



SECTION- 7

COMPLIANCE OF REGULATORY REQUIREMENTS IN FORMULATION OF FINANCIAL STRATEGIES

This Section include

- Compliance of Regulatory Requirements in Formulation of Financial Strategies

7.1. COMPLIANCE OF REGULATORY REQUIREMENTS IN FORMULATION OF FINANCIAL STRATEGIES

- 7.1.1 The two major regulatory authorities are the Reserve Bank of India (RBI) and the Securities Exchange Board of India (SEBI). The regulations in the Companies Act, Income tax Act etc are more for governance and compliance than for strategy. RBI mainly regulates the commercial banks which in turn may influence the policies of a company. Some of the situations a finance manager has to face, which requires regulatory compliance are:
- 7.1.2 Raising finance through IPO or SPO: IPO refers to Initial Public Offering; the first time a company comes to public to raise money. SPO refers to seasonal public offering, the second and subsequent time a company raises money from the public directly. There are regulatory guidelines prescribed by SEBI regarding the entire process of going public which includes disclosure to public regarding the potential use of the cash, financial projections and percentage of shares offered to various stakeholders etc. Similarly, every time a company wants to access the capital market, either for raising finance through debt or equity, these regulatory compliances have to be met where finance manager will play a key role in providing the necessary information both at the time of raising resources and also at regular intervals subsequently thereafter.
- 7.1.3 Capital structure changes: Today, companies are permitted to buy their own shares. The finance manager, some times, for strategic reasons, decide to reduce the equity capital. This is technically known as capital reduction, which again requires regulatory compliances prescribed by SEBI and Companies Act.
- 7.1.4 Credit rating: Whenever a company wants to raise money through debt, or through a new instrument, the instrument has to be rated by a credit rating agency like CRISIL, ICRA etc as per the SEBI guidelines. Similarly, company also has to be rated. The whole exercise of initiating the rating process, providing the relevant information and answering the queries of the rating agencies, will be the responsibility of the CFO.
- 7.1.5 Foreign exchange transactions: A company needs foreign exchange for a variety of reasons like importing equipment, setting up of foreign offices, travel of sales and



other company employees etc. Similarly, a company may receive remittances of foreign exchange for exports made. In either of these situations, the rules and regulations relating to foreign exchange transactions needs to be complied with by the Finance manager, on behalf of the organization. It involves some filing of returns in the prescribed format..

7.1.6 Derivative transactions: Whenever a company uses derivatives for hedging, there are accounting and disclosure requirements to be complied with as per Companies Act & GAAP Accounting, accounting standards of ICAI and the international accounting standards. For example, hedge accounting has to be maintained and profits/losses due to hedging should be reported.

7.1.7 Project financing: If a company goes for major project financing option, involving multiple agencies like suppliers, contractors etc, there are a number of requirements for the various stakeholders and financiers like consortium of banks, private equity players, etc. Finance manager plays an important role in complying with the requirements of various agencies involved in the exercise.