under the Monetary policy framework.

GLOBAL FINANCIAL DEVELOPMENTS

1. New sanctions imposed on Russia

The US and UK governments have announced further sanctions on Russia, following its invasion of Ukraine. The financial measures designed to damage Russia's economy and penalize, people who have benefited.

2. India, UAE to establish Investment Council as part of CEPA

India and the UAE have agreed to set up a technical council on Investment, Trade Promotion and Facilitation, as part of the Comprehensive Economic Partnership Agreement signed between the two countries last month. India and the UAE had signed CEPA with a view to boosting bilateral trade to USD 100 billion over a five-year period and creation of lakhs of jobs.

3. Crisis-hit Sri Lanka in talks with India for another \$1.5 bn. credit line

Sri Lanka has sought an additional credit line of \$1.5 billion from India to import essentials, the island nation's central bank governor said on Monday, amid its worst economic crisis in decades. The country of 22 million people is struggling to pay for essential imports after a 70% drop in foreign exchange reserves in two years led to a currency devaluation and efforts to seek help from global lenders.

4. List of bear markets grows as global stocks erase \$ 12 trillion

As risks pile up for global equity markets – from soaring inflation and central bank policy tightening to the economic fallout from Russia’s invasion of Ukraine – the list of indexes that have fallen into bear market territory is growing.

5. Bank of Russia & RBI to create regulatory framework for trade and banking

Russian central bank officials are expected to meet their counterparts from the Reserve Bank of India (RBI) to create a regulatory framework that will help sustain bilateral trade and banking operations despite the global sanctions against Moscow. They are also likely to work on the creation of a dedicated payment mechanism to facilitate India's energy purchases from Russia.

6. Asia will become the ‘default market’ for Russian oil

Asia will become the default market for Russian oil as the country tries to find buyers for its energy exports, said Dan Yergin, vice chairman of S&P Global. Major oil importers in Asia like China and India have been pressured by oil prices which have soared since Russia invaded Ukraine in late February. Besides the appeal of cheaper Russian oil, both Beijing and New Delhi have close ties with Moscow.

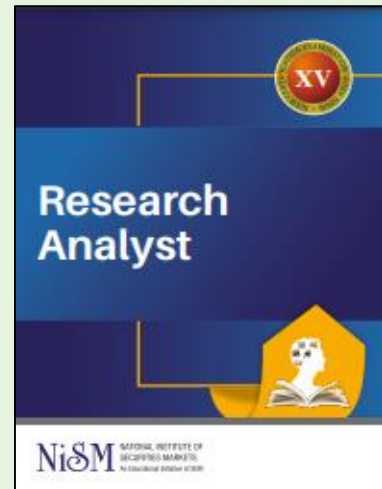
HDFC – HDFC Bank Merger – Key Highlights

1. HDFC at its board meeting held on April 04, 2022 approved a composite scheme of amalgamation.
2. The merger between the two entities will be a 2-step process. In the first step: HDFC Investments Ltd. and HDFC Holdings Ltd., wholly owned subsidiaries of HDFC Ltd., will be merged with and into HDFC Ltd and In Step 2: HDFC Ltd. will be merged with and into HDFC Bank.
3. As per the filing with stock exchanges, share exchange ratio for the amalgamation is for 25 shares of HDFC Ltd; the shareholders will get 42 shares of HDFC Bank. Shareholders having lesser HDFC Ltd shares, the amount will be credited back to them. HDFC will hold 41 percent of the stakes of HDFC Bank.
4. According to the transaction structure, India’s largest housing finance company HDFC Ltd with Assets under Management (AUM) of Rs. 5.26 trillion and a market cap worth Rs. 4.44 trillion will merge with HDFC Bank, which is India’s largest private sector bank as per assets with a market cap of Rs. 8.35 trillion. The market value of the merged entity will be Rs 12.8 lakh crore based on the market capitalization of the two entities as of 1 April 2022.
5. HDFC Bank and HDFC merger will create a financial sector behemoth with more than Rs 25 lakh crore in assets.
6. As per filling, Completion of Merger Process is Expected by Q2 / Q3 of FY24
7. The combined business would benefit from increased scale, comprehensive product offering and balance sheet resiliency.
8. HDFC is a leader in housing finance, while HDFC Bank has a much larger scale and distribution. The merger will enable the group to leverage these synergies.
9. As per the proposed Scheme, on the Effective Date, all outstanding liabilities, contingent liabilities, debts, loans (outstanding liabilities) of the Corporation shall be transferred to HDFC Bank on the same terms and conditions as were applicable to the Corporation. Accordingly, HDFC Bank shall meet, discharge and satisfy its duties and obligations pertaining to the transfer and vesting of all outstanding liabilities of the Corporation on the Effective Date and it shall not be necessary to obtain any further consent.

NISM ANNOUNCEMENTS

NISM – Series - XV: Research Analyst Certification Examination:

This certification covers the knowledge competencies that are required to perform research on companies listed on Indian Stock Exchanges. The coverage includes the basics of Indian securities markets, terminologies used in the securities markets, top down and bottom up approach to the fundamental analysis of companies, basic principles for micro- and macro-economic analysis, key industry drivers, qualitative and quantitative dimensions of company analysis, fundamentals of risk and return, valuation principles and implications of various corporate actions. This certification also covers the regulatory environment pertaining to the research analyst profession and the essential aspects of writing a good research report.



NISM launched Self-paced e-Learning course for prevention of Money Laundering and Terror Financing and other serious financial crimes. (click on the image for more details).

A nine-month long elearning programme spreading over three semesters to enable graduate/post students for a career in the BFSI sector (click the link for more details).



NISM NEWS

Leadership Lecture Series



Prof. Samir K. Barua, Former Director and Professor, IIM – A, addressed NISM students and faculty members on March 03, 2022 under Leadership Lecture series⁸ on the topic “Dealing with the Basic Statistic in Finance.”

Mr. A. Balasubramanian, Managing Director and CEO, Aditya Birla Sun Life AMC Limited, addressed NISM students and faculty members on March 24, 2022 under Leadership Lecture series⁹ on the topic “Evolution of World of Finance.”



Case study workshop for the faculty members of NISM

The School for Securities Education (SSE) of NISM has organized workshop on writing cases and research papers for the faculty members of NISM on March 04 and 05, 2022. The resource persons of the workshop were Prof. Samir K Barua, Former Director and Professor, IIM-A, Prof. Ashok Banerjee, Professor, Finance & Control, IIM-C and Prof. Abhay Pethe, Senior Resident Fellow at Mumbai School of Economics and Public Policy (MSE-PP), University of Mumbai.



The technical sessions reflected on how to write, present and publish case studies; also discussed on approaches to research, data and infrastructure, the art of writing the research paper and how to identify the topics for research. Faculty members presented their cases in the presence of eminent resource persons. The resource persons, out of their rich experience guided the faculty members on various facets of case study approach and what generally students look for while learning with the help of a case study.

Principals' Conclave, 2022 by SEBI (part of Global Money week)



NISM, Patalganga campus acted as host to SEBI's Principals' conclave as a part of Global Money week from 25th to 27th March 2022 conducted by SEBI. NCFE and NISM were the knowledge partners. Around 70 principals from 22 states and Union Territory across the country took part in the event.

During the conclave prominent experts having practical exposure to the topics addressed the delegates.

Dr. CKG Nair, Director, NISM handing over a memento to **Mr. G Srinivasan**, Director, NIA while NISM delegation visited NIA on March 25, 2022. The delegation deliberated on the possibility for joining hands to undertake various academic and research initiatives for professional development.



FOOD FOR THOUGHT – FROM NISM BRAINS

- Dr. V Shunmugam authored an article on “A case for reforms in warehousing regulation” featured in Business Line on March 15, 2022.
<https://www.thehindubusinessline.com/opinion/a-case-for-reforms-in-warehousing-regulation/article65227555.ece>
- Dr. CKG Nair jointly with Dr. M. S. Sahoo authored an article on “Reform path: IBC doesn’t need too many legislative fixes” featured in Financial Express on March 21, 2022.
<https://www.financialexpress.com/opinion/reform-path-ibc-doesnt-need-too-many-legislative-fixes/2465724/>
- Dr. CKG Nair jointly with Dr. M. S. Sahoo authored an article on “A Panglossian countenance on inflation” featured in Business Standard on March 29, 2022.
https://www.business-standard.com/article/opinion/a-panglossian-countenance-on-inflation-122032901578_1.html
- Dr. CKG Nair jointly with Dr. M. S. Sahoo authored an article on “Special legislation for business entities is passé” featured in Business Standard on April 08, 2022.
<https://www.thehindubusinessline.com/opinion/special-legislation-for-business-entities-is-pass/article65302730.ece>
- Dr. V Shunmugam authored an article on “Towards sustainable regulation of warehousing” featured in Business Line on April 08, 2022.
<https://epaper.thehindubusinessline.com/Home/ShareArticle?OrgId=GKN9MC8GF.1&imageview=0>
- Mr. M. Krishnamoorthy authored an article on “Participants of Mutual Funds in Corporate Governance – Reality Check” featured in ICSI Chartered Secretary Journal published by The Institute of Company Secretaries of India in April 2022 issue (Page Nos 109 to 117).
https://www.icsi.edu/media/webmodules/linksofweeks/ICSI_April_2022.pdf
- Mr. Aniket Ranjan (LL.M. Batch 2021-22) authored an article on “Co-operative Banking System in India: Opportunities and Challenges” featured in ICSI Chartered Secretary Journal published by The Institute of Company Secretaries of India in April 2022 issue (Page Nos 74 to 79).
https://www.icsi.edu/media/webmodules/linksofweeks/ICSI_April_2022.pdf

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