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Digital Empowerment of Rural People – Issues and Challenges

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ABSTRACT:

*Digital economy is the new platform to transform India into a digitally empowered society and knowledge economy by using the power of digital technologies. Now a day's digital technologies are being increasingly used in our day to day lives. The concept of Digital Economy is most favourable in preparing India for knowledge Future. To support digital economy, our Union Government has implemented a program named 'Digital India' with multiple ideas and thoughts aiming around digitally transforming them entire nation by 2019. This program is structured on the three key vision areas one among that is the digital empowerment of the citizens. The present paper on the topic “**Digital Empowerment of Rural People-Issues and Challenges**” discusses the plans and measures; the Government has taken in order to empower the rural India in availing digital services, because for citizens to themselves of avail these services they should be digitally literate. Thus, this paper tries to throw some light on the Digital Revolution in India specially focusing on “Digital empowering of citizens”. The study is carried out through descriptive statistics. For the purpose of data collection secondary sources are being used.*

Key words: Digital India, Digital economy, Digital literacy, Digital empowerment

Background

The year 2015 can be called the year of constructive and creative hopes. The announcement of various developmental programs by the government made the year constructive. A number of new initiatives , new hopes and new programs were announced in the field of agriculture, social welfare, rural and urban affairs, banking etc., ‘Digital India’ is one among these programs which

specially has a vision to transform India into a 'Digitally empowered society' as well as knowledge economy. This initiative transforms the lives of people in many ways and strengthens the society in terms of digital knowledge. The mission behind this initiative is to build participative, transparent and responsive systems and thereby achieving the vision of creating knowledgeable society and generating innovative and creative endeavours for future generations. The dreams of digital India include developing infrastructure, taking governance and services online and overall digital empowerment of citizens.

Objectives of the study:

The study has been carried out with the following specific objectives:

- To understand the concept of digital economy.
- To identify the issues and challenges of digital empowerment of rural people.

Methodology: research design for the study is considered as descriptive research. The paper is purely based on secondary sources of data collected through various journals, books, websites and research articles.

Digital India programme was launched on 1st June by Prime minister Sri Narendra Modi at the Indira Gandhi indoor stadium, New Delhi. The program comes under the department of Electronics and Information Technology (deity) and it is projected at Rs.1, 13,000 Crore. The initiative has potential impact on the ministry of communication and IT.

Milestones to be achieved by the programme:

Digital India drive is aiming to remodel India into a knowledgeable economy and digitally empowered society. For this to achieve, the programme has created nine milestones or missions. They are:

- **Broadband Highways:** it is the first initiative to provide high speed broadband highways through fiber optics that connect all the remote areas, government departments, universities, R&D etc. Web based portals and Mobile apps will be developed to access online information while on the move.
- **Universal access to mobile connectivity:** In the future days, communication network technologies like 3G, 4G and upcoming 5G will storm the speed. Government is specially equipping to connect unconnected areas and speedy use of these technologies. General public will access the online government services with the help of handheld devices. The nation is ready to be ell-connected, efficient, and more productive in every aspect.
- **Public internet access programme:** Virtuous technologies that support cost containment, collaboration, security, and services-on-the-go, social-connect, and in-built intelligence that deliver remote access to any information or service available across the domain. This change will open new doors of e-services to every citizen
- **E-governance, Reforming government through technology:** This governance will transform every manual work into fully automation system. It will revolutionize the system in the following ways:
 - Online access to applications i.e. availability of all databases and information in electronic format.
 - Effortlessly tracking of assignments.
 - Interface between departments for superior production of work.
 - Quickly respond, analyze and resolve persistent problems and many more.
- **e-Kranti-Electronic delivery of services:** This milestone will fully focus on digital knowledge program where education, health, farming, rights, financial and many more services will be delivered on a very high bandwidth. Physical boundaries are no longer a limitation when almost everyone and everything is a digital handshake away.
- **Information for all, electronic manufacturing:** Websites and mobile apps will convey data and realistic participation and through social media. Everything is connected through virtual networks. Swift work flow and no delays due to wait in queues. This milestone

will create a huge base for electronics manufacturing in India with the aid of digital technologies and skills. The empowerment of manufacturing through the Internet of Things will enable intelligent workshops that demonstrate data driven operational excellence and decentralized production control systems within and beyond the physical factory walls.

- **IT for jobs:** The government is preparing to provide training and teaching skills to the youth for employment opportunities in the IT sector. BPO industries will be established for the fastest growing segment of the Information Technology Enabled Services industry. It offers e-services 24/7 in every field and gives more jobs potentials.
- **Early Harvest programmes:** This programme will develop short duration projects where each and every manual service is altered by e-service which may be:
 - Implementation of Wi-Fi in all the universities.
 - Public Wi-Fi Sports to access online gen.
 - Educational books to e-books.
 - People will use the e-services for entertainment, weather information, latest updates etc.
 - Replacement of manual attendance to Biometric procedure

The milestone of digital India campaign focuses on high speed internet services to its citizens including rural people too and makes services available in real time. No doubt this type of initiatives definitely digitally empowers the people who are both from rural and urban areas. It also aims to transform ease of doing business in the country. The cumulative out come will be a future india of a paperless, emerging digital economy with a potential to compete with the outside world.

Digital Economy

The digital economy which is referred to as the internet economy or Internet of Everything(IOE), is the new platform which is expected to create wealth, market growth, jobs and generating the tremendous business opportunities. In simple terms digital economy is the

economy which is based on digital computing technologies. Internet economy, the new economy, or Web economy are the various synonyms used for digital economy.

According to Thomas mesen bourg(2001), three main areas of ‘digital economy’ concept are:

- E-business infrastructure (hardware, software, telecoms, networks, human capital etc.,)
- E-business (how business is conducted, any process that an organization conducts over computer-mediated networks)
- E-commerce (transfer of goods)

The above definition explains about digital economy from a business point of view. But with rapid growth in population, digital economy is not just limited to business only, it envisages every aspect of life from health to education and from business to banking.

According to UNCTAD (Sept 2003), e-business is treated as an engine of growth and development which recognizes the potential benefits for the sustainable growth of a country’s economy. For this to achieve a number of countries around the globe are developing national and international policies and strategies to leverage the digital economy and to harness the potential powers of e-business.

In the present scenario digital economy has got a prominent importance throughout the world. Especially in India demonetization and other digital, cashless initiatives taken by the government has created a lot of opportunities to digitally empower the citizens.

Rural India and Digital Economy:

About 70% of the country’s population lives in rural areas out of 130+crore Indians, 83.3crore live in rural areas while 47.7crore are in urban areas (India stats). India is on its way to the path of global IT leadership. But it has to introspect and interrogate if developmental path includes rural population or not. The adoption or progress of digital economy is consistently slow in rural India. The major reason is that rural India has not been able to take fuller advantage of ICT

(information and communication technology). The key services such as government services, banking, education and health can be faster, better, cheaper and more flexible with the help of digital economies in rural India. To avail these services without any constraints one has to be digitally literate. In order to empower the digital literacy in rural population, the government had announced National Digital Literacy Mission (NDLM) in 2012 itself. It had a target to train four million citizens. As per the statistics released by NDLM, already 82,74,834 candidates have been trained and 1,00,06,961 candidates have enrolled for training and 53,67,092 are certified candidates.

Under the NDLM program Anganawadi and ASHA workers and authorized ration dealers were trained in two phases. In the first phase, 10 lakh beneficiaries got trained. Nine lakh got eligible for training with financial support from the government. The rest 1,00,000 got trained by the industry and civil society partners. The main motto of the mission was to make a person Information Technology Literate, so that he or she is able to operate digital services through mobile phones, tablets, etc. send and receive e mails and search internet for information, etc. it is known that India is a multi-lingual country. So training was provided in all official languages of India. The training duration was maximum thirty days and candidates were trained in the nearest training centre or Common Service Centre (CSC).

Digital empowerment of rural people- issues and challenges:

With information technology people gain new abilities and ways to participate and express themselves in a networked society. This is termed as digital empowerment. Under the NDLM program, the prevailing CSC's served as kiosk and training centres. This was the only option left with the government to reach the unreached. But in reality, the CSC's are understaffed in many rural villages and lack in terms of flexible infrastructure. The path to digital empowerment in India is facing so many hurdles in its way to digital literacy. The main hurdles which throw up some challenges and opportunities for the digital literacy mission are:

Challenges:

- Before making the rural people digitally literate, all Panchayat members, teachers in government schools, health workers and government employees must be made digitally literate.
- All the stakeholders of society namely, the corporate, citizens, NGO's has to join hands with the government in order to reach every root grass levels of the society.
- The major problem in villages is the power supply. In India electricity is not yet provided to all villages.
- The existing ICT is not fully deployed to its full potential in India. There is a lack of ICT infrastructure in rural India.
- There is no full coverage of digital cable to the whole of India.
- At present India is classified as a constrained digital economy because digitization metrics such as ubiquity, affordability, reliability, speed, usage and skills are difficult to achieve.
- Rural people are not financially sound enough to afford smart phones or laptops.
- Much more intensive training is required to rural people or IT illiterates with regard to operations of accounts, conducting transactions using mobiles and to make online payments.
- There are no standardized operating systems and this poses a problem to digital empowerment because different manufacturers use different operating systems and this leads to problems in data exchange in e-government applications.
- The real challenge to digital empowerment of rural India and which needs to be addressed is that there is lack in effective co-ordination, efficient monitoring system, and capacity building.

Opportunities:

The process of Digital Transformation is a big challenge because all the various departments and agencies have to be completely reengineered which is not an easy task to be done at a rapid pace. Moreover monitoring and evaluation system should be done simultaneous otherwise this paralyses the ambition of digital empowerment of rural India. To bring the program on the right track, continuous and close scrutiny of its operation needs to be ensured. Digital empowerment helps rural people participate in governance .which means people participation in governance can be enhanced among rural villages of India with the help of digital empowerment.

Future Road-map for digital empowerment in rural India:

Union budget 2017, proposed that investment in infrastructure, rural economy would be the first priorities. It predicted huge benefits for the common man from digital revolution. About digitizing rural India, the central government is aiming to enhance digital transactions to rural India and by the end of 2017-18, the budget proposed high-speed broadband connectivity on optical fibre available in more than 1,50,000 gram panchayat's under BharatNet. Also inorder to provide telemedicine, education and skills through digital technology, a 'Digigoan' initiative will be launched by the government. In order to strengthen the digital infrastructure in rural India Rs. 10,000 crore has been allocated for BharatNet project. This helps to empower over 1,00,000 gram panchayat's with high speed internet and Wifi hotspots. The Union budget has given the right impetus for rural India to come online. In addition, Centre aims at complete rural electrification by 01May2018. Recently on February 8th, the cabinet approved "Pradhan Manthri Gramin Digital Shaksaratha Abhiyan" with an initial investment of Rs.2,351.38 crores to make 6 crore rural households digitally literate by March 2019. This is announced in far with the union budget regarding digital rural India.

The PMGDISHA is expected to be one of the largest digital literacy and empowerment programmes in the world, according to the official statement given by the cabinet. The scheme trains 25 lakh candidates in the fiscal year 2016-17, 275 lakh in 2017-18, 300 lakh in 2018-19.

Each 2,50,000 gram panchayats has to register an average of 200-300 candidates, this is done to ensure equitable geographical reach. The scheme is implemented under the supervision of ministry of Electronics and IT in collaboration with states and UTs through designated state implementing agencies, district e-governance society(DEGS). The schemes aims at cashless transactions to be achieved in rural India, so that all transactions would be done through mobile phones, with emphasis on:

- Digital wallets
- Mobile banking
- Unified payment interface
- Unstructured supplementary service data
- **Aadhar enabled payment system**

The PMGDISHA is initiated under digital India programme to cover 6 crore households in rural areas to empower digital literacy among them.

Findings and Conclusion:

In a developing economy like India all groups of people must be included in the growth of the country. Especially rural people must not be excluded because the growth of the country totally depends upon the growth of rural Indian citizens. To encourage rural people to grow they must be empowered on the basis of various grounds. The digital empowerment of the rural people is the immediate need of the hour for the economic development. The present study specifically find that the present scenario of Indian environment is most favourable for empowering the rural people digitally through various government initiatives like Digital India. In future the each and every rural citizen may become digitally literate. With the digital literacy rural people will gain new abilities and ways to participate and express themselves in a networked society. This will create that the way for inclusive growth of the economy. Thus finally, the study can be concluded by saying that digital empowerment of rural people may act as a catalyst for the economic development by promoting a cashless as well as paper less environment.

“Long live Digital empowerment”

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Value at Risk in Banking Control, Supervision and Protection

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Abstract

Each of the most recent regulations of the Reserve Bank of India (RBI) has embraced a different primary measure of market risk to cope with global banking regulation standards: traditional value-at-risk (VaR), stressed VaR etc. Most of the country's regulators consider VaR as a quantitative risk measurement tool to denote inherent risk associated in different background of market conditions. This research paper examines the VaR as a measure for banks to evaluate their portfolio returns on one side on another as a tool for regulators to protect institutional investors like banks from the fluctuations in the share market.

Key words: RBI, market risk, VaR, quantitative risk measurement tool, institutional investors.

Introduction

The major transmission in the world of banking sector occurred in later effect of Global financial meltdown in the year 2008. The episodes of collapse and insolvent of large financial institutions were the result of weaker financial regulation supervision and protection measures, lack of corporate governance and risk management approach etc. Hence the central banks of the major countries frequently amending the banking standards and supervision norms to protect banks from bank runs and banking panics in financial system. There are numerous difficulties that the banks have to face while dealing with their day-to-day financial functions, which are referred to

as risks. In the course of risk, the banks need to maintain additional capital as a caution to their undesirable losses. The market risk is considered one of the major risks that the banks have to face while trading in stock market as institutional investors. Uniquely, quantitative risk measurement delivers an elegant denouement to the Basel accords' struggle to penetrating the market risk in global banks' trading books. Eventually, through various statutory and regulatory measures RBI limits the bank's investment exposure in stock market within specific industry or sector as it is deemed as a sensitive area due to inherent risk involved in it. These restrictions incorporate both direct and indirect exposure of banks in capital market with the aim of better risk management for banking industries. Moreover, in the year 2009-10 the RBI advised the commercial banks to migrate with the advanced approaches of Internal Management Approach (IMA), under Basel II Framework for market risk analysis. The Banks, who adopt IMA, would have to calculate the shortfall based on appropriate VaR model. Section I, introduces the Market risk and VaR model, Section II will take a closer look at the role of supervision committees and national regulators in protecting banks through minimum capital requirement regulation. Section III presents empirical analyses of different approaches of VaR. Section IV shows some results and interpretations and Section V concludes the study.

Objectives of the study

1. To know the RBI role in protecting banks from market risk through quantitative risk measurement techniques
2. To evaluate different VaR models as a tool to protect banks as institutional investors in stock market

Methodology

The present study is conceptual as well as empirical in nature. The different VaR models are used to analyse the practical implications of VaR techniques on measuring banks capital adequacy.

1. Market Risk and VaR

Among various risks market risk is one which arises through price fluctuations in the market and causes risk of losses on- or off-balance sheet positions. These risks may be generated from the banks' activities in the interest rate, equity, foreign exchange, commodities market. Each risk category has simple to advance approaches to determine risk. Samanta (2010, p.2) said that, "in the case of 'market risk' the advanced approach is known as 'internal model approach (IMA)', wherein risk capital is determined based on the new risk measure, called VaR)". On the other hand, Kanchu (2013, p.152) concludes that, "Regarding use of risk management techniques, it is found that internal rating system and risk adjusted rate of return on capital is important".

1.1.VaR Model Evaluation

VaR is a traditional statistical technique used to measure and quantify the level of financial risk associated in a firm's investment portfolio over a specific time frame. The VaR basically evolves to measure market risk, later on it is found useful to gauge other risks like liquidity risk, interest rate risk etc. Internationally banks use VaR models for management of equity position risk.

Samanta (2010, p.15) is of the view that, "Banks, who adopt IMA of the Basel Accord, require to quantify market risk through its own VaR model and to maintain minimum required capital for the quantified risk would be determined by a rule prescribed by the concerned regulator".

1.2.Parameters of the VaR

Value-at-Risk has two important parameters. These are the time horizon and the target probability/confidence level. According to Rajesh Kondapaneni and Samanta the choice of holding period and confidence level heavily depends on the overall goal and purpose of risk measurement. The holding periods in case of analysis of banks market risk is quite short i.e. two weeks compared to other type of financial institutions such as asset-liability management for pension funds and insurance companies, the relevant time horizon is far longer than two weeks. Subsequently, the holding period for credit risk is generally one year. Basel Accord suggests a 10- day holding period for market risk, though country regulators may prescribe a higher holding period. In case of credit risk, duration of holding period is generally one-year.

1.3.Regulatory Value at Risk - The Concept and significance

Most regulators across the world consider VaR, has an effective internal model for banks to analyse financial risk. In the 1990s, banks in the United States were granted the ability to determine their regulatory capital requirements for financial market risk exposure with the VaR method. Chen (2014, p.5) describes that, “Regulatory VaR typically assumes a ten-day holding period (equivalent to two weeks, each consisting of five trading days), which requires the multiplication of one-day VaR by the square root of 10, approximately 3.162. Basel II, Basel III, and the regulations of the Federal Reserve Bank of the United States all prescribe the computation of VaR on a holding period of ten business days”. Consequently, the regulatory VaR evaluates the market risk in adverse market condition on different time horizon and at specific confidence level.

Hence to mitigate this kind of risk and to create market transparency the Global Banking Supervisory committees and regulators concerned, frame various restrictions, requirements and guidelines for developing appropriate internal risk framework models to meet capital rules of the banks. The Banks who adopt IMA subject to regulatory approval need to quantify the market risk by its own VaR model to maintain minimum capital requirements.

The Higher the VaR the higher would be the Market risk and cognisant that banks have to maintain higher capital.

2. Supervision committees, Regulators and Minimum Capital Requirements

2.1.Basel Committee on Banking Supervision (BCBS)

Basel Committee on Banking Supervision (BCBS), the international banking regulatory committee, frames supervisory and regulatory standards and guidelines to improve the quality of banking supervision worldwide. The committee often releases Basel accords (recommendations on banking regulations)—Basel I, Basel II and Basel III which provide, broad guidelines to determine minimum capital requirements that banks have to maintain for all types of financial risks. The Committee seeks to achieve its aims by setting minimum standards for the regulation and supervision of banks; by sharing supervisory issues, approaches and techniques to promote common understanding and to improve cross-border cooperation; and by exchanging information

on developments in the banking sector and financial markets to help identify current or emerging risks for the global financial system.

The Regulatory concern regarding restrictions on banking exposure towards market risk was on 1996 by amending Basel Capital Accord. Under the amended capital rules, market risk capital charges can be based on the VaR estimates generated by banks' own VaR models (BIS 1996a).

2.2.RBI and its Role

Nilanjana (2008, p.14), said that, "in the year 1999, the Reserve Bank of India recognised the need of an appropriate risk management for commercial banks and issued guidelines regarding assets liability management, management of credit, market and operational risks". Eventually, through various statutory and regulatory measures RBI limits the bank's investment exposure in stock market within a specific industry or sector as it is deemed as a sensitive area due to the inherent risk involved in it. These restrictions incorporate both direct and indirect exposure of banks in capital market with the aim of better risk management for banking industries.

Moreover, in the year 2009-10 RBI advised the commercial banks to migrate to the advanced approaches of IMA, under Basel II Framework for market risk analysis. Soon after the approval from the board the bank has to intimate RBI regarding migration. Virtually, the RBI undertakes a preliminary screening of banks eligibility to migrate to the IMA.

Furthermost, the banks should be back tested for their performance before adopting IMA models to determine the market risk to cope up with the risk based capital regulation.

2.3.Risk-Based Capital Regulation

Samanta (2010, p.2) pointed out that, "risk capital also makes the banks to take risk on their own fund, thereby induces them to invest in prudent assets and curb their tendency to take excessive risk, which reduces the chances of bank runs greatly. Hence, the risk-based capital regulation has emerged as a tool to maintain stability of banking sector". The basic criterion behind this regulation is to make banks to keep enough capital for its risk exposure to avoid losses and to increase potentiality of banking system in the event of a financial crisis. There are various alternative risk models, through which a bank would select appropriate risk model to determine minimum capital for the quantified risk subject to rules prescribed by the regulators concerned.

The success of capital requirement regulation lies in determination of appropriate level of minimum required risk capital, which in turns depends on accuracy of quantified risk.

Samanta (2010, p.2), **had attemptd to identify the two important changes in supervisory framework in Risk-Based Capital Regulation**

- i. the determination of minimum required capital based on risk-sensitive and scientific technique was improved than earlier.
- ii. the expansion in coverage of risk events in banks' portfolio. In contrast to traditional focus solely on credit risk (BIS, 1988), the regulatory framework has gradually covered two more important risk categories, viz., market risk (BIS, 1996a, 1996b) and operational risk (BIS, 2004).

3. Approaches to VaR

3.1.Parametric Approach

The VaR calculations under parametric approaches are based on two statistical parameters i.e. mean and standard deviation with the assumption that the risk of the portfolio returns are normally distributed.

3.1.1. Normal or Gaussian Distribution

The normal or **Gaussian** distribution is most commonly used to estimate expected future values of portfolio $E(X)$ or μ based on linear combination of the probability values $P(X_i)$, is given by

$$E[X] = \sum_{i=1}^n x_i p(x_i) , \text{ where } x_i \text{ are the various values that } X \text{ can take, and } p(x_i) \text{ is the probability of}$$

X taking the value x_i . Here there is no need of historical data, based on the standard normal distribution in which $\mu=0$ and $\sigma=1$, the smooth mathematical curve can be drawn to calculate the worst expected shortfall.

For instance if a bank wants to know for investment of ₹ 1 Million on NIFTY 500 stocks to know if capital markets go down only once in a hundred trading days, what could be the loss by tomorrow's market close? Based on the assumption that in the parametric approach returns are normally distributed one can easily say, that the $VaR_{1\%} = ₹ 23,260$, which means there is a one percent chance that the investor could lose ₹ 23,260 or more on NIFTY 500 index stocks on any

given trading day. Equivalently, it can also say that the bank's portfolio has a 99 percent chance after a single trading day of being worth at least ₹ 976,740 (₹ 1,000,000 – ₹ 23,260).

In formal term, the VaR could be calculated with the following equations.

$$VaR_{\alpha} = -z_{\alpha} \cdot S \cdot \sqrt{t} \quad 95 \% \text{ VaR} \quad (1)$$

The complete calculation of $VaR_{.01}$ stands for the value of $z_{.01}$. That value in turn requires the application of the quantile function (Chen and James Ming, 2014) see table: 1:

$$z_{.01} = f^{-1}(.01) = \sqrt{2} \cdot \text{erf}^{-1}(2 \cdot .01 - 1) \approx -2.326 \quad (2)$$

Inserting this value of $z_{.01}$ into the formula for $VaR_{.01}$ (i.e. Equation 1) the VaR (maximum loss at $\alpha=1\%$) over a single day, is approximately ₹ 23,260.

The Table 1 expresses VaR calculation under parametric approach at common confidence intervals and regulatory $VaR_{\alpha, 10}$:

Table 1: Parametric VaR calculations at common confidence intervals

α	1%	.5%	1.0%	2.5%	5.0%	10%
Z_{α}	-3.090	-2.576	-2.326	-1.960	-1.645	-1.282
VaR_{α}	₹ 30,900	₹ 25,760	₹ 23,260	₹ 19,600	₹ 16,450	₹ 12,820
$VaR_{\alpha, 10}$	₹ 97,710	₹ 81,460	₹ 73,550	₹ 61,980	₹ 52,020	₹ 40,540

Source: Chen and James Ming (2014, p.189)

The major drawback of the parametric approach is the assumption of normality. Non-normality of the return distributions, particularly fat-tails, adds great difficulty in estimation of VaR". As most of the financial instruments have nonlinear function of risk variables which produce "fatter tailed" distribution. On the other hand the normal distribution has very "skinny" tails which is characteristic only of linear function of risk variables.

Nieppola (2009, p.15) indicated that, “the solution to this issue is to take first order approximation to the returns of these instruments and then use the linear approximation to compute VaR. This method is called delta normal approach. However, the shortcoming of delta-normal method is that it only works if there is limited non-linearity in the portfolio”.

3.1.2. Variance-covariance Approach/Linear VaR/Delta Normal VaR

Variance-covariance is another parametric method, calculated based on the assumption that changes in market parameters and portfolio value are normally distributed. If banks want to analyse the risk associated with the return of more than one asset, then it can use variance-covariance matrix see Table 2. In this approach the Portfolio value is the weighted sum of all components, changes in which can be assessed by studying the multivariate probability distribution considering returns on all components of the portfolio.

Nieppola (2009, p.14) defined that, “when implementing variance-covariance approach, the first step is to ‘map’ individual investments into a set of simple and standardized market instruments”. Each instrument is then stated as a set of positions in these standardized market instruments. For example, a ten-year coupon bond can be broken down into ten zero coupon bonds. After the standard market instruments have been identified, the variances and co-variances of these instruments have to be estimated. The statistics are usually obtained by looking at the historical data.

Steps to calculate VaR under Variance Co-variance Matrix:

- i. Develop variance co-variance matrix by calculating variance between same asset and co-variance between all assets
- ii. Calculate volatility of the portfolio assets with the following equation

$$Vol_p = \sqrt{w_1^2 \sigma_1^2 + w_2^2 \sigma_2^2 + 2w_1 w_2 \sigma_1 \sigma_2 \rho_{1,2}}$$

- iii. Calculate portfolio return with the following equation

$$R_p = w_1 R_1 + w_2 R_2$$

iv. Calculate the VaR with following formula

$$VaR_{1-\alpha} = P \times \sigma_P \times Z_{\alpha}$$

Table 2: Variance Co-variance Matrix

Stocks	A	B	C	D	E
A	0.00056	0.00008	0.00015	0.00009	0.00029
B	0.00008	0.00047	0.00007	0.00005	0.00015
C	0.00015	0.00007	0.00023	0.00008	0.00009
D	0.00009	0.00005	0.00008	0.00017	0.00006
E	0.00029	0.00015	0.00009	0.00006	0.0016

Source: Matrix developed by Author

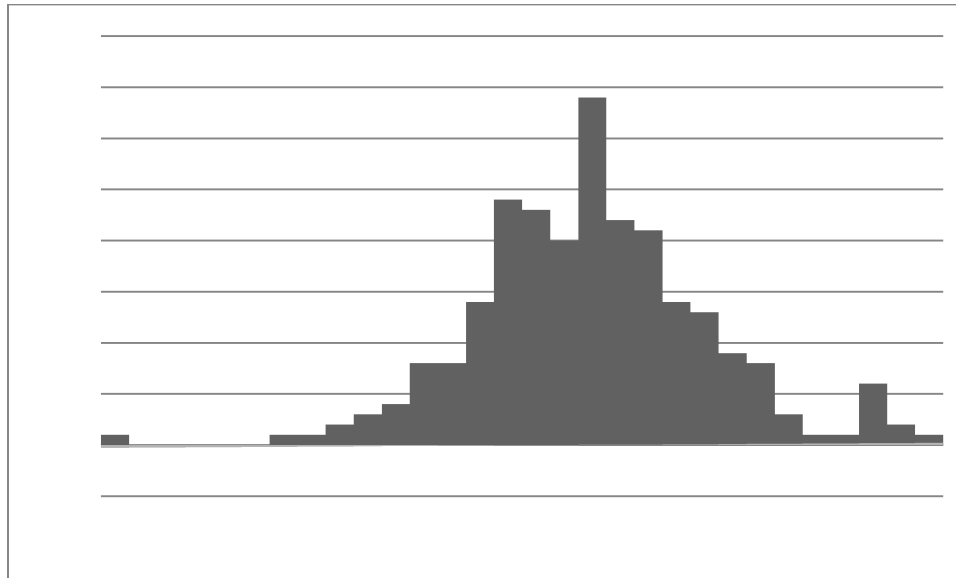
The above table depicts the variance-covariance between 5 equity stocks listed in BSE, India.

3.2. Historical Simulation

In the historical simulation the portfolio returns are sorted from worst to best and the distribution creates a messy curve rather than a mathematical curve. With the suitable confidence level inference could be drawn that the losses are not worse than the level of limits. The VaR estimate when using the historical simulation is calculated by choosing a quantile in the sample using the formula.

$VaR = N(1-\alpha)+1$ In this study we use daily return for 246 days for 5 companies portfolios see figure 1 indicating actual daily return distribution. Further the figure is more skewed towards left which signifies high risk associated with daily returns.

Figure 1: Historical Simulation of Portfolio Returns –



Source: Developed by Authors using actual portfolio returns of the share prices of five companies.

In the above distribution the historical portfolio returns are reorganised in the order from worst to best, after that it is easy to read off the worst fall short at required confidence level.

The main benefit of historical simulation is that it can cope with all portfolios that are either linear or non-linear. As the VaR is calculated based on the actual data of price/return distribution of the portfolio, it gives an accurate picture of volatility and losses. Corkalo (2011, p.4) said that, “this method assumes history changes are going to repeat”. Another limitation is that it values the same recent data and older data. Consequently, the researcher should be careful while selecting historical data, if past data doesn’t contain most volatile periods this method would not be effective. To avoid this kind of obstacles one can use stressed VaR to build accurate risk estimation of volatilities in stressed period of stock market.

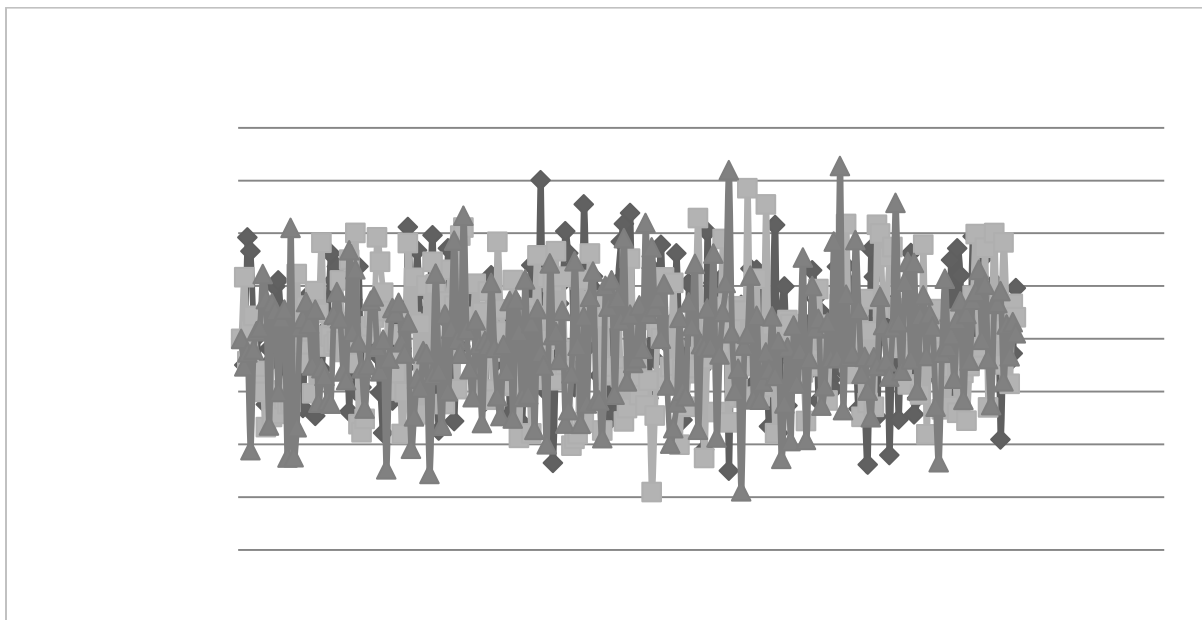
Stressed VaR is an important revision to the Basel II framework; a bank must calculate a ‘stressed value-at-risk’ measure. This measure is intended to replicate a value-at-risk calculation that would be generated on the bank’s current portfolio if the relevant market factors were experiencing a period of stress. Stressed VaR is a running simulation in crisis phase, based on the

high volatility of stressed period generating the price/return distribution to calculate worst loss and incremental risk capital charge (IRC).

3.3.Monte Carlo simulation

This approach is the same as historical simulation, but instead of using historical data, it generates its own models with more trials. Here the VaR calculated by finding quantile in the simulated distribution. Figure 3 portrays the randomly generated portfolio return data by using Excel Sheet.

Figure 2: Monte Carlo Simulation of Portfolio Returns



Source: Generated by authors

From the above figure, the VaR can be calculated by finding the quantiles in the simulated random portfolio returns.

Monte Carlo simulation is similar to historical simulation. But instead of using historical changes, risk managers generate their own models with more trials of random variables which adequately describe price changes (see figure 2). After simulating price changes or changes in risk factors, hypothetical profits and losses are calculated. Finally VaR is calculated as a percentile corresponding to chosen confidence level. This method includes fat tails (rare events)

but its correlation between stock returns is saved, as we randomly pick a vector of original daily returns. Monte Carlo simulation has the advantage of allowing for a wider variety of scenarios than the rather limited historical data can provide. It has been observed that the Gaussian models do not fit very well the real-life data, e. g. do not allow so called fat tails and asymmetry of observed log returns. Fat tail is a property of some probability distributions (alternatively referred to as heavy tail distributions) exhibiting extremely large kurtosis. Bohdalová (2007, p.5) concludes that, “to create experiments using a Monte Carlo method is fraught with dangers. Each market variable has to be modelled according to an estimated distribution and the relationships between distributions (such as correlation or less obvious non-linear relationships)”

All three approaches are same but different in terms of distribution of losses, the parametric approach using mathematical curve described by parameters, as where the historical approach uses actual data and Monte Carlo simulation uses simulated data.

4. Selection of VaR techniques

Central to any VaR measurement exercise has been the estimation of suitable percentile of change in value or return of the portfolio. A Portfolio usually consists of several securities and financial instruments/assets, and returns on each component of the portfolio would follow certain probability distribution. The present study is based on three approaches analyses the 1 day VaR and compares the differences of inferences by using regulatory VaR.

Table: 3 VaR Approaches- the following table summarises the VaR calculation in different approaches

Approaches of VaR		VaR (₹)	
Normal Distribution		VaR _{1,5} *	16,450.00
		VaR _{1,1} *	23,260.00
		VaR _{10,1} *	73,550.00
Variance Approach	Co-variance	VaR _{1,5}	23,956.00
		VaR _{1,1}	33,832.00

	VaR _{10,1}	1,06,984.86
Historical Simulation	VaR _{1,5}	33,389.60
	VaR _{1,1}	51,286.13
	VaR _{10,1}	105587.19
Monte Carlo Simulation	VaR _{1,5}	86,714.27
	VaR _{1,1}	27,421.00
	VaR _{10,1}	9,80,138.24

Source: Calculated by Author

Note: VaR_{1,5}=Value at Risk for one day at 5% confidence level

VaR_{1,1}=Value at Risk for one day at 1% confidence level

VaR_{10,1}=Value at Risk for ten days at 1% confidence level

that, if a bank having the portfolio investment of ₹ 10,00,000 and invested in equities, how much worst loss that it could be faced in different approaches of VaR with specific parameters(i.e., 1 day and 10 days holding days and 1% and 5% confidence level) see table:3. Here we can notice that the investment time horizon (holding days) is correlated with risks associated with the portfolio returns. Jorion rightly said that, “*variances are additive over time, which implies that volatility grows with the square root of time*”.

Since, we calculated daily VaR and regulatory VaR, as in practice of commercial banks who required calculating the VaR for every short period, whereas they might face daily volatility in the stock market. Conversely, the regulators backtested the performance of the banks by taking 10 days holding period at 1 % confidence level (see table 3), so as to ensure that the banks have sufficient capital to meet unexpected shortfall in the stock market. Haas (2001, p.1) indicates that, “to evaluate the goodness of VaR-model, banks as well as regulators use backtesting to confirm their judgement”.

Conclusion

Outstandingly, quantitative risk measurement delivers an elegant denouement to the Basel accords’ struggle to penetrating the market risk in global banks’ trading books. The fluctuation in

the share market is one of the risks endured by the institutional investors like banks, which would ultimately threaten the whole global financial system. Subsequently, VaR is considered as the preeminent quantitative risk measurement tool, which is being used by many banks at the global level as an internal model approach with the approval of regulator concerned. There are different approaches to VaR calculations, each of those has its own strength and weakness, based on the internal model adopted by the banks will select the VaR type to guesstimate the future portfolio returns and volatility in the stock market. On the other hand, the regulators are using VaR as a controlling and protection tool through which, they limit the banks' exposure to share market and evaluate their capital requirements to face shortfall in share investments. Further, regulators currently appraise the accuracy of the VaR model with the three hypothesis-testing methods: the binomial method, the interval forecast method and the distribution forecast method. In a nutshell, the VaR eternally could be the modern approach to protect the institutional investors like bank with timely expansion of its models of application to fulfil the changing market challenges.

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Problems faced by SHG members in getting loans from MFI's and repaying them: A Study

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Abstract

Micro Finance is primarily introduced to help the deprived sections of society who cannot avail any kind of credit or borrow any fund from stram main banks or other Tier one financial institutions, for the enhancement of their livelihood means. This paper is an atempt to identify the root grass problems faced by SHG members in getting loans and repaying them. The type of family, n umber of family members and their time of association play a vital role in accessing microfinanc e loans. Three Thaluks in the Chitradurga District were selected at random for this study.

Introduction

The Indian economy is growing in leaps and bounds, to the envy of even developed economic. Its upward growth is matter of envy to even developed economies. The financial world is watching India eagerly on various developmental fronts. The recent economic reforms are expected to lead India to a more solid stage. Demonetisation and introduction of GST , which attracted criticism from various quarters in India; being both are hailed by international financial experts as bold financial moves by the Government of India, which will accelerate the growth and swell of Indian economy.

The growth of macroeconomics is in a proper and stable path and as a researcher in the field of Microfinance, which is more of an informal financial sector and deals with those which are way away from formal sector, I feel that there is an urgent need to analyse the effect of economic changes in our economy and its impact on rural and unorganised sector.

Inclusive growth is required for the nation to build equilibrium along development in all sectors. India is also facing the crises of increasing population and associated poverty. The Majority of people in India live in villages. Economically and socially deprived people exist in the urban and semi urban areas too. Many of them live in a pathetic environment, as most of them live practically in a 'hand to mouth' situation as their daily income is not sufficient even to satisfy their basic requirements. The Government of India is trying to tackle this issue through various poverty eradication programs, which address the issue through inclusive growth programmes that have maximum focus on women and child development. Rajiv Gandhi Scheme for Adolescent Girls-Sabla, Rashtriya Mahila Kosh (National Credit Fund for Women), Priyadarshini - Self Help Group for Women etc. are a few to name.

The Committee on Mid-term Path on Financial Inclusion under the chairmanship of Mr. Deepak Mohanthy recognised that the accessibility of financial products and services among the poor an

d women beneficiaries of such schemes increased with the incorporation of PMJDY (Pradhan Mantri Jan Dhan Yojna). The Committee's report submitted in December 2015, expressed the opinion that greater accessibility of formal financial products and services poor households, micro and small entrepreneurs through technology could bring in an efficient conversion of 90 percent of 'served under ' to active participants by 2021. FIAC (Financial Inclusion Advisory Committee) first formulated in 2012 by RBI was again reconstituted in 2015 for effective penetration of financial literacy along with the PMJDY and advising the RBI and the Government of India regarding financial inclusion programmes.

Micro finance, effectively used as a tool for removing poverty across the backward areas of Bangladesh by Prof. Mohammed Yunus (1976), is a "small savings, credit and insurance services extended to socially and economically disadvantaged segments of the society, for enabling them to raise their income levels and improve living standards." According to Prof. Yunus, Micro Finance is primarily introduced to help the deprived sections of the society who could not avail any kind of credit or borrow any fund from stream main banks or other Tier one financial institutions, for the enhancement of their livelihood means.

National Bank for Agricultural and Rural Development (NABARD) in 1992 introduced micro finance system in the form of Self Help Groups - Bank Linkage System in India. This policy adoption led to a successful extension of credit facilities towards the economically weaker sections of the society in the vein of rural artisans, small and marginal farmers and Adivasis (tribal people).

Review of literature

In a study about 'Kudumbasree' units of Kerala undertaken by *Prof. J A Ruby*, "*Microfinance and women Empowerment -A Study of Kudumbasree Projects of Kerala*" attempted to evaluate Neighbourhood Group (NHG). NHG is also known as Self Help Groups or SHG. The researcher is analysing the working and progress of Kudumbasree. The object of studying Kudumbasree was also to understand the employability of women and the level of empowerment achieved,

problems and constraints faced and different schemes introduced through this programme both in rural as well as in urban Kerala .

The International Fund for Agricultural Development stands for the achievement of the goal of empowering rural population. The authors of this guide address various gender problems of rural population. The IFAD practitioners of Microfinance faces diversified obstructions. As per the observations of these authors the strong economic base of women increases their role in their family as well as in the society. Income generating Microfinance activities can be enhanced through continuous support from Microfinance institutions in the form of skill development training sessions, easy availability of loans etc.

The Bharat Microfinance Report 2016 by Sa-Dhan supported by NABARD focuses on growth and outreach of Microfinance sector in India for the year 2015-16. As per the report,(in India)Microfinance Institutions (MFIs) were functioning in 29 states, 4 Union Territories and 588 Districts of India. The Microfinance sector employs 12221 people with 39 million clientele and Rs.63853 crore loan portfolio. The Financial Inclusion Plan (FIP) of RBI shows a growth of 8% during the year. Pradhan Mantri MUDRA Yojana was also launched in April 2015 with a renewed focus on financial inclusion through lending by banks to micro-enterprises. SBLP (Self Help Group Bank Linkage Programme) for bringing in unbanked poor to formal banking showed a steady progress with 79.03 lakh SHG savings were linked to banks. NPAs also showed a declining trend in 2015-16 which can be considered as a positive indicator of financial discipline among informal financial sector.

Dr. Rubina Lamba in her paper “Women Empowerment through Microfinance” in Sep 2009 looks at Micro Finance Programs, which are especially aimed at women, as the major tools of poverty alleviation, positive impact on economic growth and social development SHGs (Self Help Groups) are instrumental in serving microfinance needs of rural women. SHGs act as the centre point in the Government of India and many other NGO micro credit programs.

The paper prepared by Linda Mayoux and Manio Hartl named “Gender and rural microfinance: reaching and empowering women” is intended as an overview of gender issues for rural microfinance practitioner. It also addresses the specific gender issues in rural microfinance. The gender mainstreaming is of utmost importance as it solves the threefold problem of women viz poverty, Economic growth and women’s human rights. These goals can be achieved only if women are engaged in economic activity, which leads to her increased status and changing roles and increased household income which could be under women’s control. The threefold dimension of economic empowerment is interconnected to various spirals, both for individual women and at the household, community and macro levels.

Objective of the Study

To identify the problems faced by members of SHG’s in getting loans from MFI’s and repaying them.

Methodology

This is an empirical research as the survey is conducted to find out facts relating to Women Empowerment through micro finance.

Population or units that are considered for this research study are the women who joined SHG’s in Chitradurga District of Karnataka.

Sampling Design and Technique: Three Taluks in the Chitradurga District were selected randomly and the responses were obtained using snowball sampling method.

Sample Size: The sample size for the data was fixed at 600 (200 each for three taluks) and the final data after data cleaning, resulted in 471 respondents which amounted in 79% of decided sample size.

Analysis of Data

Table1: Demographic Profile of the Respondents

Type of Family	Nuclear	386	82.00%
	Joint	85	18.00%
Number of members in the family	Less than 4	372	79.00%
	4 to 8	45	9.60%
	Above 8	54	11.50%
Time of Association with the group	<1 year	108	22.90%
	1-2 Years	255	54.10%
	>3 Years	108	22.90%

Source: Primary Data

Table 1 depicts the demographic profile of the respondents. Out of 471 respondents. With regard to the type of family 82 percent of the respondents belongs to nuclear family and 18 percent belong to joint family. Classification of respondents based on the number of members in the family showed that, 79 percent of the respondents have less than four members, 11.5 percent have more than eight members and 9.6 percent of the respondents have 4 to 8 members in the family. The table highlights that 54.1 percent of the respondents have association between 1- 2 years, and 23 percent of the respondents have less than 1 year and more than 3 years of association with SHGs.

Table 2: Independent Sample t-test between type of family and the variables under study

Factors		N	Mean	Std. Deviation	t-value
Group Dynamics	Nuclear	386	3.97	0.26	.583 ^{ns}
	Joint	85	3.95	0.38	

Problems faced in getting Loans	Nuclear	386	4.03	1.17	-.076 ^{ns}
	Joint	85	4.04	1.16	
Constraints in repaying loans	Nuclear	386	3.44	1.29	-1.946 ^{ns}
	Joint	85	3.74	1.33	

Independent sample 't' test was used to find out the difference of opinion existing between the respondents belonging to nuclear and joint family with Group Dynamics, Problems faced in getting Loans, constraints in repaying loans.

H1: "There is a significant difference in the opinion of respondents belonging to nuclear and joint family relating to Group Dynamics, problems faced in getting Loans and constraints in repaying loans.

Group Dynamics

The above table represents that, respondents belonging to nuclear family ($M = 3.97$, $S. D = 0.26$) are higher in comparison with the respondents belonging to joint family ($M = 3.95$, $S. D = 0.38$) on Group Dynamics with t- value .583. The p value is above the accepted significance level of 5%. Hence, we accept the null hypothesis and conclude that there is no significant difference in the opinion of respondents belonging to nuclear and joint family on Group Dynamics.

Problems faced in getting Loans

From the table above it is found that respondents belonging to joint family ($M = 4.04$, $S. D = 1.16$) are higher in comparison with the respondents belonging to nuclear family ($M = 4.04$, $S. D = 1.17$) on problems faced in getting Loans with t- value -.076. The p value is above the accepted significance level of 5%. Hence, we accept the null hypothesis and conclude that there is no significant difference in the opinion of respondents belonging to nuclear and joint family on problems faced in getting Loans

Constraints in repaying loans From the table above it is observed that, respondents belonging to joint family (M = 3.74, S. D = 1.33) are higher in comparison with the respondents belonging to nuclear family (M = 3.44, S. D = 1.29) on Constraints in repaying loans with t- value -1.946. The p value is above the accepted significance level of 5%. Hence, we accept the null hypothesis and conclude that, there is no significant difference in the opinion of respondents belonging to nuclear and joint family on Constraints in repaying loans.

Table 3:ANOVA- Number of members in the family with the study variables					
		N	Mean	SD	F-value
Group Dynamics	Less than 4	372	3.97	0.27	0.338 ^{ns}
	4 to 8	45	3.93	0.46	
	Above 8	54	3.95	0.17	
	Total	471	3.96	0.29	
Problems faced in getting Loans	Less than 4	372	4.26	1.07	39.279 ^{***}
	4 to 8	45	3.43	1.23	
	Above 8	54	3	1.07	
	Total	471	4.03	1.17	
Constrains in repaying loans	Less than 4	372	3.62	1.3	8.477 ^{***}
	4 to 8	45	3.15	1.37	
	Above 8	54	2.93	1.09	
	Total	471	3.49	1.03	

Analysis of Variance (ANOVA) test was applied to test the difference in mean response given by respondents based on the number of members in the family.

H2: There is a significant difference in the mean response given by respondents based on the number of members in the family with Group Dynamics, problems faced in getting Loans and constraints in repaying loans.

Group Dynamics

With regard to the opinion of the respondents on group dynamics, based on the number of members in the family, it was found that, respondents with less than 4 members in the family ($M = 3.97$, $S. D = 0.27$) got highest mean score when compared to respondents with more than 8 members in the family ($M = 3.95$, $S. D = 0.17$) and members between 4 to 8 ($M = 3.93$, $S. D = 0.46$). The obtained *F*- value 0.338 is not statistically significant at 0.05 or 5% level. Hence, we accept the null hypothesis and conclude that there is no significant difference in the mean response given by respondents based on the number of members in the family relating to Group Dynamics.

Problems faced in getting Loans

From the table it is found that, respondents with less than 4 members in the family ($M = 4.26$, $S. D = 1.07$) got the highest mean score when compared to respondents with 4 to 8 members in the family ($M = 3.43$, $S. D = 1.23$) and members more than 8 ($M = 3.00$, $S. D = 1.07$). The obtained *F*- value 39.279 is statistically significant at 0.05 or 5% level. Hence, we reject the null hypothesis and accept the alternative hypothesis concluding that, there is a significant difference in the mean response given by respondents based on number of members in the family with problems faced in getting loans. Post hoc test using Games-Howell method revealed that respondents with less than 4 members in the family differed in their opinion when compared to respondents between 4 to 8 members and above 8 members.

Constraints in repaying loans

From the table it is seen that, respondents with less than 4 members in the family (M = 3.62, S. D = 1.30) got highest mean score when compared to respondents with 4 to 8 members in

The family (M = 3.15, S. D = 1.37) and members more than 8 (M = 2.93, S. D = 1.09). The obtained F- value 8.477 is statistically significant at 0.05 or 5% level. Hence, we reject the null hypothesis and accept the alternative hypothesis concluding that there is a significant difference in the mean response given by respondents based on the number of members in the family with Constraints in repaying loans. Post hoc test using Games-Howell method revealed that respondents with less than 4 members in the family differed in their opinion when compared to respondents with more than 8 members in the family.

Table4: ANOVA- Time of association with SHG's and the study variables					
		N	Mean	SD	F-value
Group Dynamics	<1 year	108	4.01	0.08	1.877 ^{ns}
	1-2 Years	255	3.95	0.31	
	>3 Years	108	3.94	0.34	
	Total	471	3.96	0.29	
Problems faced in getting Loans	<1 year	108	3.65	1.26	42.04 ^{***}
	1-2 Years	255	4.45	0.97	
	>3 Years	108	3.44	1.14	
	Total	471	4.03	1.17	
Constrains in repaying loans	<1 year	108	2.85	1.08	56.8 ^{***}
	1-2 Years	255	4.02	1.21	
	>3 Years	108	2.88	1.18	

	Total	471	3.49	1.3	
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Analysis of Variance (ANOVA) test was applied to test the difference in mean response given by respondents based on Time of Association with SHG's.

H3: There is a significant difference in the mean response given by respondents based on Time of Association with SHG's on Group Dynamics, problems faced in getting loans and constraints in repaying loans.

Group Dynamics

From the table it was observed that, respondents with less than one year of association with SHG's ($M = 4.01$, $S. D = 0.08$) got the highest mean score when compared to respondents with 12 years ($M = 3.95$, $S. D = 0.31$) and more than 3 years of association with SHG's ($M = 3.94$, $S. D = 0.34$). The obtained F- value 1.877 is not statistically significant at 0.05 or 5% level. Hence, we accept the null hypothesis and conclude that, there is no significant difference in the mean response given by respondents based on Time of association with SHG's relating to Group Dynamics.

Problems faced in getting Loans

It is noted from the table that respondents with 1-2 year of association ($M = 4.45$, $S. D = 0.97$) got the highest mean score when compared to respondents with less than one year ($M = 3.65$, $S. D = 1.26$) and more than 3 years of association with SHG's ($M = 3.44$, $S. D = 1.14$). The obtained F- value 42.040 is statistically significant at 0.05 or 5% level. Hence, we reject the null hypothesis and accept the alternative hypothesis concluding that, there is a significant difference in the mean response given by respondents based on Time of association with SHG's relating to problems faced in getting loans. Post hoc test using Games-Howell method revealed that respondents with 1-2 years of association differed in the opinion when compared to the respondents with less than 1 year and more than 3 years of association with SHG's.

Constraints in repaying loans

From the table it was depicted that, respondents with 1-2 year of association ($M = 4.02$, $S. D = 1.21$) got the highest mean score when compared to respondents with more than three years ($M = 2.88$, $S. D = 1.18$) and less than 1 year of association with SHG's ($M = 2.85$, $S. D = 1.08$). The obtained F- value 56.796 is statistically significant at 0.05 or 5% level. Hence, we reject the null hypothesis and accept the alternative hypothesis concluding that, there is a significant difference in the mean response given by respondents based on Time of association with SHG's relating to constraints in repaying loans. Post hoc test using Games-Howell method revealed that, respondents with 1-2 years of association differed in the opinion when compared to the respondents with less than 1 year and more than 3 years of association with SHG's.

Findings and conclusions

- As per the study based on the type of the family of SHG members and study variables, a better group dynamics is enjoyed by members who belonged to nuclear family. But regarding problems in getting loans and constraints in repayment of loan both participants had similar opinion. This shows the management of loan by the members is yet to be professionalized. The financial literacy among the group members should be developed through training sections.
- When the study progresses with analysis of number of members in the family with study variables all the members of the group irrespective of their number of members in the family enjoyed similar group dynamics. In case of problems of getting loans and constraints in repaying them, SHG members who belong to less than 4 member family differed in their opinion from members with more than 8 members in the family. This brings out another picture of fund management among the members of SHG. As more members in the family may have a better financial stability with more source of income. The responsibility of running family may be shared by more family members. Due to the above reasons the SHG may be favoring those who could show a better source of income for repayment. This scenario can be rectified by imparting skill development workshops focusing on entrepreneurial skills among the members which could improve the financial position of every member in the group.

- The analysis on the time of association with the study variables shows that those members who are in the SHG between 1 to 2 years are facing problems in getting loans and facing constraints in repaying. This may be due to the delay in the repayment of previous loans. The mismanagement of loan amount which may occur in the first year may be due to lack of knowledge in financial management which can be effectively taken care of with the interactions between NGO representatives and SHG members.

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FAIR VALUE ACCOUNTING IN INDIAN ACCOUNTING SYSTEM

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ABSTRACT

Organisations attract investors using financial statements, which are also very critical to the (financial) accountant of the company to disseminate/disclose financial information to the stakeholders of an organisation. As the assets and liabilities recorded under the traditional accounting system do not reflect their current value, the concept of fair value accounting under the IFRS was introduced, which is aimed at making the information provided by the (financial) accountant more relevant, reliable and comparable. India being one of the fastest growing/emerging economies of the world, this study focuses on understanding the concept of fair value accounting, examines the degree of its adaptability to Indian and Global organisations and analyses the benefits of implementing it in our country.

Key words: Fair value, Reporting, Assets, Liabilities.

Introduction

Most countries across the globe are either adopting the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) or converging their own standards to the IFRS. This is expected to bring in much needed comparability and uniformity across the accounting practices. So far, there were only 32 accounting standards but after the implementation of the IFRS, another 15 are added back to AS. Fair value measurement is explained under IFRS 13.

The birth of fair value concept in accounting theory can be traced back to the 1930's. In the late 19th century and early 20th century, it was introduced by the German and French legislation which impacted accounting practice. Thus, FVA was common for firms to value their capital assets using evaluated values that the assets would bring in the market. Therefore, many early economists also believed that the fair value accounting, known as Mark to Market accounting, which was first used during the great Depression, but it was suspended in the year 1938 by President Franklin D. Roosevelt. However, during the 1930's abusive valuation practices made by various managers led to the enactment of more formal accounting standards by the accounting profession. As a result, historical cost accounting emerged as the dominant practice for reporting most assets and liabilities. Additionally lack of transparency under historical cost accounting could make matters worse during crises. It is generally accepted that FVA is more appropriate than Historical Cost Accounting when the markets in which the assets are traded are highly liquid. However, Historical Cost Accounting does not reflect the current fundamental value of an asset either. Therefore, it might be better to use market values, even if the markets are illiquid and to supplement them with additional disclosure. Now India is one of the 14 countries which have adopted the IFRS for at least. Hence, India has finally adopted fair

value measurement in its business reporting system. For the purpose of defining and measuring fair value in India, the ICAI has introduced converged Indian accounting standards in line with IFRS.

Review of Literature

Phani (2015) concludes that since the assets and liabilities recorded under traditional accounting system do not reflect their current value, the concept of fair value was introduced under the IFRS to make the information provided by the financial accountant more relevant, reliable and comparable.

R et.al, (2016) attempt to answer the oft-repeated crucial questions, what are the fair values of assets and liabilities so that financial projections could be based on realistic assumptions? This question in fact subsumes yet another question, namely: what methods of valuation of assets and liabilities are to be adopted which would help the informed investor to take matured decision.

Debarshi and Bhattacharya (2017) in their article have examined about the Adoption of Fair value accounting in Indian Accounting System. The study is totally focused on the degree of adoption of Fair value accounting in Indian Accounting system

Najeb Masoub and Abdullah Daas (2014) Explore the role of FVA in the Global Financial Crisis. The study focuses on the global financial crisis which started in advanced economies and spread to emerging markets and low income countries. This paper uses the value of relevance of fair – value reported under FAS 157 that estimates assets and liabilities.

Bin (2013) has examined the Mandatory IFRS Adoption and Accounting Conservatism. The study is mainly focused on the effect of adoption of IFRS in Indian Accounting System and also provided suitable solution to the problem

Objectives of the Study.

The major objectives of the present study are as follows:

- To understand the concept and measurement techniques of fair value accounting.
- To understand the IFRS conceptual framework on fair value Measurement of Assets and Liabilities
- To examine the degree of adoption of fair value in Indian and global Scenario.

- To analyse the benefits of fair value accounting in Indian accounting system.

Concepts of Fair value

On 1st of January 2012, the IASB introduced IFRS 13 on 'Fair Value Measurement' which defines fair value, which set out in one IFRS framework for measuring fair value and also required to disclose the fair value measurements. Fair Value means It is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transactions between market participants at the measurement date. Some features of fair value are

- The fair value is a current exit price on the measurement date.
- The fair value is a market based measurement but not an organization specific measurement.
- The fair value is determined in the principal market where orderly transactions take place for assets or liability.
- The Fair value establish as the consistency and comparability in fair value measurement

Fair – value Accounting is defined in IAS 39 as the price at which an asset could be exchanged in a current transaction between knowledgeable and willing parties often is also called Mark – to Market accounting which is the practice of banks and other financial institutions updating the valuation of assets or securities on a regular basis. For liabilities, FVA is defined as the amount that would be paid to transfer the liability to a new debtor.

Major Benefits of Fair Value Accounting

- It is very beneficial to the companies to report the amount of assets and liabilities more accurately, timely and comparable than the amounts that would be reported under the traditional accounting syst
- It's very helpful to report updated market value of assets and liabilities on a regular basis.
- It limits company's ability to manipulate their net income.
- Gains and losses resulting from changes in fair value estimate indicated economic events that companies and investors may find worthy of additional disclosures.
- It is very helpful for the overall growth of the organization and avoids confusions in maintaining books of accounts.

Fair Value Hierarchy for Determining Assets and Liabilities

For the Consistency and Comparability Fair value Measurement under Indian AS 113 establishes a fair value hierarchy for determining Assets and Liabilities that consists of three levels of inputs to the valuation techniques of measurement of fair value as suggested by the standard. These are

a) Level 1 Inputs

b) Level 2 Inputs

c) Level 3 Inputs

a) Level 1 Inputs :

It is defined as “The price quoted in active markets for identical assets and liabilities that the entity can access at the measurement date”. The level 1 input represent the quoted unadjusted prices of the identical assets in the market.

b) Level 2 Inputs:

“Level 2 inputs are inputs other than quoted market prices which include within Level 1 that is observable for the asset or liability, either directly or indirectly.” The Level 2 inputs explain prices which are quoted for the similar assets and liabilities in the active market.

c) Level 3 Inputs :

Level 3 Inputs are defined as “unobservable inputs for the assets or liability.” The Level 3 inputs are unobservable inputs used in the situation in which there is no information on market activity of assets or liabilities. In the process of determining the fair value of assets and liabilities, the organization should follow the fair value hierarchy which indicates that preference should be given to Level 1 inputs and in its absence the company should use level 2 and level 3 inputs.

It indicates that the fair value hierarchy gives the highest priority to level 1 inputs and the lowest priority to the level 3

Valuation Techniques

According to the Indian AS 113, an entity should use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

The main objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the assets or to transfer the liability would take place between market participants and the measurement date under current market conditions

There are three valuation Techniques which are as follows.

- Market Approach
- Cost Approach
- Income Approach

Market Approach:

It refers to the fair value of assets and liabilities which is arrived based on the price or other relevant information generated by the market transactions involving assets and liabilities.

Cost Approach:

It refers to the fact that replacement cost is considered as the fair value of the assets and liabilities.

Income Approach

Under this approach the fair value is the discounted value of the future amount (i.e., cash flows or income and expenses associated with the assets. In some cases, a single valuation technique may be appropriate, whereas in others, multiple valuation techniques may be better.

Adoption of Fair Value Accounting in Indian Scenario

Time has really come to examine the degree of adoption of Fair Value concept in Indian Financial Reporting System as part of the convergence with the International Financial Reporting Standard (IFRS). From the recent past, the companies registered in India prepared their financial statements on the basis of Rules and regulations prescribed by the Ministry of Corporate Affairs (MCA), Government of India, and Accounting Standards as issued by the Institute of Chartered

Accountants of India (ICAI). These standards were prepared on the basis of the existing accounting practices in India and world.

The standard setters, while preparing these standards, took into consideration globally existing best practices and Indian social, economic, financial and political conditions. Still these standards were not fully convergent with the International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) which were subsequently adopted by a large number of countries across the globe. In India, a number of Asses had already been issued by the ICAI that require assets and liabilities to be measured at fair value. Some of the standards define fair value, while in some others, it has been referenced. These ASs are : AS – 26 on Intangible Assets, AS – 28 on Impairment of Assets, AS – 30 on Financial Statement Instruments, Recognition and Measurement, AS – 31 on Financial Instruments Presentation and AS – 32 on Financial Instruments: Disclosures. The ICAI decided that the converged IFRS should be followed in India too for public interest entities from the accounting period starting on or after April 1, 2011. In this context, the ICAI Published a concept paper on converged IFRS in India. This paper provided the road map to adopt the IFRS in India by 2011. To ensure a fully converged set of standard, the MCA prepared a road map in 2010 in which it was decided that there would be two sets of Corporate Financial Reporting Standards U/S 211(3C) of the companies Act 1956 for achieving convergence with IFRS.

There were a) Which will be converged Indian Accounting Standards in the line of IFRS and will be adopted by the specified class of companies in a phased manner and b) Which are existing Indian Accounting standards and would be applicable to other companies, including Small and Medium Companies. In the said road map it was decided the first set of ASs will be applied to specified class of companies in the following phase.

Voluntary Adoption

Companies can voluntarily adopt In AS for accounting periods beginning on or after 1st April 2015 with comparatives for the period ending 31st March 2015 or thereafter. However, once they have chosen this path, they cannot go back.

Mandatory Adoptions

Phase I

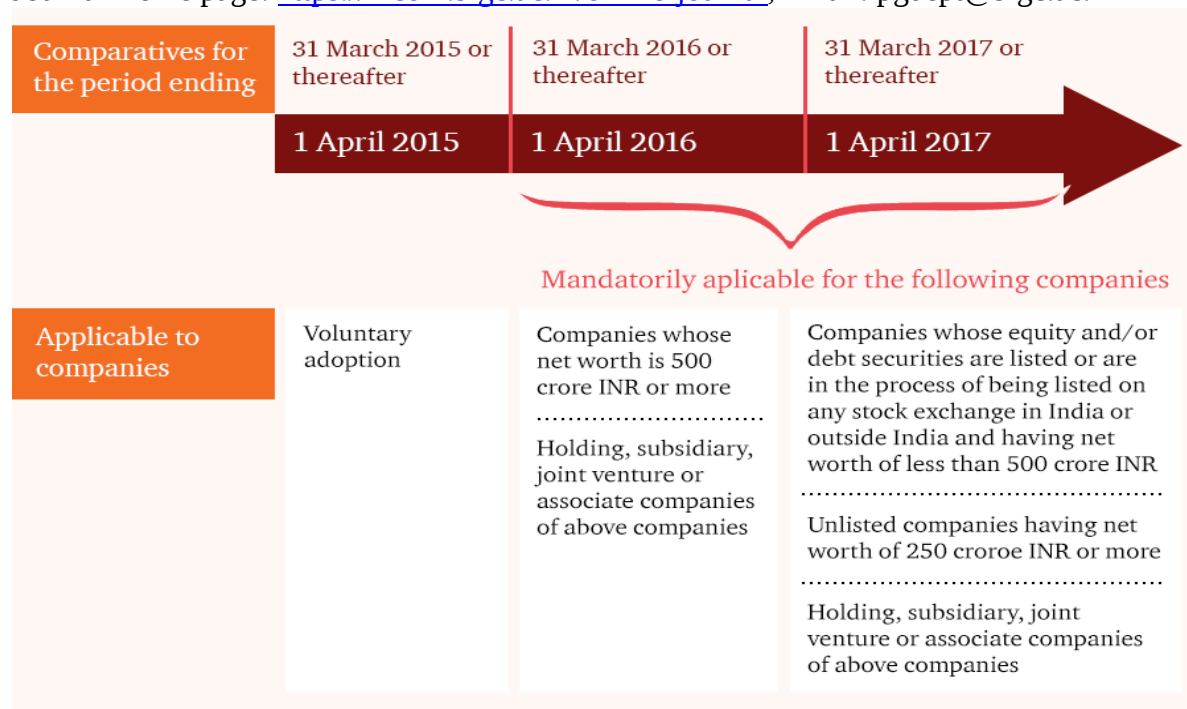
Indian Accounting Standard will be applicable to the following companies for the periods beginning on or after 1st April 2016, with comparatives for the period ending 31st March 2016 or thereafter.

- Companies whose equity and debt securities are listed or more in the process of listing on any stock exchange in India or outside India and having net worth of 500 core INR or more.
- Companies having total net worth of 500 cores INR or more than those covered above.
- Holding, Subsidiary, joint venture or associate companies covered above.

Phase II

Ind AS will be mandatorily applicable to the following companies for periods beginning on or after 1st April 2017, with comparatives for the period ending 31st March 2017 or thereafter.

- Companies whose equity and debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than rupees 500 crores INR.
- Unlisted companies other than those covered in phase I and phase II whose net worth are more than 250 crores INR but less than 500 crores INR.
- Holding, Subsidiary, Joint venture or associate companies of above companies.



Exemptions

According to Sub – Rule (1) of Rule 4 of MCA, The Insurance Companies, banking Companies and non – banking finance companies shall not be required to apply IND AS for preparation of their financial statements either voluntarily or mandatorily.

The MCA issued a road map for implementation of the Indian Accounting Standards Converged with the IFRS for banking companies, insurance companies and Non- Banking Financial Companies (NBFCs) in a phased manner commencing from accounting periods beginning on or after April 1, 2018 by its notification dated 30th March 2016. MCA has issued notification dated 16th Feb 2015 in respect of phase – wise road map for adoption and applicability of companies Rules, 2015 other than banking companies, insurance companies and other NBFCs

Further, MCA has issued a press release dated 18th Jan 2016, in which Banking Companies, Insurance Companies and NBFCs are also included

Adoption of Fair Value Accounting in Global Scenario

India is one of the 14 countries that have adopted IFRS for at least some domestic publicly accountable entities. Hence, India has finally adopted fair value accounting system in their Accounting Standards. For the purpose of defining, measuring fair value in India. IFRS includes Fair Value which is not a new concept, but adaptation of fair value in accounting system is a new concept. Fair value accounting already used in most part of the world, including the European Union, Russia, Australia,, Hong Kong, Malaysia, Singapore, Chile, South Africa etc. out of the 140 countries worldwide 116 countries have already adopted IFRS for all or most domestic publicly accountable entities. 14 Countries have already adopted IFRS for the domestic publicly accountable entities and 10 countries neither require nor permit IFRS for any domestic publicly accountable entities as on date. Out of these 10 countries, One (Thailand) is the process of adopting IFRS in full and another country, Indonesia, is in the process of converting its national standards substantially with IFRS. The remaining Eight that use National or Regional standards are: Bolivia, China, Egypt, Guinea Bissau, Macao, Niger, the United States and Vietnam. The 116 Jurisdictions that require IFRS for all or most domestic publicly accountable entities include seven that have no stock exchange but that require IFRS for all financial institutions the countries are Afghanistan, Angola, Belize, Brunei, Kosovo, Lesotho and Yemen. Although a large number of countries consider IFRS favourably, it is not necessarily the case in USA.

Corporate valuation – Benefits of Fair Value Accounting

It is one of the processes of estimating the fair market value of a company. One of the approaches adopted by many companies for corporate valuation is Adjusted Book Value Approach. Under this approach, the company gets value by using the information provided in the balance sheet either by using investor's claims approach or Asset - Liability approach. The value of the company can be arrived by using the following formula.

Values of the Firm = Total Assets – Current Liabilities and provisions

Value of the firm = Book Value of Investor Claims.

The Major limitation of the Adjusted Book Value Approach is that

- The Value arrived does not reflect the current value of the company

- The valuation is done based on the value of the assets and liabilities recorded Historical costs in the balance sheet.

This limitation can be eliminated if the organization adopts the concept of fair value in the valuation of assets and liabilities.

Conclusion

The fair value accounting also known as mark – to market accounting is often criticized for contributing to excess leverage in boom period and leading to excessive write down in recession. Some financial analysts also criticize the fair value accounting as one of the major causes of the financial crises. In spite of these criticisms implementation of the Fair value Accounting will bring uniformity and accuracy in the financial statements provided by the companies and these also help the investors and also the companies to compare one's performance with their competitors. Hence implementation of Fair value accounting is always beneficial to the organization.

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CORPORATE GOVERNANCE MEASURES IN INDIA

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ABSTRACT

The concern for effective governance of the corporate world has been intensified due to the types of impact that the financial frauds create on all the segments of society concerned, more directly in the form of capital invested, loss of employment to thousands of people right from the CEOs to the rung worker, reduction in the confidence levels of the investing public in corporate enterprise, reinstatement of corporate profit figures for the last few years by the companies involved , all resulting in low levels of economic activity at the macro level, throwing nations into some types of a recession. As a consequence of the financial frauds in the corporate world, in which accounting firms of international reputation have played a prominent role, the credibility of the accounting profession all over the world is, presently, at stake. The professional Institutes of Accountants in different countries have started addressing themselves regarding the restoration of respect, trust and confidence of the investing public in the accounting and auditing profession. Against this background, the paper aims to examine the overview of Corporate Governance in India.

INTRODUCTION

The core objectives of any business firm are survival, profitability and growth. The success or failure of the objectives of a company depends on the effective application of essential aspects of its corporate philosophy, namely, 'freedom', 'reach', and 'uncertainty'. In the changing environment of business consequent to globalization, new strategies have to be developed and implemented by the corporate. They must be consistent with the core objectives of a corporate in a market driven economy. Greater 'freedom' and its value help the organization to promote growth and profitability in the long run. Greater 'reach' leads to a systemic search for friends and foes in business and helps to protect profits in the short period. Greater 'uncertainty' results in a strategy of systems thinking and helps a company to strive for survival.

Ten to nineteen years ago, interest in the field of corporate governance was confined to legislators, company lawyers and commentators who were concerned with accountability and financial disclosure of the company. More recently, interest has been escalated and widened, which automatically the question why is corporate governance needed?

However, in today's rapidly changing business environment and consequent to the market-friendly economic reforms, the dominance of the Government has been considerably reduced. It has affected the social sector services, which used to be provided by the Government at zero or subsidized costs. In turn, the pressure to provide such services have been shifted to companies as society expects companies to shoulder some of the social responsibilities of the Government. On the one hand, the social needs and expectations for responsible corporate citizenship have been substantially growing due to market-friendly reforms. On the other hand, the corporates are

caught by the forces of global fierce competition, threatening their survival resulting in continuous pressure to find adequate profitability by any means.

In today's corporate world, no company can afford to ignore and abstain from discharging its social obligations emanating from the trust and faith that society at large and stakeholders, in particular, have reposed on it.

NEED FOR CORPORATE GOVERNANCE:

All societies run by human beings need to be properly governed. Wherever power is exercised to direct, control and regulate activities that affect people's legitimate interests, governance is necessary. The following reasons may be listed as of particular significance.

- The increasing scale, complexity and international activities of major corporate groups
- Greater power and activities of institutional investors
- Hostile activities of predator companies
- Renewed responsibilities and power of the regulatory authorities due to company law amendment and new securities trading regulations in various parts of the world
- Recent disclosures and rethinking in insider trading
- Demand for more checks and balances at Board level and demand for separation of CEO's function from that of chairman of the Board
- Calls for greater accountability by companies and their Boards
- Changes in the world of international audit profession
- Developments in accounting standards and corporate regulation
- Emergence of newly corporatized and privatized corporate entities and
- Increasingly litigious standards

CONCEPT OF CORPORATE GOVERNANCE:

Corporate Governance is concerned with the process by which corporate entities, particularly limited liability companies, are governed with the exercise of power over the direction of enterprise, the supervision of executive actions, the acceptance of a duty to be accountable and the regulation of company within the jurisdiction of the country where it operates. Primarily, corporate governance is concerned with the functioning of Board of Directors-its structure, style, processes, their relationships and roles, activities etc., It is also concerned with the roles of company stakeholders-shareholders, institutional investors or large shareholders, auditors, banks and others.

Corporate governance is a multidisciplinary field of study. It covers a wide range of disciplines – accounting, consulting, economics, ethics, finance, law, and management [1]. The main function of corporate governance is to make agreements that describe the privileges and tasks of shareholders and the organization. In case of disagreements because of conflict of interest, it is the responsibility of corporate governance to bring everyone together. It also has the function of setting standards against which corporations' work can be managed and administered. One of the questions that comes to mind while thinking about corporate governance is - why do different countries follow or do not follow the same corporate governance practices. The answer lies in the history of corporate governance, earlier the corporate governance theory was divided in two ways i Anglo-American and Continental European. Anglo-American was characterized as short-term equity finance, dispersed ownership, strong shareholder rights, active markets for capital control, and flexible labor markets, as where Continental European was characterized as long-term debt financing, concentrated block holder ownership, weak shareholder rights, inactive markets for capital control and rigid labor markets. None of the countries around the world can follow either pure Anglo-American policies or pure Continental European system. Thanks to various factors like globalization, world presence.

HISTORICAL EVALUATION OF CORPORATE GOVERNANCE-INDIAN SCENARIO:

Corporate governance has played a very important role in the present economic condition of India. India successfully started its move towards open and welcoming economy in 1991. From

then onwards it has seen an amazing upward Corporate Governance —If India wants to attract more countries for foreign direct investments, Indian companies have to be more focused on transparency and „Shareholders value maximization“. Even though corporate governance practices can be backdated to as early as 1961 around the world, India was lagging behind. It was not until 1991 when liberalization took place and corporate governance established an international context. The most important initiative of 1992 was the reform of Securities and Exchange Board of India (SEBI). The main objective of SEBI was to supervise and standardize stock trading, but it gradually formed many corporate governance rules and regulations. The next major change was the formation of Confederation of Indian Industry (CII) in 1996, which developed a set of laws for Indian companies as to initiate the act towards corporate governance. Then two committees Kumar Mangalam Birla and Narayan Murthy under Securities and Exchange Board of India started laying the groundwork for formalizing the best practices on corporate governance. Based on the suggestions of these committees, Clause 49 was introduced as part of the listing contract for the companies listed on the Indian stock Exchange. However, scandals like Enron, Satyam, WorldCom etc. forced the clause 49 to be reformed to incorporate and overcome the problems that caused these companies to collapse and shatter the economies of the respective countries. Clause 49 of the listing agreement of Indian stock exchange took effect from 2000 to 2003. It contained all the regulations and requirement of minimum number of independent directors, board members, different necessary committees, code of conduct, audit committee rules and limits, etc

LITERATURE REVIEW:

As far as corporate governance is referenced; many studies are existing recitation to the compliance status of companies with a view to specific corporate governance guidelines. The corporate governance codes and their iterative development are similar in developing and developed countries, however, the degree of compliance is found different between the countries

Mishra S. and Mohanty P. (2014) in their study examined the corporate governance issues in India in order to establish the relationship between corporate governance and financial performance using a sample of 141 companies belonging to the A group stocks listed in the

Bombay Stock Exchange of India covering 18 industries. They developed a composite measure of corporate governance comprising of three indicators-legal, board and proactive indicators. The results of the multiple regression performed step-wise using ROA as a proxy for firm performance revealed that the board indicators (CEO-duality, board size, board composition, number of board meetings, Frequency of attendance in the board meetings) and proactive indicators influence the firm performance significantly. The results concluded that composite corporate governance measure is a good predictor of firm performance.

Patel and Sondhi (2014) [8] consider the major changes anticipated by the Companies Bill, 2012 as compared to the 1956 Act and observed during their study that not all Indian listed companies comply with the provisions stated under the Company Bill, 2012 and many of them are yet to comply with these changed provisions.

Vithalani (2014) [12] studied corporate governance practices of seven Maharatna Companies in India and summarized that all the seven companies complied with the corporate governance disclosure practices with regard to guidelines given by SEBI under Clause 49 to a massive extent.

Sahu T. K. and Manna A. (2013) empirically investigated the effect of corporate board composition and board meetings on performance of 52 Indian manufacturing companies listed in Bombay Stock Exchange over a period of 5 years (2006-2011). They represented Board composition by board size, number of executive directors, board independence, and Chairman's identity. Corporate performance is measured through Net sales, Net Profit, Return on Capital Employed, Earning per share, Tobin's Q, Economic value added and Market value added. Multiple regression Ordinary Least Square model results indicated that board size and board meetings have a positive impact on corporate performance whereas the independence of the board and presence of non-executive chairman on the board has a negative impact whereas the proportion of executive directors on the board was found insignificant

CORPORATE GOVERNANCE MEASURES-INDIAN SCENARIO:

In order to improve the quality of corporate governance in publicly held companies, the following measures place a great deal of accountability squarely on the shoulders of CEO's of these companies in the Indian corporate sector.

Board Committees: The corporate failure in the past has in fact, led to emphasize the need for increasing the effectiveness of the board through the use of the Board committees. In order to ensure greater depth of understanding, committees of the Board are an effective way to raise standards, provide the required level of reassurance and obtain greater coverage by directors. The three most important committees, which are normally constituted, are (a) audit committee, (b) remuneration committee, and (c) nomination committee

(a) Audit committee:

An audit committee is formally set up by the Board, usually consisting of the independent board members and reporting to the Board. It acts as a link between the Board and the outside auditors. The members of the committee discuss the scope of the audit, explore matters that the auditors raise about the Management systems and controls, and are involved in resolving any disagreements that might occur on the form and content of the published financial accounts. The audit committee makes recommendations on audit fees and /or the reappointment or change of auditors. This is one of the most important committees for providing checks against the executives with the ability to review systems and internal control and particularly to review objectively, the progress made.

(b) Remuneration committee:

Good governance has a major role to play, largely exercised through the remuneration committee, which needs to be, and seen to be independent and professional. The committee is made up of independent members as the experience of the outside independent directors regarding compensation trends in other industries and companies would be valuable. The most important role of the remuneration committee is to have an appropriate reward policy that can attract, retain and motivate directors to achieve the long-term goals of the company. In India,

formation of remuneration committee is a non-mandatory requirement as per Clause 49 of the Listing Agreement.

(c) Nomination committee: This is the third important committee of the board, which is made up of outside independent directors. It is usually chaired by the company chairman and is the vehicle by which new non-executive directors are brought for selection. The Indian regulatory bodies did not make it a mandatory practice to constitute nomination committee in the listed companies.

(d) Accounting standards:

There is a need for working towards global harmonization of accounting policies.

(e) Transparency & Disclosures:

Corporate Governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation and governance of the company. Important disclosure should include financial and operating results of the company, company objectives, major share ownership and voting rights, members of the board, key executives and their remuneration, materials issues regarding employees and other stakeholders, government structures.

CONCLUSION:

The financial frauds in developing countries like India are becoming so common due to imperfect capital markets and inadequate corporate governance. As a consequence of these financial frauds, accounting firms of international repute have started addressing themselves as to how best to restore the respect, trust and confidence of the investing public. Obviously, the concern for Corporate Governance has been intensified. The Indian model of Corporate Governance should be based on how capital is raised here. Corporate Governance is essential for corporate success. Specific issues, which are significant, are, building accountability within the corporation, service management, performance appraisal, sanctions and incentives, removing

constraints for reforms etc., Good Corporate Governance can be ensured only through self-management based on core values of being responsible corporate citizens.

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