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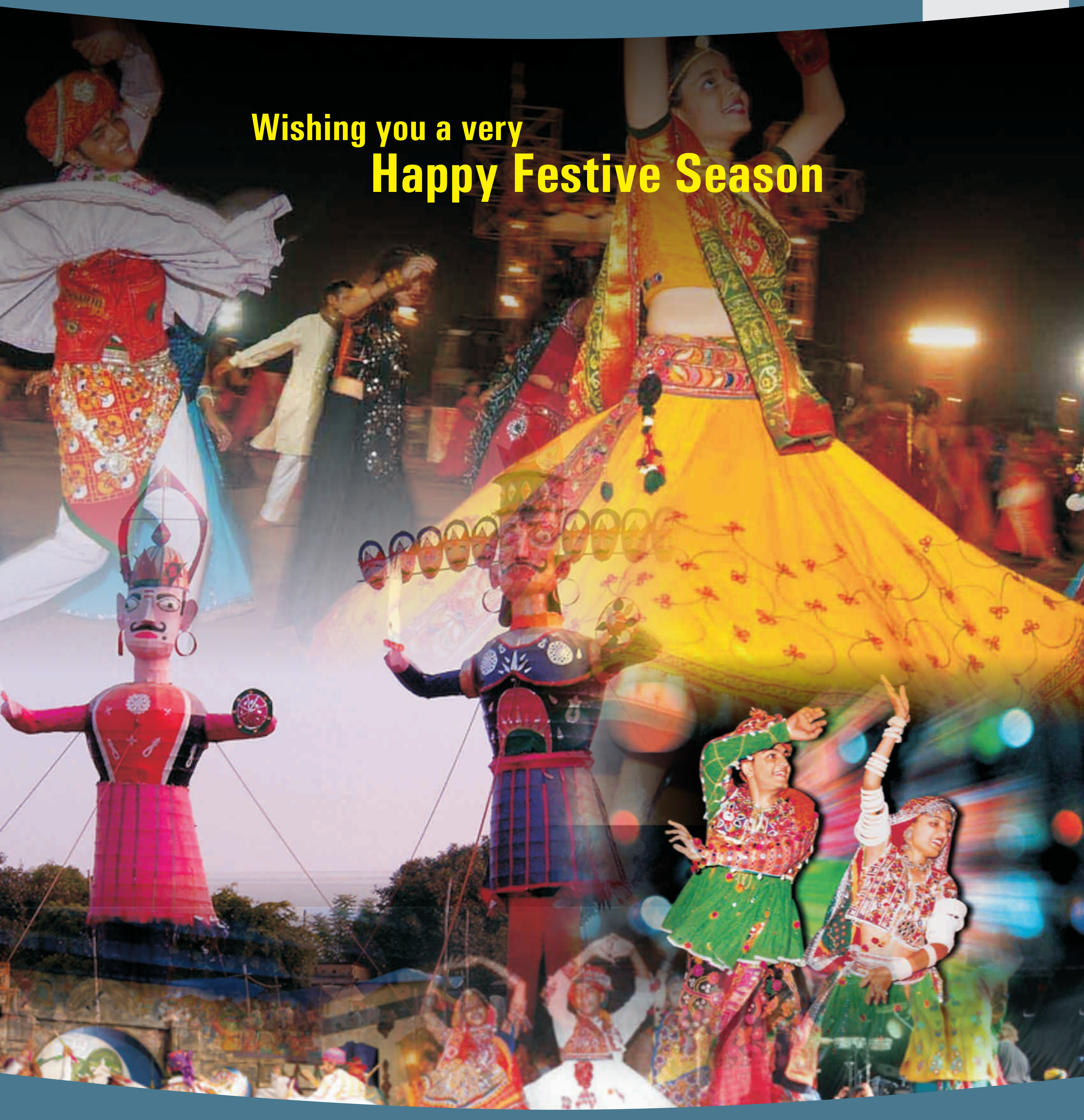
# e-NEWSLETTER

BARODA BRANCH OF WICASA
THE INSTITUTE OF
CHARTERED ACCOUNTANTS OF INDIA



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Students are requested to kindly send article / paper of interest to wicasa.baroda@gmail.com. The same may be published in the newsletter subject to availability of space & editing.

**WICASA orkut COMMUNITY :**

Be a part of the **"WICASA 2010, Baroda"** now also on ORKUT Community. Exchange views and news. Keep updated about forthcoming events of WICASA.

**STUDENTS' STUDY CIRCLE :**

Join now .... where in students can exchange knowledge with the help of group discussion. Contact Mr. Nirav Shah M. 99041 32721

**WICASA HELPLINE :**

Students are invited to send their feedback suggestions or grievances to wicasa.baroda@gmail.com or contact Mr. Jimit Upadhyay M. 89052 39953

# CHAIRMAN'S MESSAGE

Dear Students,

In the month of July 2010, we have organised a successful WIRC CA. Students' Conference with the greatest sense of satisfaction. 500 plus students has reaped the knowledge over 4 technical sessions with 3 special sessions spread over two days and went back enriched and armed with tools to face the challenges in the future. Dignitaries from ICAI including our beloved Vice-president of ICAI Shri G. Ramaswamy graced the occasion.

The motivation for future comes from the success and joy of the present and I must say that we have thoroughly enjoyed putting this conference together with a very hard working team of members and students. We all know that we don't accomplish anything in this world alone ... and the tapestry of this conference is put together with all the weavings of individual threads from one to another in the form of meticulous efforts of all the students and members.

Branch Level Quiz Competition and Elocution Competition took place in the month of July and August 2010 respectively. August month has also seen full day intensive course on how to be successful in Interviews.

Baroda Branch is fortunate to host first ever convocation for Chartered Accountant students in Gujarat. Dr. Ramesh Goyal, Vice Chancellor, MSU was the Chief Guest and Hon. President of ICAI Shri Amarjeet Chopra was the Guest of Honor of the Convocation.

Students have had set back in recent CA exams results, to come out from troubled time and accelerate the efforts of students to get success in examinations, we have organized seminar on Income Tax for Final students and on Service Tax for IPCC students in the month of August and September respectively.

As exams are nearing, all students must be burning candles from both the ends day and night to prepare themselves for welcoming exams better way. I wish all the students best of luck for their preparation and performance in exam.

Yours sincerely,

**CA. Manilal Parsiya**
Chairman, WICASA - Baroda

## EVENT HIGHLIGHTS

### JULY 2010

| Day & Day | Time | Programme/Activity | Subject | Speaker | Venue |
|---|---|---|---|---|---|
| 01.07.2010 Thursday | 09.00 am to 12.00 pm | Foundation Day Celebration | Flag Hoisting and Blood Donation Camp | --- | ICAI Bhawan, Vadodara |
| 01.07.2010 Thursday | 7.00 pm to 09.00 pm | Foundation Day Celebration | Cultural Program - Raga to Rock - Performances by Members, their children and CA Student | --- | Auditorium, ICAI Bhawan, Vadodara |
| 05.07.2010 Monday | 06.00 pm to 08.00 pm | Committee Meeting | Discussion for upcoming programs | --- | Committee Room, ICAI Bhawan, Vadodara |
| 08.07.2010 Thursday | 07.00 pm onwards | Interaction of Students with Vice President CA. G.Ramaswamy | Grand Rehearsal of Entertainment Program of the Conference | | Auditorium, ICAI Bhawan, Vadodara |
| 9th & 10th July 2010 | | WIRC CA. Students' Regional Conference | | | Hotel Surya Palace, Vadodara |
| 09.07.2010 Friday | 10.30 am to 11.00 am | Press Conference | --- | CA. G. Ramaswamy, Vice President, ICAI, CA. Sanjeev Lalan, Chairman, WIRC, CA. Rahul Parikh, Chairman Baroda Branch, CA. Rajesh Shah, Chairman, WICASA | Hotel Surya Palace, Vadodara |
| 16.07.2010 Friday | 11:30 am to 1:00 pm | Career Counseling | Counseling of Students for CA Profession | CA. Manilal Parsiya, Vice Chairman, Baroda Branch of WIRC of ICAI, CA. Chandrika Parsiya, Vadodara | Sant Shri Khetabapa High School, Vithon, Kutch |
| 16.07.2010 Friday | 02:30 pm to 4:00 pm | Career Counseling | Counseling of Students for CA Profession | CA. Manilal Parsiya, Vice Chairman, Baroda Branch of WIRC of ICAI, CA. Chandrika Parsiya, Vadodara, CA. Rajesh Patel, Mumbai | Sheth K. V. High School, Nakhatrana, Kutch. |
| 17.07.2010 Saturday | 08:30 am to 10:00 am | Career Counseling | Counseling of Students for CA Profession | CA. Manilal Parsiya, Vice Chairman, Baroda Branch of WIRC of ICAI, CA. Chandrika Parsiya, Vadodara, CA. Rajesh Patel, Mumbai | GMDC Arts & Commerce Collage, Nakhtrana, Kutch |
| 17.07.2010 Saturday | 10:30 am to 12:30 pm | Career Counseling | Counseling of Students for CA Profession | CA. Manilal Parsiya, Vice Chairman, Baroda Branch of WIRC of ICAI, CA. Chandrika Parsiya, Vadodara, CA. Ashish Patel, Ahmedabad | Kumari Tejal Damji Velani Kanya High School, Nakhatrana, Kutch |
| 19.07.2010 Monday | 04.00 pm onwards | Interaction of Toppers from Baroda of Final Examination held in May and CPT exam held in June 2010 with Media persons | --- | Media Persons & CA. Manilal Parsiya | "JRS Patel & Co." Class Room, ICAI Bhawan, Vadodara |

| Day & Day | Time | Programme/Activity | Subject | Speaker | Venue |
|---|---|---|---|---|---|
| 22.07.2010 Tuesday | 06.00 pm to 07.00 pm | Committee Meeting | Discussion for upcoming programs | --- | 210, Kashivishweshwar Flats, Jetalpur Road, Vadodara |
| 23.07.2010 Friday | 05.15 pm onwards | Branch Level Quiz Competition | Elimination Round | --- | "JRS Patel & Co." Class Room, ICAI Bhawan, Vadodara |
| 24.07.2010 Saturday | 05.00 pm onwards | Branch Level Quiz Competition | Final Round of Branch Level Quiz Contest | --- | "JRS Patel & Co." Class Room, ICAI Bhawan, Vadodara |
| 30.07.2010 Friday | 12.00 pm to 01.00 pm | Career Counseling | Counseling of Students for CA Profession | Mr. Tanmay Buch | M.K.High School, Alkapuri, Vadodara |

## AUGUST 2010

| Day & Day | Time | Programme/Activity | Subject | Speaker | Venue |
|---|---|---|---|---|---|
| 03.08.2010 Tuesday | 10.30 am to 05.30 pm | Full Day Intensive Course | How to be successful in Interviews | CA. Milin Mehta, Past Chairman, Baroda Branch, CA. Bimal Bhatt & Mr. Rajesh Palkar | Conference Hall, ICAI Bhawan, Vadodara |
| 03.08.2010 Tuesday | 10.30 am to 11.30 am | Career Counseling for CA Profession | Counseling of Students | Mr. Tanmay Buch, Treasurer, Baroda Branch of WICASA | Vidhya Vikas Vidhyalaya, Ellora Park, Vadodara |
| 05.08.2010 Thursday | 04.00 pm onwards | Interaction of Toppers of Baroda with Media persons | | CA. Manilal Parsiya, Chairman, Baroda Branch of WICASA and Media persons | "JRS Patel & Co." Class Room, ICAI Bhawan, Vadodara |
| 06.08.2010 Friday | 03.00 pm onwards | Branch Level Elocution Contest | Elocution Contest | | "JRS Patel & Co." Class Room, ICAI Bhawan, Vadodara |
| 12.08.2010 Thursday | 07.30 am to 08.30 am | Career Counseling | Counseling of Students for CA Profession | Mr. Tanmay Buch, Treasurer, Baroda Branch of WICASA | Nutan Vidhyalaya, High Tension Road, Shubhanpura, Vadodara |
| 14.08.2010 Saturday | 02.30 pm to 07.00 pm | Half Day Seminar | Challenges in CA Examination | CA. Ashish Parikh, Treasurer, Baroda Branch of WIRC of ICAI, CA. Pradeep Agrawal, Secretary, Baroda Branch of WIRC of ICAI and CA. S. B. Zaware, CCM, ICAI | Auditorium, ICAI Bhawan, Vadodara |
| 22.08.2010 Sunday | 03.00 pm to 07.00 pm | Lecture Meeting | Issues in Income Tax | CA. Milin Mehta, Past Chairman, Baroda Branch | Conference Hall, ICAI Bhawan, Vadodara |
| 25.08.2010 Wednesday | 05.30 pm onwards | Industrial Visit | Sandesh Ltd. | Sandesh Ltd. Karelibaug, Vadodara | |
| 28.08.2010 Saturday | 05.00 pm to 06.00 pm | Committee Meeting | Discussion for upcoming programs | --- | ICAI Bhawan |
| 30.08.2010 Monday | 10.30 am to 2.00 pm | 2nd Round of Convocation for the Western Region | --- | CA. Amarjit, Chopra, Hon. President, ICAI | Auditorium, ICAI Bhawan, Vadodara |

## SEPTEMBER 2010

| Day & Day | Time | Programme/Activity | Subject | Speaker | Venue |
|---|---|---|---|---|---|
| 04.09.2010 Saturday | 06.00 pm onwards | Committee Meeting | Discussion for upcoming programs | --- | 210, Kashivishveshwar Flats, Tower 5, Jetalpur Road, Vadodara |

| Day & Day | Time | Programme/Activity | Subject | Speaker | Venue |
|---|---|---|---|---|---|
| 18.09.2010 Saturday | 03.00 pm on | Lecture Meeting | VAT & Service Tax wards | CA. Nirav Shah Vadodara | Auditorium, ICAI Bhawan, |
| 25.09.2010 Saturday | 06.00 pm onwards | Students Grievances Forum | Discussion of issues and difficulties faced by the students | --- | ICAI Bhawan, Vadodara |
| 28.09.2010 Tuesday | 6.30 pm to 07.00 pm | Committee Meeting | Discussion for upcoming programs | --- | 210, Kashivishveshwar Flats, Tower 5, Jetalpur Road, Vadodara |

## Forthcoming Events

### Lecture Meeting

**Date** : 07.10.2010 Thursday
**Time** : 06.00 pm to 08.00 pm
**Subject** : Capital Market
**Speaker** : CA. Pathik Patel
**Venue** : Conference Hall, ICAI Bhawan, Vadodara

### Study Circle Meeting

**Date** : 12.10.2010 Tuesday
**Time** : 06.00 pm to 08.00 pm
**Subject** : SAP & ERP Implementation
**Speaker** : Mr. Tanmay Buch
**Venue** : Conference Hall, ICAI Bhawan, Vadodara

### Industrial Visit

**Date** : 19.10.10 Tuesday
**Time** : 05.00 pm onwards
**Venue** : To be decided

### Diwali Milan

**Date** : 13.11.2010 Saturday
**Time** : 7.00 pm onwards
**Subject** : Live Entertainment Program
**Venue** : ICAI Bhawan, Vadodara

### Industrial Visit

**Date** : 27.11.2010 Saturday
**Time** : 08.00 am onwards
**Subject** : Akshay Patra Kitchen
**Venue** : Akshay Patra, Dharampura, Vadodara

### Study Circle Meeting

**Date** : 30.11.2010 Tuesday
**Time** : 06.00 pm to 07.30 pm
**Subject** : To be decided
**Speaker** : To be decided
**Venue** : ICAI Bhawan, Vadodara

### Industrial Visit

**Date** : 02.12.2010 Thursday
**Time** : To be decided
**Subject** : To be decided
**Venue** : To be decided

### Joint Program with M S University Baroda

**Date** : 04.12.2010 Saturday
**Venue** : C C Mehta Auditorium, M.S.University, Vadodara

### Sports Festival

**Date** : 19.12.2010 Sunday
**Venue** : To be decided

### Youth Festival

**Date** : 25.12.2010 Saturday
**Venue** : ICAI Bhawan, Vadodara

## Five ways to be happy with yourself

Complied by Abhishek Jain

1. Don't take others too seriously. Try to understand that no one is perfect. If you feel that someone is being overtly critical then be frank and point it out to that person.
2. Accept the fact that you are made a certain way. If you aren't happy with your weight or looks, try and improve on it. But don't put your self down.
3. Don't try to blend in with others. Just because all the people in your group are wearing saris for a wedding, you don't have to do the same. Wear what you are comfortable in. If you are comfortable in your skin, you will exude a certain confidence that will make you attractive to others.
4. Don't put up with any kind of bullying. Whether it's in your college, work or home, make sure that you put forth your point of view firmly. It's great to adjust, but not at the cost of changing yourself drastically.
5. If you are happy with yourself, then you will be sure of your thoughts and beliefs. You may not follow the herd mentality, but at the same time, you won't end up being different just for the heck of it.

If there is one thing equally sought by all, it is happiness.

All beings constantly endeavour to seek more happiness through new means of comfort. Science, religion and spirituality all aim at making human beings happier and, therefore, these are not contradictory paths that are at loggerheads with one another. The three paths are complimentary, being the essential attributes of the three dimensions of human existence, relating to body, mind and soul.

We have three kinds of bodies – the gross or physical body, the subtle or mental body also known as the psyche and the causal body or soul. When these three bodies combine, a new life is born. The causal body acts as storehouse of all action, thought and desire and causes the subtle body to combine with gross body, suitable to bear the fruit of what has been stored. It is like a software programme that is inscribed on the psyche for directing and guiding the physical body accordingly. The combining of the physical body and mental body is called birth and their separation is called death.

The characteristic qualities of physical body are movement and growth. Through its faculties of sight, hearing, smell, touch and taste, the physical body gathers impressions of things all around it. All things in the world are transitory in nature, continuously acquiring different forms and states of existence. The human body gathers impressions about them through the five senses. The knowledge that is gathered by the senses falls in the arena of science. Scientific knowledge is thus based on the analysis of information gathered by the senses, which can be subject to scrutiny and verification using physical means. This is why scientists find it difficult to believe in those things, which cannot be proved through experimentation or cannot be perceived through the senses.

Science presents us with various means of comfort for deriving happiness but true happiness really lies in the mind. A child derives immense pleasure from his toys. As he grows older, he loses interest in them and seeks new means of pleasure. His happiness now lies elsewhere. It is not the objects but the state of mind that relates to true happiness. The mind is constantly fed by the senses. It receives impressions, stores them and reacts to them. If the mind is not focused it does not register impressions.

The characteristic qualities of mind are thinking and knowing. All religions advise us to avoid vices and acquire virtues according to the need of the society and circumstances in which one lives. The purpose of all religions is to train the mind so as to remain unaffected by the transitory nature of things. Religion teaches us to rise above pride and prejudices and to acquire equanimity so that we can understand and perceive things as they are. A stable mind, which has acquired equanimity, makes one really happy in all circumstances.

Spirituality means to dwell in the domain of Truth – that is, to know the real nature of things beyond their transitory nature. It leads to acquiring knowledge of the all-pervading Self and knowing the Self as the source of all happiness and bliss. Then, we come to the end of our quests. Knowledge is in discrimination, in distinguishing between different things or events. With Self-realisation one attains the highest level of knowledge, of non-duality -- that he himself is the source of all bliss. Thus concludes our search for happiness outside.

**Perils of over confidence**

Confidence is good, but overconfidence is not. When you become overconfident, you tend to take great risks. If you fail, that might pull you down as it is not in your capacity to overcome such problems. It is like fighting against the laws of nature.

Why does a person become overconfident? The reason lies in over-assessment of his capabilities. Sometimes people over-assess their competence and jump into situations that are beyond their control.

Napoleon Bonaparte who became emperor of France, would say that the word 'impossible' was current only amongst fools. The overconfident Napolean invaded Russia in the winter of 1812. Although the Russian army at that time was not very strong, the severe cold proved to be fatal for Napoleon's army – it was caught in a hailstorm and because of this most of his army personnel perished before even entering Moscow.

Most leaders and generals who have either lost their ability to lead or win came to that state on account of over confidence. Overconfidence generally leads people into misadventures, jeopardising their prospects.

According to the divine scheme of life, any achievement is a result of two factors – one's personal planning and support from the external world. The share of personal planning is less than 50 percent while the share of outside factors is more than 50 percent. It is this fact which makes overconfidence untenable in this world. People, thanks to their obsessions, take into account only their planning, generally ignoring external factors. They become unable to foresee future developments. Hence the great risk of failure.

I know an educated person who was in a government job then. But because of his political ambitions, he resigned from service and threw himself into the arena of politics. This political adventure proved to be beyond his grasp and he was defeated in the elections. He lost both his job in the government as well as the assembly seat he was contesting for.

Then there is the question: of how one can manage overconfidence. The formula is very simple. Before taking a decision, discuss the matter with other informed people with an objective mind and when it is proved that you are about to go off the path, accept reality and say without delay: "I was wrong."

Overconfidence is a flaw characterizing such people as lack the virtue of modesty. Modesty makes you a realist; you become a person who is cut to size. People of this kind become very cautious; before taking an action they assess the whole situation. They adopt a realistic approach. They are able to discover their own shortcomings. This psyche serves as a self-controlling element in their lives, enabling them to save themselves from untoward happenings.

Overconfident people live within their own thoughts. They know themselves but they are unaware of others. Living inside their own cell; they are unable to make use of the experiences of others. This kind of habit is highly damaging to all concerned, disastrous for all men and women.

There is a saying that the young man sees the rule and the old man sees the exception. With a slight change, I would like to say that the overconfident person sees the rule and the confident person sees the exception. Overconfident people always live in risks. It is said that taking risks is good. They say: no risk, no gain. But risk must be a well-calculated risk otherwise risk becomes very dangerous

Who doesn't wish for happiness? Can money buy happiness? Do great achievements bring true happiness? Riches, success and achievements may bring name, fame and pride, but they do not always bring happiness.

If lack of money and success creates sorrow and suffering, their possession does not give happiness either. The question then is how can you be peaceful and happy, irrespective of whether you are a success or failure in life?

Krishna says in the Bhagvad Gita: "There is neither intellect nor bhavna (feeling for God) for the ayukta or the one who is not united, and to one devoid of bhavna , there is no peace. To the one without peace, how can there be happiness?" Krishna says, clearly, that unless a person is tuned into God he cannot have peace and without peace, he cannot be happy. Krishna also says that an un-united person does not have intellect.

So if you want happiness, unite with God. For this, you don't have to abandon the pursuit of riches, success and achievements. God is self-knowledge and wisdom of sameness towards all beings because all are God. An egocentric person remains alienated from wisdom that is God. If you are free from ego, you look at all beings as God and so are united to the wisdom that is God. You will be free of sorrow and will attain peace and happiness.

Krishna says that we do not have right to the fruits of action and, therefore, we should perform actions, leaving the fruits to God. How can you avoid worrying about the fruit while performing actions? When a person regards the fruits of action (success or failure) as 'mine' and performs focused on the object, he is automatically worrying about the fruit.

Moreover, in doing so, he fails to abide the law of God, which says that one does not have right to the fruits. What you have to really do is to steady your intellect with the thought that the fruits of actions are of God. And when the fruit accrue in the form of success or failure, joy or sorrow, you have to mentally renounce the fruit to God. Since you do not contemplate the objects, you will not be attached to them. You will break the chain that starts with attachment and gives rise to desire, anger, delusion, confusion of memory, loss of intellect and death. Your intellect will become steady.

Krishna calls the wisdom of steadying your intellect by renouncing the fruits of action to God as Buddhi-yog or discipline of intellect. In this state you can be freed from constant births in different bodies. If you don't, you are bound by actions. You lose your intellect due to attachment, desire and anger and perish, only to take another birth in a new body.

To steady our intellect we have to bring change in our thoughts. We have to remain engaged in usual actions and enjoyments as earlier but with a steady intellect fixed on the thought that all fruits of action are of God. This will free us from desire and ego, and gain eternal peace and happiness.

The same wisdom that will give peace and happiness to us will also give us Self-realisation and make us immortal. It will lead our world to a new age where we will live in peace, happiness and oneness, realising that we are in union with God.

## LEADING RATES IN INDIA Complied by Pratik Patel

### A View

Steps to liberalize interest rates started in the late 1980s. However, the reforms did not gain momentum until mid-1992 when rates of interest in India were gradually decontrolled in a variety of ways. As on date, Indian banks are free to decide the lending rates which they charge to their borrowers, except DRI (Differential Rate of Interest). And like in any free market, the price is determined by the interplay of demand and supply. In modeling a particular rate of interest, the objective is to explain the behavior of the designated rate on a given financial appliance. Analytically, the rate is taken as the equilibrium yield on the given appliance determined by equilibrating its demand and supply.

### Introduction

Interest rates play a very crucial role in economy. It acts like a throttle on economic expansion. Interest rates veering too high or dipping too low can spell trouble and can become a cause for concern for credit quality and financial stability. Interest rates directly affect the credit market because higher interest rates make borrowing more costly. To avert any possibility of such a disaster, Reserve Bank of India (RBI) introduced BASE RATE system to replacing the Benchmark Prime Lending Rate

(BPLR) system to reduce the multiplicity and complexity of interest rates.

Banks set different lending rates on loans to different categories of borrowers and on loans for different purposes in light of instructions given by the Reserve Bank of India. The regulation of interest rates was mostly undertaken with a view to maintain them at a low level which, in turn, was regarded necessary for certain purposes. In a planned economy, the priorities and objectives of development are determined by the authorities. If the course of development is to be in keeping with these priorities, the provision of credit with certainty and at low cost in the desired direction becomes necessary. Like we see that the RBI require banks to lend to certain sectors of the economy. Such directed lending comprises priority sector lending, export credit and housing finance. In the Indian context, there has been striking efficacy with which policy rates have impacted money and government securities markets. The effective control over lending rates of banks is also necessary; (a) To avoid unhealthy competition for borrowing, (b) To maintain a kind of uniformity of interest rates, (c) To enable the authorities to avoid frequent changes in the Bank Rate. According to business and industry, high cost of credit has pushed up cost of production of business units, which was injured their profit prospects and reduced their competitive strength in the international markets. Similarly, if the interest rates continue to rule high, it would be difficult to fight industrial recession successfully.

So the Administration system of interest rates had been adopted with a view to maintain interest rates stable and at optimum levels. The system was also expected to enhance the predictability and efficiency of monetary policy.

**Stance of Policy**

Reserve Bank of India began prescribing the minimum rate of interest on advances granted by Scheduled Commercial Banks with effect from October 1, 1960. In March 2, 1968, in place of minimum lending rate, the maximum lending rate to be charged by banks was introduced, which was rescinded with effect from January 21, 1970, when the prescription of minimum lending rate was reintroduced. The ceiling rate on advances to be charged by banks was again introduced effective March 15, 1976, and banks were also advised, for the first time, to charge interest on advances at periodic intervals, that is, at quarterly rests.

Given the prevailing structure of lending rates of Scheduled Commercial Banks, as it had evolved over time, characterized by an excessive proliferation of rates, in September, 1990, a new structure of lending rates linking interest rates to the size of loan was prescribed which significantly reduced the multiplicity and complexity of interest rates.

An objective of financial sector reform has been to ensure that the financial repression inherent in administered interest rates is removed. Accordingly, in the context of granting greater functional autonomy to banks, with effect from October 18, 1994, RBI has deregulated the interest rates on advances above Rs.2 lakh and the rates of interest on such advances are determined by the banks themselves subject to BPLR and Spread guidelines. For credit limits up to Rs.2 lakh, banks should charge interest not exceeding their BPLR. Keeping in view the international practice and to provide operational flexibility to commercial banks in deciding their lending rates, banks can offer loans at below BPLR to exporters or other creditworthy borrowers, including public enterprises, on the basis of a transparent and objective policy approved by their respective Boards. Banks will continue to declare the maximum spread of interest rates over BPLR. Following the deepening of the global financial crisis since September 2008, the Reserve Bank took several measures to bring down the policy rates to step up the liquidity in the system.

Banks are now required to obtain the approval of their respective Boards for the Benchmark Prime Lending Rate, which would be the reference rate for credit limits of over Rs.2 lakh. Each bank's BPLR has to be declared and be made uniformly applicable at all branches.

Banks are free to determine the rates of interest without reference to BPLR and regardless of the size in respect of loans for purchase of consumer durables, loans to individuals against shares and debentures / bonds, other non-priority sector personal loans, etc.

But the BPLR system has been drawing flak from various quarters since banks have been lending to highly-rated corporate below their benchmark rate, making the system irrelevant. The BPLR system failed to achieve what it was originally intended for – transparency in lending rates charged by banks.

Phases of Interest Rates Policy

The period since 1951 can be divided into the following five phases of interest rates policy (system) in India:

| | | |
|---|---|---|
| i) | 1951 – 52 to 1960 – 61 | Flexible interest rates system. |
| ii) | 1961 – 62 to 1985 – 86 | The system of administered, regulated, and repressed or suppressed (low) interest rates. |
| iii) | 1986 – 87 to 1990 – 91 | The beginning of liberalization or the system with inclination or intend towards liberalization and flexibility, or a semi- |

| | | |
|---|---|---|
| | | administered system with the inching up of interest rates. |
| iv) | 1991 – 92 to 1996 – 97 | The system of progressive deregulation and flexibility, and a significant increase in and unprecedentally high interest rates, or the phase of deregulation and dear money. |
| v) | Form 1997 – 98 | The system of managed flexibility with nearly complete deregulation, and one of the lowest levels of interest rates in India, or the phase of cheap money. |

**Recent Initiative**

**Base Rate**

The Reserve Bank of India committee on reviewing the benchmark prime lending rate has recommended that the nomenclature be scrapped and a new benchmark rate known as BASE RATE should replace it.

Now, the RBI has come up with guideline recommendations for banks to adhere to with effect from July 2010.

Now from July 2010 Banks determine their actual lending rates on loans and advances with reference to the Base Rate. Base Rate shall include all those elements of the lending rates that are common across all categories of borrowers. While each bank may decide its own Base Rate, some of the criteria that could go into the determination of the Base Rate are:

(i) cost of deposits;

(ii) adjustment for the negative carry in respect of CRR and SLR;

(iii) unallocatable overhead cost for banks such as aggregate employee compensation relating to administrative functions in corporate office, directors' and auditors' fees, legal and premises expenses, depreciation, cost of printing and stationery, expenses incurred on communication and advertising, IT spending, and cost incurred towards deposit insurance; and

**(iv) profit margin.**

Base Rate = Cost of Deposits + Negative Carry on CRR and SLR + Unallocatable Overhead Cost + Average Return on Net Worth.

- Negative carry on CRR and SLR balances arises because the return on CRR balances is nil, while the return on SLR balances (proxies using the 364-day Treasury Bill rate) is lower than the cost of deposits.
- Unallocatable Overhead Cost is calculated by taking the ratio of unallocated overhead cost and deployable deposit.
- Average Return on Net Worth is computed as the product of net profit to net worth ratio and net worth to total liabilities ratio expressed as a percentage.

The actual lending rates charged to borrowers would be the Base Rate plus borrower-specific charges, which will include product-specific operating costs, credit risk premium and tenor premium.

**Impact of BASE RATE System**

All categories of loans should henceforth be priced only with reference to the Base Rate. The Base Rate could also serve as the reference benchmark rate for floating rate loan products, apart from the other external market benchmark rates. The floating interest rate based on external benchmarks should, however, be equal to or above the Base Rate at the time of sanction or renewal. By changing the structure of interest rates RBI tries to achieve maximum employment, stable prices, and a good level of growth.

The base rate will be applicable to all new loans as well as existing loans which come up for renewal. Accordingly, the current requirement that BPLR will be the ceiling rate for loans up to Rs 2 lakh will stand withdrawn. Since the Base Rate will be the minimum rate for all commercial loans, banks are not permitted to resort to any lending below the Base Rate.

Interest rates on loans under the DRI scheme will continue to be fixed without reference to the Base Rate. The Reserve Bank will also separately announce the stipulation for export credit.

Since transparency in the pricing of lending products has been a key objective, banks are required to exhibit the information on their Base Rate at all branches and also on their websites. Changes in the Base Rate should also be conveyed to the general public from time to time through appropriate channels. Banks are required to provide information on the actual minimum and maximum lending rates charged to major categories of borrowers to the Reserve Bank on a quarterly basis. Apart from transparency, banks should ensure that interest rates charged to customers in the above arrangement are non-discriminatory in nature.

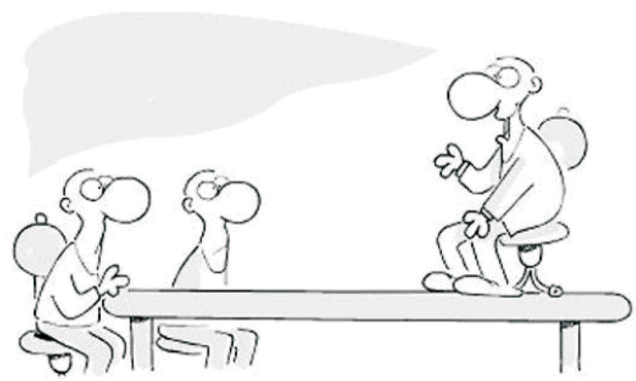
It is expected that introduction of the BASE RATE system of lending rates will leads to increase the credit flow to small borrowers at reasonable rate. Thus, direct bank finance will provide effective competition to other forms of high cost credit as well as escort for smooth operation of business and this is in turn stimulate economic growth.

## COOL CORNER

"If you haven't already guessed, this is Peterson from corporate. He's here to make some drastic cuts in personnel."

"Our company Web site is finally finished. Now, if each of you will kindly donate 4 year's salary, we just might break even."

"Everything on your resume was lie. I like that. Welcome to sales!"

"I'm the Boss! I can do whatever I want!"

"We have developed a highly sophisticated system for firing employees."

## MEGA EVENT

**BARODA BRANCH OF WICASA**

**The Institute of Chartered Accountants of India**

(Set up under an Act of Parliament)

&

Accounting & Finance Students' Association, Department of Accounting and Financial Management

The Faculty of Commerce, The M. S. University, Baroda

presents

Jt. Seminar on

**Emerging Trends in Accounting, Finance & Taxation**

Saturday, 4th December, 2010

## GLIMPSES

Half Day Seminar on Challenges in CA Examinations

2nd Round of Convocation program of the Western Region

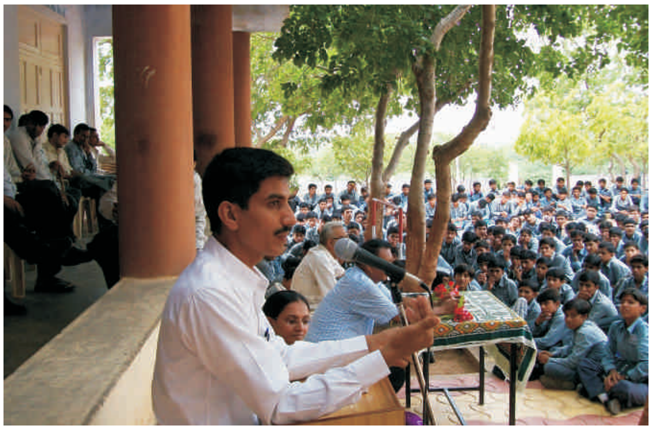
Flag hosting ceremony on ICAI Foundation Day


Cultural Program – Raga to Rock on Foundation Day

Elocution Competition

Blood Donation Camp

Talk on Issues in Income Tax by CA. Milin Mehta



Career Counselling at Kutch

## WIRC CA STUDENTS" REGIONAL CONFERENCE