

India & EU: Standard deviations

India and Europe are increasingly at odds over a range of industry benchmarks and practices that could impact financial markets and trade between the two

SUBHOMOY BHATTACHARJEE
New Delhi, 11 November

The differences between the Reserve Bank of India (RBI) and the European Securities and Markets Authority (ESMA), the EU financial regulator, can be considered a precursor of similar controversies in other sectors as Europe tries to tighten standards across all types of markets, from carbon credit, green hydrogen to data. But unlike those on, say, food products or car safety earlier, where European insistence has led to an improvement in Indian standards, the latest one is headed for a stalemate. Newer ones could be headed the same way.

ESMA has this week said Indian clearing corporations will not be recognised as such in Europe because “no cooperation arrangements” could be signed between it and the Indian regulators, including the RBI, Securities and Exchange Board of India (Sebi) and International Financial Services Centres Authority. The RBI and Sebi officials blame ESMA for insisting on clauses that supposedly dilute Indian sovereign rights on domestic financial markets.

Negotiations have been ongoing since 2017 to sign a memorandum of understanding (MoU) under which ESMA can inspect the six clearing corporations that operate under RBI and Sebi licences. India has a valid objection — that Japan and the US have obtained the rights under which these checks will take place only with prior authorisation from the RBI or Sebi. “My sense is that it will be impossible to dilute our sovereign rights on our market institutions,” said R Gopalan, former secretary, (economic affairs) in the Union finance ministry. India has also objected to demand from ESMA that the six clearing corporations pay a licence fee of €50,000 each per year, to join the ESMA certified panel.

Under the proposed ESMA rules, any investor based in Europe will not be able to use India’s clearing house mechanism to invest in government bonds. Instead, the investor will have to deploy her own capital as a counter-party to guarantee the trade, making it a costly exercise. While the ESMA step affects all financial markets, the primary impact will be on government bonds. Why? Allowing ESMA into the market as an inspector of clearing corporations in this market will circumscribe the role of RBI as the government banker to sell or buy



DIFFERENT STROKES

- **ESMA wants to inspect six clearing corporations** that operate under RBI and Sebi licences for European investors to invest in Indian financial market instruments
 - **India says it can be done only with prior RBI/Sebi authorisation**, as is done with the US and Japan
 - **ESMA wants the six clearing corporations to pay a licence fee of 50,000 Euros each a year to join a certified panel**
 - **ESMA proposals will primarily impact govt bonds** by circumscribing the RBI’s role
- OTHER SECTORS OF DIVERGENCE**
- European General Data Protection Regulation
 - Management of crypto assets
 - The proposed global corporation tax
 - European Carbon Border Adjustment Mechanism, effective from 2023
 - Euro New Car Assessment Programme

Government of India and state government papers.

A clearing mechanism brings buyers and sellers on an impartial platform for the trade, offering a secure platform. To play that role a clearing house maintains adequate capital reserves and is inspected by Sebi, for all markets, and the RBI for the government bond market. However, by global standards, Indian entities such as Clearing Corporation of India, Indian Clearing Corporation Limited and NSE Clearing Limited are considered puny — the difference in size is almost 10 times.

However, India is expanding the market size for government bonds to attract more investors, both here and abroad. But it has found that investors in Europe and even the US have asked for those trades to take place under international clearing houses such as Euroclear, even as India insists on settlements through Indian clearing houses.

Some of those differences have encouraged FTSE Russell and other global fund managers to drop plans to include India government and public sector bond papers in their index funds. The ESMA regulations could also kick in from

April 2023, unless the parties to the negotiations agree to extend the deadline.

The latest flare-up comes when India has expressed its unwillingness to comply with more such European standards. The European General Data Protection Regulation (GDPR) is one of those. India does not recognise it and insists it will set its own data protection standards under a law to be passed by Parliament. Minister of electronics and IT Rajeev Chandrasekhar has said “The GDPR is a little bit more absolutist in terms of how they approach data protection. For us, that is not possible, because we have a thriving ecosystem of innovators”.

One major area of difference is the management of crypto assets. India has refused to accept the domain of private crypto, labelling those as equivalent to lottery, while the EU this year has brought issuers and crypto-asset service providers under a regulatory framework for the first time. So if an investor from India puts money into a crypto company, legal under European standards, he will be running foul of anti-money laundering in India.

There are others. In the proposed global corporation tax, India is opposed to the so-called Pillar One that entails the removal of Digital Services Taxes such as the one India levies. India levies a 2 per cent DST on revenues generated from digital services offered in India.

Meanwhile, the European Carbon Border Adjustment Mechanism, essentially a carbon tax, rings in from 2023. It will first apply on any imports of steel, cement, aluminium, and fertilisers from third countries into the EU. The data sheet by the Commission says the rules will become strict by 2026 with plans to “extend its scope to more products and services — including down the value chain”. India’s G20 Sherpa Amitabh Kant has described the upcoming carbon tax as the biggest challenge for Indian exporters. Thus, every exporter will have to show they have paid a carbon tax on their products including the raw materials they obtain, otherwise the EU will levy a suitable tax on such products.

These clashes have reopened older differences. For instance, miffed at the crash standards of Euro New Car Assessment Programme, Indian road minister Nitin Gadkari has pushed the road transport and highways ministry to develop comparable Indian standards. The European Commission has an elaborate mechanism for standard setting in the continent, to ensure that all the 27 member states can do business on the same platforms. These standards are usually led by the European Committee for Standardisation (CEN). Europe argues that these international standards give its industry and businesses the advantage to establish worldwide partnerships and sell their products or services globally. On Thursday, for instance, the European Commission proposed new standards to reduce air pollution from new motor vehicles.

All of this leads to the spectre of rising non-tariff barriers even as an India-EU free trade agreement hangs in the balance.

Arpita Mukherjee, professor on international trade at ICRIER, however, noted that the EU does try to use standards but only to promote trade. “EU trade agreements have provision for mutual recognition of standards. If properly implemented it helps business on both sides,” she argued.

Yet as India expands its economy and consequently trade ambitions, it is not keen to see others set the standards. For Europe those standards offer it an advantage to overcome the disadvantage of low costs elsewhere. The battle lines are clearly drawn.

UNAUDITED FINANCIAL RESULTS FOR THE QUARTER ENDED SEPTEMBER 30TH, 2022

(All amount in ₹ Lakhs, unless otherwise stated)				
Sl. No.	Particulars	Quarter ended		Year ended
		September 30th, 2022	September 30th, 2021	March 31st, 2022
1	Total Income from Operations	47,456	69,933	3,14,955
2	Net Profit/(Loss) for the period (before Tax, Exceptional and/or Extraordinary items)	(8,022)	(1,88,835)	(2,67,485)
3	Net Profit/(Loss) for the period before tax (after Exceptional and/or Extraordinary items)	(3,19,576)	(1,88,835)	(2,67,485)
4	Net Profit/(Loss) for the period after tax (after Exceptional and/or Extraordinary items)	(3,19,576)	(1,98,642)	(2,77,292)
5	Total Comprehensive Income for the period [Comprising Profit/(Loss) for the period (after tax) and Other Comprehensive Income (after tax)]	(3,19,560)	(1,98,925)	(2,77,530)
6	Paid up Equity Share Capital	7,902	7,902	7,902
7	Reserves (excluding Revaluation Reserve)	(13,89,134)	(6,25,801)	(6,07,123)
8	Securities Premium Account	1,97,084	1,97,084	1,97,084
9	Net Worth	(20,00,376)	(11,31,306)	(11,73,342)
10	Outstanding Debt	31,95,533	31,67,418	31,97,996
11	Outstanding redeemable preference shares	-	-	-
12	Debt Equity Ratio (Number of times) (Refer Note No.6)	N.A.	N.A.	N.A.
13	Earnings Per Share (of ₹ 10/- each) (for continuing and discontinued operations)			
	– Basic (₹)	(404.44)*	(251.39)*	(350.93)
	– Diluted (₹)	(404.44)*	(251.39)*	(350.93)
14	Capital redemption reserve	-	-	-
15	Debenture Redemption Reserve	39,824	39,824	39,824
16	Debt service coverage ratio (Note 7)	N.A.	N.A.	N.A.
17	Interest service coverage ratio (Note 7)	N.A.	N.A.	N.A.

* Not Annualised

Notes: 1) **Supersession of Board of Directors and Implementation of Corporate Insolvency Resolution Process**

The Reserve Bank of India (‘RBI’) vide press release dated October 4, 2021 in exercise of the powers conferred under Section 45-IE (1) of the Reserve Bank of India Act, 1934 (‘RBI Act’) superseded the Board of Directors of the Company (‘the Company’ or ‘SEFL’) and appointed an Administrator under Section 45-IE (2) of the RBI Act. Further, RBI, in exercise of powers conferred under section 45-IE (5) (a) of the RBI Act, constituted a three-member Advisory Committee to assist the Administrator in discharge of his duties.

Thereafter RBI filed applications for initiation of Corporate Insolvency Resolution Process (‘CIRP’) against the Company under section 227 read with clause (zk) of sub-section (2) of Section 239 of the Insolvency and Bankruptcy Code (IBC), 2016 (‘the Code’) read with Rules 5 and 6 of the Insolvency and Bankruptcy (Insolvency and Liquidation Proceedings of Financial Service Providers and Application to Adjudicating Authority) Rules, 2019 (‘FSP Insolvency Rules’) before the Hon’ble National Company Law Tribunal, Kolkata Bench (‘Hon’ble NCLT’). Hon’ble NCLT vide its order dated October 8, 2021 admitted the application made by RBI for initiation of CIRP against the Company. Further, Hon’ble NCLT gave orders for appointment of Mr. Rajneesh Sharma, as the Administrator to carry out the functions as per the Code and that the management of the Company shall vest in the Administrator. Further, Hon’ble NCLT also retained the three-member Advisory Committee, as aforesaid, for advising the Administrator in the operations of the Company during the CIRP. During the quarter ended June 30, 2022, there has been change in one of the advisory committee member.

2) In accordance with Regulation 52 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 as amended, the Company has prepared unaudited financial results for the quarter ended September 30, 2022.

The unaudited financial results of the Company for the quarter ended September 30, 2022 have been taken on record by the Administrator on November 10, 2022 while discharging the powers of the Board of Directors of the Company which were conferred upon him by the RBI press release dated October 4, 2021 and subsequently, powers conferred upon him in accordance with Hon’ble NCLT order dated October 8, 2021. It is also incumbent upon the Resolution Professional, under Section 20 of the Code, to manage the operations of the Company as a going concern. As a part of the CIRP, the Administrator has initiated audits/reviews relating to the processes and compliances of the Company and has also appointed professionals for conducting transaction audit as per section 43, 45, 50 and 66 of the Code. The Administrator of the Company received certain account wise transaction audit reports from the professional agency appointed as the transaction auditor indicating that there are transactions amounting to ₹ 13,110 crores which are fraudulent in nature under section 66 of the Code including transactions amounting to ₹ 1,283 crores determined as undervalued transactions. Accordingly, the Administrator has filed applications under section 60(5) and section 66 of the Code before the Kolkata bench of the Hon’ble National Company Law Tribunal (NCLT) on various dates till October 21, 2022 for adjudication.

In terms of paragraph 2 (b) of Annex to the guidelines DOR (NBFC).CC.PD.No.109/22.10.106/2019-20 dated March 13, 2020 issued by RBI on Implementation of Indian Accounting Standards for Non-Banking Finance Companies and Asset Reconstruction Companies, the Company had created Impairment Reserve amounting to ₹ 3,759 crores on such accounts in the earlier periods. Since no withdrawal from such reserve is permitted without the prior permission of RBI as per the notification/circular referred above, an amount of ₹ 3,116 crores and ₹ 7,102 crores has been provided towards loans loss provisioning and Nil & ₹ 459 crores has been provided towards loss on fair valuation for the quarter and six months ended September 30, 2022 respectively after considering the impact of impairment reserve as stated above and provisions made earlier, thereby making impairment to the extent of 100% of gross exposure, despite having some underlying securities as a matter of abundance prudence. If the loan loss provisioning and loss on fair valuation would have been provided without considering the impairment reserve as mentioned above the loss before tax for the quarter and six months ended September 30, 2022 would have increased by ₹ 2,262 crores and ₹ 3,759 crores respectively, and correspondingly impairment reserve of ₹ 2,262 crores and ₹ 3,759 crores respectively would have been transferred to retained earnings, thereby having no impact on shareholders fund.

The transaction audit is still in progress for other accounts and these financial results are subject to the outcome of such audits / reviews.

3) Since the Administrator has taken charge of the affairs of the Company on October 4, 2021, the Administrator is not liable or responsible for any actions and has no personal knowledge of any such actions of the Company prior to his appointment and has relied on the position of the financial results of the Company as they existed on October 4, 2021. Regarding information pertaining to period prior to October 4, 2021 the Administrator has relied upon the explanations, clarifications, certifications, representations and statements made by the Chief Financial Officer, Company Secretary, Chief Business Officer, Chief Risk Officer, Chief Compliance Officer and Legal Head (‘the existing officials of the Company’), who were also part of the Company prior to the appointment of the Administrator.

The above financial results for the quarter ended September 30, 2022 were subjected to limited review by the Joint Statutory Auditors (Dass Gupta & Associates, Chartered Accountants and J. Kala & Associates, Chartered Accountants) of the Company as required under Regulation 52 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 as amended (‘Listing Regulations’).

4) The above is an extract of the detailed financial results filed with the Stock Exchanges under Regulation 52 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. The full financial results are available on the websites of the BSE Limited and National Stock Exchange and the website of the Company (www.srei.com).

5) For the items referred in sub-clauses (q), (u) and (v) of the Regulation 52 (4) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the pertinent disclosures have been made to the BSE Limited and National Stock Exchange and can be accessed on www.bseindia.com and www.nseindia.com respectively.

6) Debt equity ratio is not determinable as equity is negative.

7) The Company is Non Banking Financial Company registered under the Reserve Bank of India Act 1934. Hence these Ratios are generally not applicable.

8) Previous period/year figures have been regrouped/rearranged, wherever considered necessary, to conform to the classification of the current period/year.

For SREI EQUIPMENT FINANCE LIMITED

(a Company under Corporate Insolvency Resolution Process by an order dated October 8, 2021 passed by Hon’ble NCLT, Kolkata)

MR. RAJNEESH SHARMA
ADMINISTRATOR APPOINTED UNDER IBC

Place: Kolkata
Date : November 10, 2022

Srei Equipment Finance Limited

Regd. Office: ‘Vishwakarma’
86C, Topsia Road (South), Kolkata - 700 046
Website: www.srei.com
CIN : U70101WB2006PLC109898



The Administrator has been appointed under Rule 5(a)(iii) of the Insolvency and Bankruptcy (Insolvency and Liquidation Proceedings of Financial Service Providers and Application to Adjudicating Authority) Rules, 2019 under the Insolvency and Bankruptcy Code, 2016. The affairs, business and property of Srei Equipment Finance Limited are being managed by the Administrator, Mr. Rajneesh Sharma, who acts as agent of the Company only and without any personal liability. Address for Correspondence - Vishwakarma 86C, Topsia Road (South), Kolkata - 700 046, West Bengal Email ID for Correspondence: sreiaadministrator@srei.com

Area under moderately dense mangroves fell in 10 years

Overall mangrove cover increased between 2011 and 2021

ANOUSHKHA SAWHNEY
New Delhi, 11 November

Earlier this week, India joined the Mangrove Alliance for Climate (MAC), which was launched at the 27th Conference of the Parties (COP27) in Egypt. Led by the United Arab Emirates (UAE) and Indonesia, MAC also includes Sri Lanka, Australia, Japan, and Spain, and is a step by the countries towards restoring and conserving mangrove forests to help mitigate the effects of climate change.

While India is home to one of the largest remaining areas of mangroves in the world, the Sundarbans, what is the status of the country’s mangrove cover?

A Business Standard analysis shows that in India

area of moderately dense mangrove forests has reduced by 10.68 per cent to 1,481 sq km between 2011 and 2021. Open mangrove area increased by 27.14 per cent, and very dense mangrove area recorded a marginal increase of 5.13 per cent.

Moderately dense forests have a canopy density (including mangrove cover) between 40 per cent and 70 per cent; very dense forests (including mangrove cover) have a canopy density of 70 per cent and above; and open forests have a density of between 10 per cent and 40 per cent (see chart 1).

Overall, the mangrove area in India has recorded an increase of 7.07 per cent to 4,992 sq km in 2021. Analysis shows that Andhra Pradesh has recorded the highest

increase of 69.05 per cent in moderately dense mangrove area between 2011 and 2021. And, Odisha recorded the highest increase of 95.35 per cent in open mangrove area (see chart 2).

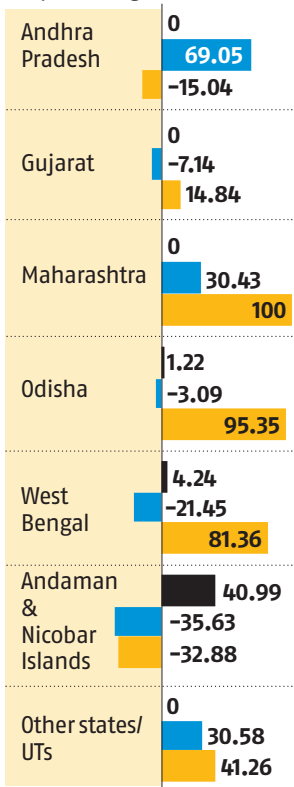
Overall, West Bengal has the highest forest cover under mangroves among the nine states and three Union Territories. However, the area under mangroves in the state declined by 1.90 per cent between 2011 and 2021.

When compared region-wise, data from the Food and Agriculture Organisation of the United Nations shows that Asia has the maximum share of mangrove area in the world. And, according to data from five regions, only North and Central America recorded growth in the mangrove area between 1999 and 2020.

2. CHANGE IN FOREST COVER UNDER MANGROVES BETWEEN 2011 AND 2021

(Figures in %)

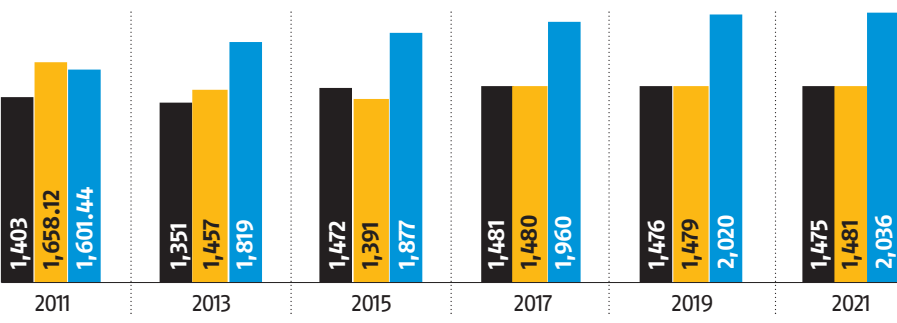
- Very dense mangrove
- Moderately dense mangrove
- Open mangrove



Note: Other states/UTs include Goa, Karnataka, Kerala, Tamil Nadu, Daman & Diu, Puducherry
Source: Forest Survey of India

1. AREA UNDER OPEN MANGROVES HAS GROWN OVER THE YEARS (In sq km)

- Very dense mangrove
- Moderately dense mangrove
- Open mangrove



Source: Forest Survey of India