



VIRTUAL CLASSES
ORGANISED BY BOS, ICAI

FOUNDATION LEVEL
PAPER 4 PART II
BUSINESS AND COMMERCIAL KNOWLEDGE

Faculty : CA Arjit Sethi



FOUNDATION LEVEL

PAPER 4 PART II

BUSINESS AND COMMERCIAL KNOWLEDGE

Chapter 4 Session 2

Government Policies for Business Growth

Faculty : CA Arjit Sethi



Policy Formulation & Impact Transmission

Always development oriented

Policy Context > Policy Content >
Institutions > Instruments > Market
Participants

Real Time and Post Implementation Feedback enables
further calibration to better serve the purpose.



Quick Quiz #3

Bank Rates being adjusted to increase or decrease credit supply in economy can be termed as?

- A. Market Participants
- B. Policy Context
- C. Policy Content
- D. Policy Instrument



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THE FOUR TYPES OF OF PUBLIC POLICY (Nature of Public Policy)

- **Protective** - To Protect. Custom Duties to protect Indian products from foreign competition especially in handicrafts
- **Restrictive** - To Stop. Alcohol Ban in Bihar, Child Labour Abolition
- **Regulatory** - To Check. Setting up of SEBI, IRDAI, RERA
- **Facilitating** - To Help. MSME Loan Boosters, National Skill Development Corporation (NSDC)



Quick Quiz #4

Start Up India is an initiative, under which of the following type of Public Policy?

- A. Restrictive
- B. Regulatory
- C. Facilitating
- D. Protective



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- B. Regulatory
- C. **Facilitating**
- D. Protective



Huge changes came in the early 1990s

The Economic Reforms of 1992

Liberalization
Privatization
Globalization



LPG Policy of 1992

Liberalization

Being less strict. Easier Tax Laws. Removing Quotas and Bars, easing economic activities. To increase business in country!

Privatization

Government sells its ownership to private players. To get funds!

Globalization

Allowing easier Export and Import via opening trade barriers for Foreign Investors. Foreign Direct Investment. Gives FOREX and More Tax!



Why did we need such huge reforms? What was the need?

- Social Security was good but low infrastructural development
- Fall of Warsaw Pact between Soviet and its allies, (Russia and Poland), Russia opened its economy, multiple states split to fight for resources in Asia
- Formation of the European Union (EU)
- Huge Loan burden from IMF, World Bank and ADB, high inflation hit the interest rates, gold was mortgaged with Bank of England, cash crunch position.



Why did we need such huge reforms?
What was the need?

**All this pushed India towards a
more LIBERAL, PRIVATE AND
GLOBAL economic need.**

It had to open up to survive.



Economic Reforms of 1992 : Privatization

- **Delegation** Govt. owns, private delivers. Contracts, grants, etc.
- **Divestment** partial sale of ownership and responsibility, slowly sell off major stake to private investors.
- **Displacement** Let private players expand and not fight them off as competition. Eg: MTNL and BSNL let private companies grow.
- **Disinvestment** Selling portion in ownership to private investors



IFDI : Inward Foreign Direct Investment

Flow of investment from other countries in companies/organisations of India

% allowed is not uniform for all sectors. It depends on the situation and importance of sector. Range from 100%, 51%, 49%, 26%

Some sectors are kept out of FDI - Atomic Energy, Lottery, Gambling, Nidhi Companies, Agriculture, etc.



OFDI : Outward Foreign Direct Investment

Flow of investment from India in companies/organisations of other countries.

Airtel invested \$980 Mn in Mauritius, PVR Cinemas invested in Sri Lanka.

The trend is picking up with reports suggesting \$2Bn per year of OFDI.



FII : Foreign Institutional Investors

Large groups/investment companies with huge amounts of money

Investing in companies via debt/equity/partnerships as a bet of getting huge profits in return.

FII - Black Rock, SoftBank, JP Morgan, etc.



Summary

- History of Public Policy**
- India after Independence**
- Policy Development and Types**
- Economic Reforms of 1992 : LPG**
- Privatisation - 4 Ways**
- Globalisation**
- IFDI, OFDI and FII**



FOUNDATION LEVEL

PAPER 4 PART II

BUSINESS AND COMMERCIAL KNOWLEDGE

Chapter 5

Organisations Facilitating Business

Faculty : CA Arjit Sethi

Economy & the Current Scenario

Facilitation of Business



Challenge

Covid-19: World economy that took elevator down faces steep stairs back up

Even with those rescue efforts, the world is still suffering its worst economic crisis since the Great Depression.

Solution

Economy package, opening up of economy post lock down have begun showing results: Survey

Business & Business Facilitation

Can a Business thrive on it's own?

No! It needs facilitation/help/support and a strong economic environment



Quick Quiz #1

India's GDP (Gross Domestic Product) for FY'20 is?

- A. \$2.99 Trillion
- B. \$3.20 Trillion
- C. \$5.01 Trillion
- D. \$1.89 Trillion



Quick Quiz #1

India's GDP (Gross Domestic Product) for FY'20 is?

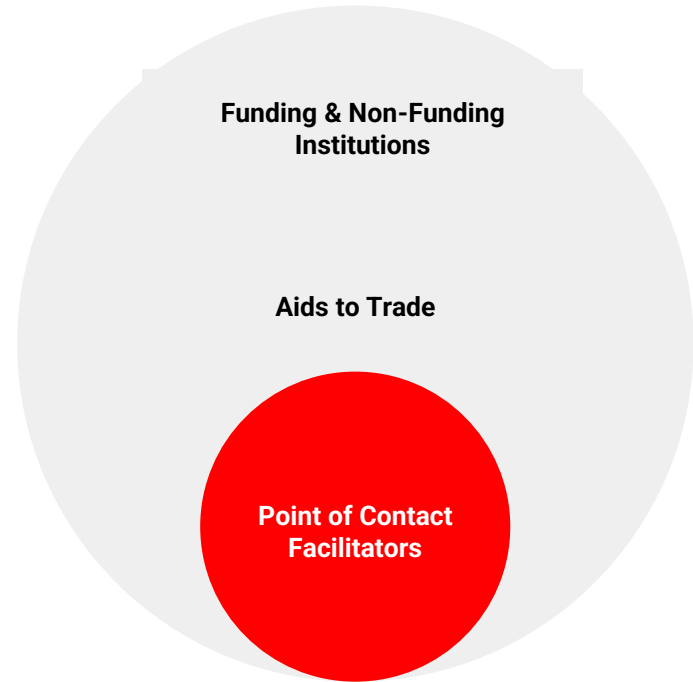
- A. \$2.99 Trillion
- B. **\$3.20 Trillion**
- C. \$5.01 Trillion
- D. \$1.89 Trillion

Business & Business Facilitation

Point of Contact Facilitators

(Business Level Involvement)

- Logistics Provider
- Incubators
- Financial Consultant
- Merchandiser

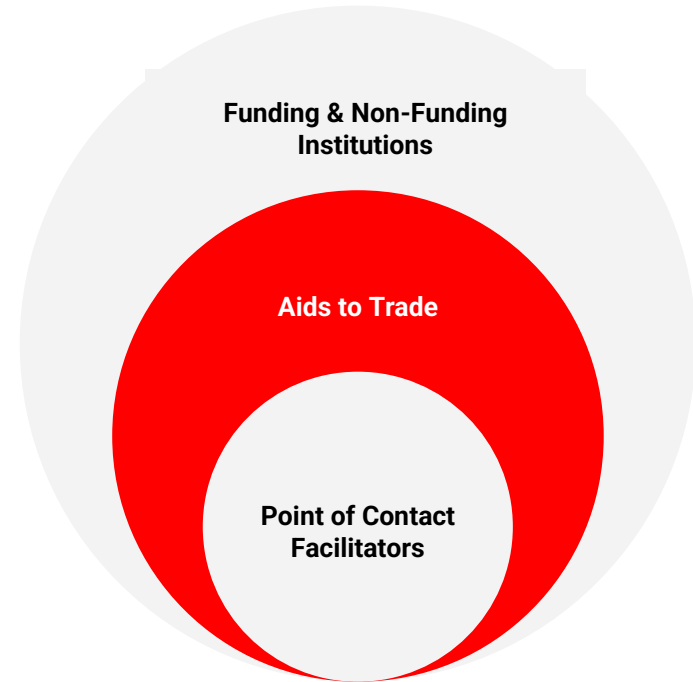


Business & Business Facilitation

Aids to Trade

(Sectoral Involvement)

- Banking
- Insurance
- Transportation
- Warehousing
- Real Estate

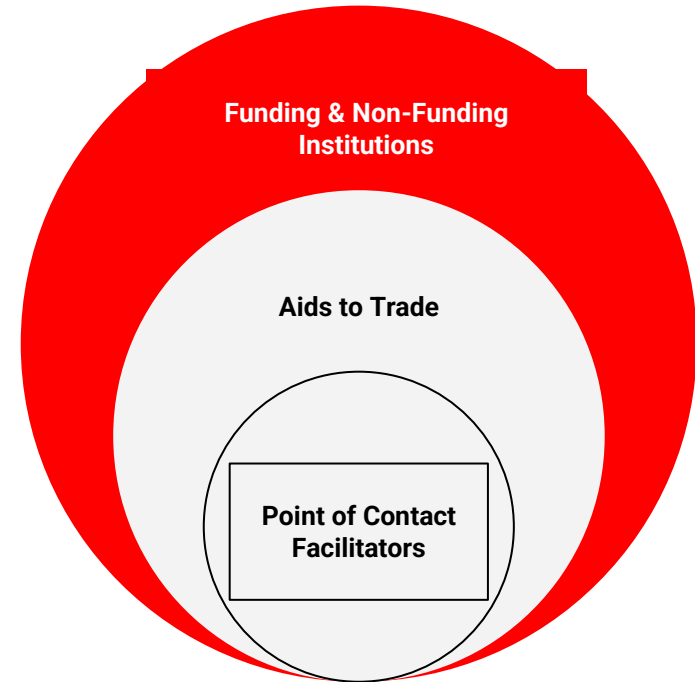


Business & Business Facilitation

Non-Funding & Funding Institutions

(Focus on Industry/Economy)

- RBI
- SEBI
- CCI
- IRDAI
- Development Banks (NABARD)



Quick Quiz #2

Which of the following is not a Government's initiative for furthering and facilitating businesses in India?

- A. Make in India
- B. Startup India
- C. Atmanirbhar Bharat (Vocal for Local)
- D. Beti Bachao Beti Padhao

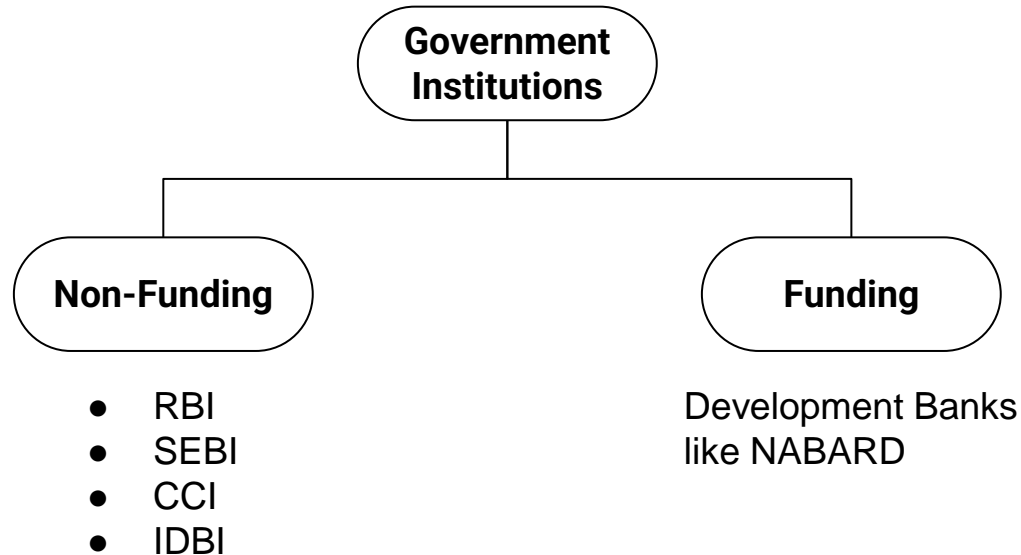
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- D. **Beti Bachao Beti Padhao**

Government Institutions

Non-Funding & Funding



Non-Funding Government Institutions

RBI

Reserve Bank of India

Bank



Founded: 01 Apr 1935

Headquarters: Mumbai, India

Apex Body of Banking in India. It is India's Central Bank, that regulates the entire Banking Sector of the Country.

Reserve Bank's affairs are **governed by the central board of directors**, who are **appointed by the Government of India** in compliance with the **Reserve Bank of India Act, 1934**

Quick Quiz #4

Who is the incumbent (current) Governor of RBI?

- A. Urjit Patel
- B. Nirmala Sitharaman
- C. Ajay Tyagi
- D. Shaktikanta Das

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The Role of Reserve Bank of India

**Non-Funding
Government Institutions**

- Develop, Strengthen and Diversify country's Economic and Financial Structure
- Maintain Economic Stability in the country
- Controls Monetary Policy of the Country
- Advisor to the Government on Economic and Financial Policies
- Represents country in International Economic Forums
- Develop adequate and sound Banking System for growth of money and markets
- Friend, Philosopher and Guide to Commercial Banks
- Tries to control Inflationary Trends (the value of money)
- Channelise Credit in priority Sectors, like Agriculture, Export, MSMEs

Quick Quiz #5

RBI was originally privately owned, but later it was fully owned by the Government of India.

- True
- False

Quick Quiz #5

RBI was originally privately owned, but later it was fully owned by the Government of India.

- True
- False

RBI was originally privately owned, but after Nationalisation in 1949, it was fully owned by the Government of India.



Functions of Reserve Bank of India

**Non-Funding
Government Institutions**

(I) Issuer of Currency

Sole authority for the issue of currency in India

(II) Banker's Bank

- Controls the commercial banking system under Reserve Bank of India Act, 1934
- Requires banks to maintain minimum Cash Reserve Ratio (CRR)
- Assists scheduled banks & cooperative banks through discounting eligible bills and loans & advances.
- Conducts inspections and asks for returns from banks to regulate and maintain the trust in banking system.



Functions of Reserve Bank of India

**Non-Funding
Government Institutions**

(III) Banker to the Government

- Manages public debt
- Transacts general banking of Central as well as State Governments
- Sells treasury bills on behalf of Government, to control flow of money in the system
- Makes advances to Central as well as State Governments
- Advisor to the Government on Financial as well as Economic issues, as wide as resource mobilization, agricultural financing, financial laws, and legislations having financial impact.



Functions of Reserve Bank of India

**Non-Funding
Government Institutions**

(IV) Custodian of Foreign Exchange Reserves

- Responsible for maintaining the external value of Rupee.
- When the fluctuations are wide, it turn to IMF for borrowing forex.
(International Monetary Fund)

(V) Controller of Credit

- Principal function of central bank is to control credit. This is to regulate the PURCHASING POWER of people.



Functions of Reserve Bank of India

**Non-Funding
Government Institutions**

(VI) Promotional Functions

- Mobilising savings
- Promoting Banking, and recently digitisation of money

(VII) Collection & Publication of Data

- Collecting and analysing statistical data for policy implementation



Functions of Reserve Bank of India

**Non-Funding
Government Institutions**

- 1. Issuer of Currency**
- 2. Banker's Bank**
- 3. Banker to the Government**
- 4. Custodian of Foreign Exchange**
- 5. Controller of Credit**
- 6. Promotional Functions**
- 7. Collection and Publication of Data**



Business Facilitation by Reserve Bank of India

**Non-Funding
Government Institutions**





Business Facilitation by Reserve Bank of India

**Non-Funding
Government Institutions**

Currency Policy

- Currency flow in the country
- Adequacy of currency for economic activities
- Demonetisation and Remonetisation
- Foreign Currency Flow



Business Facilitation by Reserve Bank of India

**Non-Funding
Government Institutions**

Payment Mechanism

- Paper Based and now digital
- Look after various availabilities and their appropriate functionality within rules
- Credit Cards, online payments, digital payment apps, etc.



Business Facilitation by
Reserve Bank of India

**Non-Funding
Government Institutions**

Develop Financial System

- Currency Flow, Credit flow, payments
- Banks and NBFCs to be regulated
- Priority Sectors to be uplifted
- Common Citizen we able to transact with ease
- Curb black money



Business Facilitation by Reserve Bank of India

Non-Funding
Government Institutions

Credit Policy

- Remember it is **NON-FUNDING**, but it facilitates (helps), the credit system i.e. the flow of credit (loans and funds) to help the businesses.
- A small reduction in **SLR (Statutory Liquidity Ratio)** and **CRR (Cash Reserve Ratio)**, can result in huge disposable funds to be given out as loans by banks.

Few Important Concepts

- **Basis Points**
- **Repo Rate**
- **Reverse Repo Rate**
- **SLR : Statutory Liquidity Ratio**
- **CRR : Cash Reserve Ratio**

Basis Points

Interest Rate is referred in Basis Points

One Percent = 100 Basis Points

If the Bank Interest Rate is 7.75%

RBI reduces it by 25 Basis Points, that means by 0.25%

New Interest Rate that bank can charge is 7.50%

Repo Rate

RBI is Banker of the Banks

**Rate at which Banks borrow money from RBI
is called REPO RATE**

Full Form is Repurchase Rate

Short Term Borrowing

Currently @4%

Reverse Repo Rate

RBI is Banker of the Banks

**Rate at which Banks deposit money with RBI
is called REVERSE REPO RATE**

Currently @3.35%

Like you get interest rate in savings bank account, Fixed Deposit, etc.

SLR : Statutory Liquidity Ratio

Ratio of Liquid Assets to Total Deposits with Bank

Liquid Assets are assets that can be converted to cash very quickly like securities of government, time deposits, etc.

Total Deposits can be used to give out loans, SLR requires to keep certain % (currently 18.5%) of these deposits as liquid so that if people come to ask for their money back, Bank is able to give them the money. And only the balance % can be used to give loans.

CRR : Cash Reserve Ratio

Ratio of Cash to Total Deposits with Bank

Maintained on daily basis

This cash % (currently 3%), is kept with RBI

Total Deposits can be used to give out loans, CRR requires to keep certain % (currently 3%) of these deposits as liquid so that if people come to ask for their money back, Bank is able to give them the money on a daily basis.

Question #6

All scheduled banks are required to maintain a certain minimum cash reserve ratio with the RBI. This provision enables RBI to ensure what?

- A. Forex Rate Fluctuation
- B. Credit Position of the Country
- C. Savings of People
- D. Collect Public Data of Money held by People

Question #6

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**Non-Funding
Government Institutions**

SEBI

**Securities &
Exchange
Board of India**

Non-Funding Government Institutions



The Securities and Exchange Board of India (SEBI) was established by the Government of India in 1988 and given statutory powers in 1992 with **SEBI Act, 1992**

Controller of Capital Issues (CCI)
was the regulatory authority before SEBI



The Board of SEBI

Non-Funding
Government Institutions

- **A Chairman**, who shall be **appointed by Central Government** and he shall be a person of ability, integrity and standing in the field of securities market, law, nance, accountancy, economics, administration, etc.
- **Two members** from amongst the officials of the Ministry of the Central Government dealing with Finance and administration of the Companies Act, 2013, **who shall be nominated by the Central Government.**



The Board of SEBI

Non-Funding
Government Institutions

- **One member** from amongst the officials of RBI, who shall be **nominated by RBI**
- **Five other members** out of which **at least three members shall be whole-time members**, who shall be **appointed by Central Government** and they shall be persons of ability, integrity and standing in the field of securities market, law, finance, accountancy, economics, administration, etc.



Responsibilities of SEBI

Non-Funding
Government Institutions

- To protect the interests of investors in securities and
- to promote the development of the securities market,
- and to regulate the securities market
- and for related matters.



Responsibilities of SEBI

Non-Funding
Government Institutions

SEBI has to be responsive to the needs of three groups, which constitute the market :

- **the issuers of securities** (Public Companies)
- **the investors** (You and Me)
- **the market intermediaries** (Brokers and Mutual Funds)



3 Functions of SEBI

Non-Funding
Government Institutions

- **Quasi-legislative**: SEBI drafts regulations in its legislative capacity
- **Quasi-judicial**: SEBI passes rulings and orders in its judicial capacity
- **Quasi-executive**: SEBI conducts investigation and enforcement action in its executive function



Business Facilitation

by

SERI

**Non-Funding
Government Institutions**

- **Development** of India's capital market i.e. market for the corporate issues of capital.
These companies are able to access the capital market for their funding requirements.
- **Facilitates overseas entities** desirous of participating in Indian capital markets and vice versa.
- It is **responsible** for investors' faith in the functioning of the capital markets.

Question #7

Which of the following does SEBI not cater to?

- A. Investors
- B. Intermediaries
- C. Government Organisations
- D. Security Issuing Companies

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Thank You!
Stay Home.
Stay Safe.

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