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Chapter: Unit 1 Chapter 2

Chapter Name: Regulatory Overview

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1 Financial Regulation



Financial regulation is a form of regulation or supervision, which subjects financial institutions to certain requirements, restrictions and guidelines, aiming to maintain the stability and integrity of the financial system.

The objectives of financial regulators are usually:

1. market confidence – to maintain confidence in the financial system
2. financial stability – contributing to the protection and enhancement of stability of the financial system
3. consumer protection – securing the appropriate degree of protection for consumers.

1.1 Financial Regulators of India

Financial regulators

- Reserve Bank of India
- SEBI
- IRDAI
- PFRDA

1.1 Financial Regulators of India

1. Reserve Bank of India (RBI)

The Reserve Bank of India (RBI) is the apex monetary institution in India. RBI is India's central bank, established under the RBI Act of 1934 and is responsible for numerous functions under the Banking Regulation Act of 1949

Functions of RBI:

1. Monetary Authority
2. Regulator and Supervisor of the Financial System
3. Foreign Exchange Manager
4. Issuer of Currency
5. Regulator and Supervisor of Payment and Settlement Systems
6. Banker to the Government: and to bank



1.1 Financial Regulators of India

2. Securities and Exchange Board of India (SEBI)

The Securities and Exchange Board of India (SEBI) protects the interest of investors in securities and also promotes the development and regulates the securities market. Furthermore, it was established in 1992 under the Securities and Exchange Board of India Act, 1992.

Following are the key responsibilities of SEBI:

1. Formulates the code of conduct and guidelines for the proper functioning of the intermediaries and businesses.
2. Regulates business in the stock and also other securities markets.
3. Protects the interest of security market participants.
4. Formulates, implements and monitors exercising powers.
5. Regulates credit rating agencies.
6. Furthermore, identifies and prohibits insider trading and unfair trade practices.



1.1 Financial Regulators of India

3. Insurance Regulatory and Development Authority of India (IRDAI)

The Insurance Regulatory and Development Authority of India (IRDAI) is the authority that regulates insurance in India. Furthermore, the regulatory body was established under the Insurance Regulatory and Development Authority Act of 1999.

Following are few of duties, powers and functions of Insurance regulator:

1. Issue certificate of registration, renew, modify, withdraw, suspend, or cancel the registration.
2. Protects the interest of the policyholders
3. Specifies code of conduct, qualifications, and practical training for insurance intermediaries and agents.
4. Also, specifies the code of conduct for surveyors and loss assessors.
5. Promotes and regulates firms that deal in the insurance and also reinsurance business. and many more



1.1 Financial Regulators of India

4. Pension Fund Regulatory and Development Authority (PFRDA)

The Pension Fund Regulatory and Development Authority (PFRDA) regulates the pension scheme in India. Also, it was established under the PFRDA Act, 2013. Also, the PFRDA covers the employees of the government, private and unorganized sectors.

Following are the key functions of the Pension Fund Regulator:

1. Creates investment standards for pension funds.
2. Resolves issues between pension fund subscribers and middlemen.
3. Increases public awareness of retirement and also pension plans.
4. Protects the interest of pension fund subscribers.
5. Investigates intermediaries and other participants for possible malpractices.
6. Formulates standard practices, code of conduct and also norms for the pension industry.



PENSION FUND REGULATORY AND DEVELOPMENT AUTHORITY

1.2 Why was SEBI formed ?

At the end of the 1970s and during the 1980s, capital markets were emerging as the new sensation among the individuals of India. Many malpractices started taking place such as unofficial self-styled merchant bankers, unofficial private placements, rigging of prices, non-adherence of provisions of the Companies Act, violation of rules and regulations of stock exchanges, delay in delivery of shares, price rigging, etc.

Due to these malpractices, people started losing confidence in the stock market. The government felt a sudden need to set up an authority to regulate the working and reduce these malpractices. As a result, the Government came up with the establishment of SEBI.

1.3 History of SEBI

- It was officially established by The Government of India in the year 1988 and given statutory powers in 1992 with SEBI Act 1992 being passed by the Indian Parliament.
- SEBI has its Headquarters at the business district of Bandra Kurla Complex in Mumbai, and has Northern, Eastern, Southern and Western Regional Offices in New Delhi, Kolkata, Chennai and Ahmedabad respectively.
- Controller of Capital Issues was the regulatory authority before SEBI came into existence; it derived authority from the Capital Issues (Control) Act, 1947.
- Initially SEBI was a non statutory body without any statutory power.
- However in the year of 1995, the SEBI was given additional statutory power by the Government of India through an amendment to the Securities and Exchange Board of India Act, 1992.
- In April, 1988 the SEBI was constituted as the regulator of capital markets in India under a resolution of the Government of India.

1.3 History of SEBI

- The SEBI is managed by its members, which consists of following:
 - a) The chairman who is nominated by Union Government of India.
 - b) Two members, i.e. Officers from Union Finance Ministry.
 - c) One member from The Reserve Bank of India.
 - d) The remaining 5 members are nominated by Union Government of India, out of them at least 3 shall be whole-time members.
- The office of SEBI is situated at SEBI Bhavan, Bandra Kurla Complex, Bandra East, Mumbai- 400051, with its regional offices at Kolkata, Delhi, Chennai & Ahmadabad.
- It has recently opened local offices at Jaipur and Bangalore and is planning to open offices at Guwahati, Bhubaneswar, Patna, Kochi and Chandigarh in Financial Year 2013 – 2014.

1.4 Objectives of SEBI:

1. Protection to the investors

The primary objective of SEBI is to protect the interest of people in the stock market and provide a healthy environment for them.

2. Prevention of malpractices

This was the reason why SEBI was formed. Among the main objectives, preventing malpractices is one of them.

3. Fair and proper functioning

SEBI is responsible for the orderly functioning of the capital markets and keeps a close check over the activities of the financial intermediaries such as brokers, sub-brokers, etc.

1.5 Functions of SEBI

The main primary three functions are-

1. Protective Function
2. Regulatory Function
3. Development Function

1.5 Functions of SEBI

1. Protective Functions

These functions are performed by SEBI to protect the interest of investors and other financial participants.

It includes-

- Checking price rigging
- Prevent insider trading
- Promote fair practices
- Create awareness among investors
- Prohibit fraudulent and unfair trade practices

1.5 Functions of SEBI

2. Regulatory Functions

These functions are basically performed to keep a check on the functioning of the business in the financial markets.

These functions include-

- Designing guidelines and code of conduct for the proper functioning of financial intermediaries and corporate.
- Regulation of takeover of companies
- Conducting inquiries and audit of exchanges
- Registration of brokers, sub-brokers, merchant bankers etc.
- Levying of fees
- Performing and exercising powers
- Register and regulate credit rating agency

1.5 Functions of SEBI

3. Development Functions

This regulatory authority performs certain development functions also that include but they are not limited to-

- Imparting training to intermediaries
- Promotion of fair trading and reduction of malpractices
- Carry out research work
- Encouraging self-regulating organizations
- Buy-sell mutual funds directly from AMC through a broker

2 Competition Commission of India



- The Competition Commission of India (CCI) is the chief national competition regulator in India.
- It is a statutory body within the Ministry of Corporate Affairs and is responsible for enforcing the Competition Act, 2002 in order to promote competition and prevent activities that have an appreciable adverse effect on competition in India.
- The CCI looks into cases and investigate it if the same has negative impact on competition



2.1 Objectives

1. Eliminate practices having adverse effect on competition
2. Promote and sustain competition
3. Protect the interests of consumers
4. Ensure freedom of trade in the markets of India
5. Establish a robust competitive environment through

2.2 Why do we need Competition Laws?

Competition laws perform three main functions in society:

1. **To uphold free-enterprise:** the competition laws have been called the Magna Carta of free enterprise.
2. **Security against market distortions:** there is a constant risk of various people resorting to market distortions and abusing their dominant positions to resort to anti-competitive activities, thus competition laws are required to ensure that the market is safe from the various distortions.
3. **They also aid in the promotion of domestic industries:** Competition laws are required to ensure that the domestic industries do not get suppressed with an increase in globalization. They play a quintessential role in determining the viability of the domestic industries. However, to keep the Indian competition laws updated with the businesses of the digital world which include not many assets, the Indian government has established a Competition Law Review Committee.

2.3 Functions of CCI

- Eliminate practices that have an adverse impact on competition.
- Secure the interest of consumers and ensure that their welfare is not compromised.
- Undertake competition advocacy, create public awareness and impart training on competition issues.
- Ensure smooth alignment of sectoral regulatory laws and competition laws.
- Ensures that foreign companies abide by the country's competition laws.
- It guarantees that no enterprise abuses their 'dominant position' through the control of supply, manipulating purchase prices, or adopting practices that deny market access to other competing firms.

2.4 Cases



Have you come across any case handled by the competition commission?



<https://economictimes.indiatimes.com/news/sports/competition-commission-orders-probe-against-bcci-for-abuse-of-dominant-position/articleshow/64465817.cms>

3 Registrar of Companies



- The Registrar of Companies (ROC) is an office under the Ministry of Corporate Affairs (MCA), which is the body that deals with the administration of companies and Limited Liability Partnerships (LLPs) in India.
- The office of the ROC maintains a registry of records related to companies registered with them, and permits the general public to access this data on payment of a fee.

Registrar of Companies in India



3.1 Functions

The major functions of ROCs are as follows:

- Maintains a registry of records concerning companies which are registered with them and allows the general public in accessing this information on payment of a stipulated fee;
- Takes care of the registration of a company or incorporation of the company in India;
- Regulation and reporting of companies and their shareholders and directors;
- Administers government reporting of several matters which includes the annual filing of numerous documents;
- Fostering and facilitating business culture;
- Approves every company for existence;
- Provides incorporation certificate which is conclusive evidence of the existence of any company. Even at the time of ceasing of a company, the name of the company is struck-off from the register of companies;
- Ask for supplementary information from any company by searching its premises and seizing the books of accounts with the prior approval of the court;
- File a petition for winding up of a company.
- Post-Incorporation when a company requires a change in its name, objectives or registered office.

4 Accounting Standards



- An accounting standard is a common set of principles, standards, and procedures that define the basis of financial accounting policies and practice.
- An accounting standard is a set of practices and policies used to systematize bookkeeping and other accounting functions across firms and over time.



4.1 Why do we need Accounting Standards?

1. Clarity
2. Comparability
3. Usefulness
4. Guidance
5. Uniformity
6. Reliability
7. Reducing Fraud
8. Assist auditors



<https://brieflyfinance.com/8-reasons-why-do-you-need-accounting-standards/>

4.2 Different Accounting Standards

Generally accepted accounting principles (GAAP)

- Generally accepted accounting principles (GAAP) refer to a common set of accounting principles, standards, and procedures issued by the Financial Accounting Standards Board (FASB).
- Public companies in the U.S. must follow GAAP when their accountants compile their financial statements.
- GAAP aims to improve the clarity, consistency, and comparability of the communication of financial information.



4.2 Different Accounting Standards

International Financial Reporting Standards (IFRS)

- International Financial Reporting Standards (IFRS) are a set of international accounting standards, which state how particular types of transactions and other events should be reported in financial statements.
- IFRS are issued by the International Accounting Standards Board (IASB), and they specify exactly how accountants must maintain and report their accounts.
- IFRS was established in order to have a common accounting language, so business and accounts can be understood from company to company and country to country.



More than 144 countries around the world have adopted IFRS, which aims to establish a common global language for company accounting affairs.

4.2 Different Accounting Standards

Indian Accounting Standard (Ind-AS)

- Indian Accounting Standard is the Accounting standard adopted by companies in India and issued under the supervision of Accounting Standards Board (ASB) which was constituted as a body in the year 1977. ASB is a committee under Institute of Chartered Accountants of India (ICAI) which consists of representatives from government department, academicians, other professional bodies viz.
- The Ind - AS are named and numbered in the same way as the International Financial Reporting Standards (IFRS).



4.3 Comparative study

We have chosen few accounting standards to explain you about the basic differences.

1. Property, plant and equipment

Area	Sub-topic	IFRS	US GAAP	Indian GAAP
Property, plant and equipment	Componentisation	IFRS requires that separate significant components of property, plant and equipment with different useful lives be recorded and depreciated separately	US GAAP generally does not require the component approach for depreciation	Similar to IFRS

Componentization in simple terms is to depreciate the components of the assets based on its significance, the benefit derived and the useful lives of those

4.3 Example

Mr. X bought a building valued RS 10,000,000. The building has an estimated life of 40 yrs with no salvage value.

Since componentization is not a mandatory requirement under US GAAP, we will just follow the normal depreciation recognition as $\text{Rs } 10,000,000 / 40\text{yrs} = \text{Rs } 250,000/\text{year}$. This is the value of depreciation recognized each year.

Under IFRS, we need to identify the significant components with useful lives of the building.

You may identify the values as below:

Components	Cost	Useful lives
Building	8000000	40
Roof	1500000	15
Cooling system	500000	10
Total	10000000	

4.3 Example

We need to depreciate each components of the building w.r.t its useful lives.

IFRS	US GAAP	Indian GAAP
The guidance includes requirements to review residual values and useful lives at each balance sheet date.	It is generally accepted that the appropriateness of significant assumptions within the financial statement would be reassessed each reporting period; there is no explicit requirement for annual review of residual values.	Schedule II to the Companies Act, 2013 prescribes indicative useful lives and residual value for various items of PPE. If a company adopts a useful life/residual value different from that specified in schedule II, the financial statement should disclose such difference and provide justification in this respect supported by technical advice.

4.3 Example 2

	IFRS	Indian GAAP
Revenue	Revenue should be measured at the fair value of the consideration received or receivable	Revenue is measured by the charges made to the customers or clients for goods supplied or services rendered by them and by the charges and rewards arising from the use of resources by them.