

BusinessLine

TUESDAY, AUGUST 22, 2017

Virtual control

The Centre can no longer ignore bitcoins and needs to frame regulations to monitor their use

Bitcoin, the world's most popular virtual currency that was first mined in 2008, can no longer be ignored as just another passing geek fad. The market capitalisation of bitcoins currently stands at \$67 billion and daily traded volumes crossed \$2 billion last week. The frenzy has been driven by the sudden surge in bitcoin value from \$935 in March this year to \$4,159 currently — an over threefold increase in four months. This rally in bitcoin value is attracting droves of investors and speculators who are now beginning to get vociferous about governments legalising the use of such virtual currencies. The RBI has so far adopted a conservative approach in dealing with virtual currencies, cautioning investors about the risks in 2013 and recently releasing a statement saying that the bitcoin exchanges in the country are operating without the central bank's permission and that anyone dealing in these currencies are doing so at their own risk. The inter-disciplinary committee set up by the department of economic affairs to evaluate bitcoins has, however, gone one step further and is looking at ways to regulate these currencies.

The committee is right in ruling out legalising these virtual currencies, designed to remain beyond the purview of regulators. They are created through a process called mining by those solving complex algorithmic equations. Every bitcoin transaction is recorded and verified in open ledgers called block-chains and those creating or buying them store them in digital wallets. Thus it is not possible to control their issue, storage or exchange. Since the value of these currencies is not linked to any underlying asset, it tends to get extremely volatile — the sharp increase in recent months is a case in point. Price declines too tend to be sharp. Price volatility makes these cryptocurrencies inappropriate as stores of value or mediums of exchange.

That said, there cannot be a regulatory vacuum in governing these virtual currencies, given the burgeoning user base. Countries such as Japan and Australia are currently trying to frame rules to regulate bitcoin exchanges and dealers. The Japanese government has laid down that all bitcoin trading exchanges and money transfer units have to register with the Japanese regulator, FSA, by October 1. China cracked down on bitcoin trading exchanges earlier this year, forcing them to improve their processes. Australia has moved the regulation of bitcoin exchanges to Austrac, its financial crime fighting agency. India too needs to move along these lines. Bitcoin exchanges in India need to move under the purview of SEBI with the stock market regulator framing rules for registering exchanges, KYC procedures for those trading on the exchanges and means to record the bitcoins that enter into the system. Other activities involving bitcoins such as money transfer, usage for online retail transactions, etc, have to be monitored by the RBI with assistance from the Financial Intelligence Unit that will watch out for money-laundering activity using these currencies.

Does a rate cut lead to a currency dip?

Not necessarily. It depends on rate of inflation, equity flows, monetary policy spillovers and politics, among other factors

ROHAN CHINCHWADKAR

In recent times, the Reserve Bank of India and its leaders have risen to celebrity status in India. Former governor Raghuram Rajan was the first to receive titles like 'Rockstar' and 'Bond of Mint Street' in India's public discourse. He too seemed to acknowledge the accolades in a monetary policy press conference, when he said, "I am Raghuram Rajan and I do what I do."

Whether a rate cut is expected or not, there is always a huge buzz around RBI's monetary policy announcements, and the recent one was no exception.

Predictable confusion

On August 2, 2017, the RBI cut the policy repo rate by 25 bps (1 per cent) to 6 per cent, amid building pressure from different stakeholders as headline inflation dropped to a historic low of 1.54 per cent in June 2017. From the constant chatter on mainstream and social media, I observed that commentators seemed perplexed about one question, "If the RBI is cutting interest rates, shouldn't that lead to depreciation of the Indian rupee?"

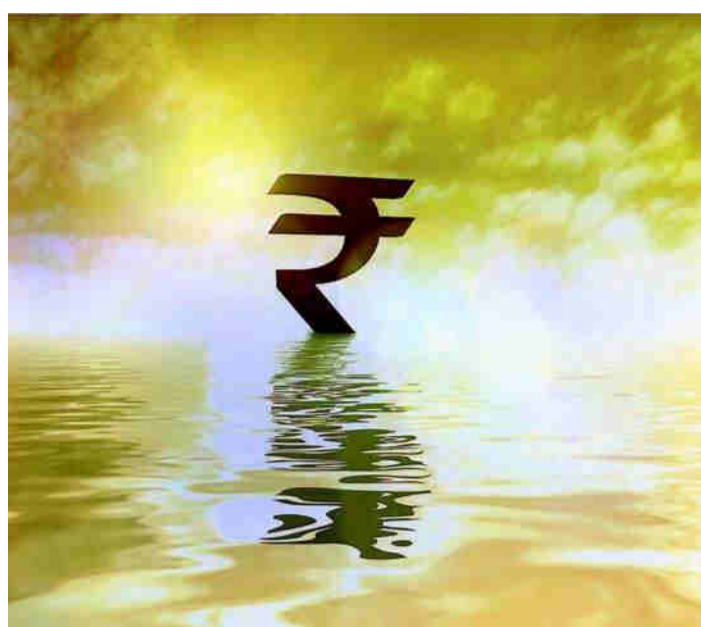
The confusion of course emerges from a well-known theory in neo-classical international finance called the 'uncovered interest rate parity' (UIP). The UIP aims to predict the spot exchange rate of a small open economy with a fully-floating currency. It states that the expected change in the exchange rate between two countries' currencies should equal the difference between interest rates in those

countries. According to the UIP, an interest rate cut makes the home country's fixed income securities less attractive and capital flows out of the country, depreciating the home currency.

Many market participants assume that the UIP holds, and that too at all times. For those observers, exchange rate movements around the rate cut must've been severely confusing. In spite of most analysts predicting a rate cut on August 2, the rupee appreciated against the dollar by 0.4 per cent from morning till 2 pm, with the exchange rate reaching a 3.5-month low. Just before the announcement, a senior research analyst at Bloomberg Quint said, "If an interest rate cut comes in, it will be taken negatively for the rupee, we could see some depreciation, because the interest rate differential between INR and USD narrows." It was an obvious reference to the UIP. However, after the announcement at 2.30 pm, the rupee appreciated by a further 0.3 per cent, making it a 0.7 per cent appreciation in a single day.

Some explanations

A few factors can explain this conundrum. For one, there is a simple mistake in understanding the variables of the UIP. The UIP is a relationship between real exchange rate and real interest rate differential, not nominal rates. Real rates are nominal rates adjusted for inflation. Since inflation in India has decreased significantly over the past few months, the real interest rate has actually risen and a 25-bps rate cut is not enough to offset the impact of a crash in inflation. In fact, at 4.5 per cent, India



Swim or sink? Impact of a rate cut on the rupee is uncertain. F. SJSHUTTERSTOCK.COM

has the highest real interest rate in Asia by a margin, with China in second place at 3 per cent.

To solve the conundrum completely, we need to understand certain limitations of the UIP model. First, the UIP assumes that the exchange rate is driven purely by fixed income flows via carry trades and completely ignores equity flows. However, equity inflows have become significant, accounting for 38 per cent of total net purchases by Foreign Institutional Investors (FIIs) in India over the last 12 months. In such an environment, a model which only looks at fixed income flows may not give a correct answer.

Second, the UIP ignores the fact that the international monetary system is hierarchical, with the dollar as the global reserve currency. In the post-Bretton Woods system, the

US is the 'centre' country with certain structural advantages and India is a 'peripheral' country. Thus, US monetary policy decisions spill over to India in the form of capital flows. However, US monetary policy uncertainty, one of the reasons for a weak dollar right now (and hence appreciating rupee), is outside the scope of the UIP.

Third is the impact of political factors. The UIP assumes that in countries with flexible exchange rates and no capital controls, political developments do not affect the exchange rate. However, another important reason for the ongoing weakness in the dollar is the Trump administration and its policies. In line with the 'America First' policy, in early 2017 President Trump signalled that he preferred a weak dollar because it would aid American companies sell products abroad.

Since the beginning of this year, the dollar has weakened by around 6.6 per cent against the rupee. In a recent article titled 'Political drama is hitting the dollar hard', Bloomberg reports, "The relationship (between politics and exchange rate) has grown stronger in an era of quantitative easing, which has distorted the bond and stock markets. Hence, currency traders are more attuned to political developments."

Critical assumptions

All models in the social sciences are developed with certain assumptions in the background. Some assumptions are more important than others because their violation significantly changes the results of the model. Addressing the issue in his book, *Economics Rules*, Harvard economist Dani Rodrik calls them "critical assumptions".

It is important to remember that reliable conclusions can be derived from models only when the critical assumptions approximate reality. When they don't, we should look for models which make assumptions better suited for the context.

What, then, is the correct answer to the question, "Does a rate cut lead to currency depreciation?" It depends — on equity inflows, capital flows driven by monetary policy of the 'centre' country and political developments, among other factors.

When these factors dominate, it is not a good idea to rely completely on the UIP for the answer. As Dani Rodrik says, "The correct answer to almost any question in economics is: It depends. Different models, each equally respectable, provide different answers."

The writer is an assistant professor at IIM Trichy

All fired up by statues

Whether it's the US or India, they reflect larger identities and the social character of the spaces in which they find themselves



NARENDAR PANI
CITYZEN

Statues — those seemingly lifeless forms that most people take for granted when visiting a city — often turn into a political fire that can prove difficult to control. The statues Mayawati built have continued to haunt her political career. And just in case you thought that this was some uniquely Indian feature, the US is now providing ample evidence that the problem is rather more universal than that.

The conflict in Charlottesville over the removal of a statue of a pro-slavery Confederate general has brought on the national stage the conflict between White Supremacists and Neo-Nazis on one side and liberals of various hues on the other. With President Trump choosing to demonstrate to his supporters on the far right that he hasn't completely abandoned them, the flames have been fanned

at a time when the president was expected to douse them. As a result he has added statues and their politics to a long and growing list of areas where he is out of his depth.

Underestimating the potential

To be fair to Trump, it is not unusual for politicians to underestimate the potency of statues as a political instrument. Very often they are just seen as independent celebrations of individuals or principles. When the majority of a society moves beyond those beliefs it is only to be expected that there will be a clamour for the removal of those statues. Given the deeply felt attitudes to civil rights in large sections of the American population it is only to be expected that civic bodies would sooner or later vote to remove statues of individuals associated with slavery.

Statues and the people they portray are, however, rarely only about a particular set of ideas the person held. They are also about a larger identity. In the case of statues of Confederate generals in the US they are also about southern states who may still feel anger about the loss of a civil war. This could hurt anyone with a regional identity even if they have long rejected the pro-slavery position on which that war was fought.



Shameful history Can it be wiped out? AP

Statues in prominent places in a city could also affect the very character of that urban centre. For those who have grown up in that urban setting the sudden removal of a prominent statue could be seen as a break from how they see the city; a break from the past. This discomfort was tapped by Trump when he referred to the beauty of the statues. And the far right took it as justification for the anger they were eager to generate; an anger that took on an anti-Semitic character.

The political life a statue can take is widely recognised in India. It is not just the removal of a statue that can cause a riot but also the emer-

gence of a new one. There is much greater awareness of statues as instruments of identity.

About civic consciousness

The response to this recognition in India is not always helpful in building a civic consciousness. Each group tries to assert its identity in the part of the city it occupies by putting up a statue of a personality that it identifies with. The groups and their interests being varied, so are the personalities their statues portray. Even within a single regional identity like the Marathi one there could be a consciousness associated with Chhatrapati Shivaji

and another associated with Ambedkar. Add to this the effects of migration and the tendency for migrant groups to set up statues of their own in the places they live in, and the city develops a highly segmented character.

Indian cities try to address the absence of a single civic identity with majoritarian methods. There is a widespread view that the identity of the majority must prevail. Such a principle is not always practical. There is the question of which majority to take.

Those who would like to go with national majorities would prefer all cities to provide a prominent place to Hindi and personalities associated with it. Others might choose to go with a regional majority. This can lead to battles over the relevant symbols as in the debate on Karnataka having its own flag, or in the metros in southern cities opposing the use of Hindi.

The way out would be to develop an identity of a city that is unique and represents all its citizens. This is a challenge that is often beyond the capabilities of not just Indian cities but also those in developed parts of the world.

The writer is a professor at the School of Social Science, National Institute of Advanced Studies, Bengaluru

OTHER VOICES



Barcelona: solidarity goes beyond victims

Spain's national cohesion faces more stresses than in most European countries. At least eight of the terrorists appear to have grown up in one small town, Ripoll. The small community, where one in 10 residents is a migrant, is in a state of shock to discover that football-loving kids who appeared comfortable with their Spanish identity set out on such a murderous course. There are plenty of people who believe there is a link between terror and refugees. LONDON 20 AUGUST 2017



China Quarterly debate a matter of principle

Western media outlets recently reported on an e-mail from (the) editor of journal *The China Quarterly*, (revealing) that publisher Cambridge University Press had complied with a Chinese request to block access to more than 300 articles, mostly about the 1989 Tiananmen incident, the Cultural Revolution and "Tibetan independence". China has blocked information that it deems harmful. This is within the scope of China's sovereignty. If Western institutions don't like (it), they can stop engaging with us. BEIJING 20 AUGUST 2017

THE AGE

Rise of electric cars

Of the 1,145,024 new cars sold in Australia last year, a mere 219 were electric and 12,625 hybrid. Yet all cars sold in Australia are likely to be purely electric far sooner than such starkly contrasting numbers might suggest. The issue is not whether the internal combustion engine, one of the most transformative technologies in history, is set for extinction, but how fast and how well the transition to electricity happens. MELBOURNE 20 AUGUST 2017

LETTERS TO THE EDITOR

Send your letters by email to bleditor@thehindu.co.in or by post to 'Letters to the Editor', The Hindu Business Line, Kasturi Buildings, 859-860, Anna Salai, Chennai 600002.

The Infosys mess

This is with reference to 'Infosys and the NRN sinkhole' by Raghuvir Srinivasan (August 21). There is nothing wrong with Murthy's interference in and criticism of the functioning of Infosys. After all Infosys was his brain child. Boosting employees' morale is important in an organisation; this boosts productivity and this is what a good leader is expected to do. Also, India needs entrepreneurs like Murthy and organisations like Infosys to show that you need not be born with a silver spoon. India needs more Narayana Murthys.

Veena Shenoy
Thane, Maharashtra

Infosys or any other business can do with founders' occasional advice but not nagging interference. The idea after all was to ensure that the company is driven by fresh energetic hands that can dar-

ingly steer an astute course for growth in a highly competitive field. Founder sentiments have their place but cannot be allowed to blind vision, to the detriment of stakeholders.

R Narayanan
Ghaziabad, Uttar Pradesh

It is unfortunate that what could have been handled within the four walls of a board room, has led to washing dirty linen in public. To a certain extent, at some point of time, the chief of the board admitted to some wrongdoing with an assurance of not repeating it. What Narayana Murthy wants is transparency, accountability and good governance. It would be ideal for Infosys to bring back Nandan Nilekani to walk the tight rope between the founders' values and envisioning futuristic growth and governance.

RS Raghavan
Bengaluru

Murthy is giving the impression of a craftsman quarrelling with his tools. He will find it more difficult to get a really capable replacement. Whatever he does to salvage the image of the company will be inadequate.

YG Chouksey
Pune

Understandable apprehensions

The apprehension of some experts that the promoters of the 12 big companies which have been referred to the NCLT for recovery of dues to lender banks may try to manipulate the system is not misplaced. The investigating agencies must probe the diversion of funds, also check the sources of assets acquired in the name of the promoters as well as benami accounts, and their relatives' assets. Where money has been siphoned off, the companies must receive stringent punishment. Courts should make it clear that their

forum will not be misused by promoters trying to manipulate the system.

The challenge lies in finding assets that were not attached or known. Some assets might have been created in foreign countries in others' names. All this is important because it should be ensured that the lending banks' haircuts in these 12 cases must be minimum. Banks must not be jeopardised.

TSN Rao
Bheemavaram, Andhra Pradesh

Traumatic experience

As a victim of a rail mishap myself several years ago, I understand the mental state of those who miraculously survived the accident near Khatauli in UP leaving 25 people dead and several hundreds injured. It takes years to recover from such a traumatic experience. The fact that it appears to be a case of human error and ground-level lapses in maintenance is unbeliev-

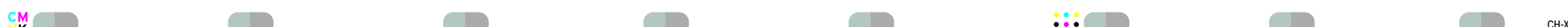
able. Close to 40 per cent of the Indian population is stated to be mobile at any given point of time and instances like these will badly shake their confidence. The railways should go slow on capacity building and invest more in safety measures. Instead of playing political blame games, the guilty should be brought to book.

Srinivasan Umashankar
Nagpur

Walk into a death trap

It is scary to be a pedestrian in India. They are dying unnoticed on the roads. After visiting couple of countries in recent years, I feel pedestrians are treated with scant care in India. Crossing the road is an ominous task. While in places such as Dubai, Bangkok, Singapore and Hanoi they are given enough rights, they enjoy right of way in the US and Europe.

Vivek Shukla
New Delhi



Overseas hitch

'Export services' lack clarity under IGST

MOHAN R LAVI

After 50 days of non-stop action on GST, it would not be an overstatement if one says the only transaction that a taxpayer can do without spending much time on www.gst.gov.in is to pay his taxes. A temporary return was conceptualised for the months of July and August in place of the trilogy of monthly returns but the strength of the population of taxpayers combined with the weakness of the network has ensured that the due date for filing the return had to be extended.

There was a lot of confusion on the taxability of exports. And the clarifying notifications only added to the confusion. There remains a problem in the definition of export of services in the IGST Act that needs to be rectified at the outset.

Section 2(6) of the IGST Act states that export of services means the supply of any service when the supplier of service is located in India, the recipient of service is located outside India, the place of supply of service is outside India, the payment for such service has been received by the supplier of service in convertible foreign exchange and the supplier of service and the recipient of service are not merely establishments of a distinct person — the latter having been defined in Explanation 1 to section 8.

This states that for the purposes of the GST Act, where a person has an establishment in India and any other establishment outside India, establishments or business verticals in two different States or Union Territories, then such establishments shall be treated as establishments of distinct persons.

Taxing exports

This would mean that if an entity registered in India provides services to any of its establishments outside India, it would meet the

definition of establishment of distinct persons. Since the supply of service is to an establishment of a distinct person, it would not meet the definition of export of service. As this would not be considered to an export of service, the transaction would not be zero-rated in accordance with Section 16 to the IGST Act.

Hence, invoking the taxing provisions of the IGST Act, supply of such services would be costlier by 18 per cent after July 1st. Under the erstwhile Place of Provision of Service Rules, such services were exempt.

Is it the intention of the Department to tax inter-country-establishment transactions? To date, indirect tax laws have consistently maintained location of the recipient to be abroad and receipt of money in convertible foreign exchange to consider a transaction as an export. By inserting the condition on establishment of distinct persons, the IGST Bill appears to have unwittingly taxed transactions that they wanted to be zero-rated.

The reason for specifically defining establishments of a distinct person could have been to tax inter-State transactions and branch transfers but the definition has been expanded to exports also. The ideal way to fix this issue would be to delete the last clause in Section 2(6) in which case all exports of services would follow the Bond/LUT route for exemption just like all other exporters.

To solve this problem, Nasscom should step in now on behalf of all software service exporters with establishments abroad and lobby with the Government to zero-rate their services. The Government keeps emphasizing about improving Ease of Doing Business in India. They could make a start by training bureaucrats how to draft laws clearly.

The writer is a chartered accountant



Arvind Subramanian is wrong

The CEA's implicit push for coal is based on a baseless notion that renewables have 'hidden costs'



M RAMESH

“Coal will remain and should remain,” says Arvind Subramanian, the Chief Economic Advisor to the Government of India. In his speech at energy NGO TERI on August 18, Subramanian was only dilating on what his *Economic Survey*, released a week earlier, had said — that if costed properly, i.e., taking into account the “social costs”, renewable energy costs thrice as much as coal and, therefore, coal production and use should be encouraged. In the *Survey*'s estimate, the true cost of renewable energy is ₹11 a kWh — as compared with the lows of ₹2.44 and ₹3.46 that solar and wind, respectively, have reached in recent auctions.

The *Survey* is not oblivious to the fact that coal's carbon dioxide emissions causes global warming with all its deleterious consequences. It has even come up with a cost of carbon — \$2.9 (₹186), a tonne, in India. It also recognises that coal causes respiratory deaths and quotes Scientific American's figures — 115,000 deaths and monetary loss of \$ 4.6 billion, globally.

Killer coal

Though the *Survey* does not give India numbers, there are other estimates. For example, according to a very recent study of *Lancet Respiratory Medicine* journal, there were 800,000 deaths in India due to ‘chronic obstructive pulmonary disease’, and 100,000 more due to asthma — a good guess is that a large percentage of these deaths are caused due to pollu-

tion due to coal firing. (The 115,000 deaths quoted in the *Survey* are directly linked to coal.)

As is widely known today, while thousands die due to the pollution effect of coal burning, millions more are put into distress due to climate change, the chief culprit of which is coal.

Yet — regardless of all these deaths — Subramanian says coal “should remain”. His reasoning is based on narrow economics. The *Survey* attributes a third of the “social costs” of renewable energy to the stranding of coal assets. In simpler terms, it says, you use more of wind and solar, coal power plants will go out of operation, so you must take into account job losses and loans to the coal plants turning bad in the books of banks. Hence the *Survey* prescribes: go slow on renewables.

In other words, this is akin to saying, “go slow on eradication of polio, keeping in mind the loss of livelihood of those who make artificial limbs.”

Those who point out that thousands of people in coal sector face the prospect of losing jobs due to the rise of renewables, should also remember that millions of farmers are put into misery because of carbon dioxide emissions from coal plants.

NPAs here, loan waivers there. If you take into account one, you must take into account the other — you can't be a one-eyed accountant.

Also, going by Subramanian's astonishing logic, there can never be any disruptive innovation, for the “social costs” of such disruption will price the innovation out of the market.

Wrong assumptions

The *Survey* is similarly unacceptable in several other assumptions. For example, it notes that land per MW of coal is 2,023 sq metre, whereas for solar it is ten times as much.

It does not seem to recognise



Dump it elsewhere Coal has no space in a 'green' world AFP

that solar is mostly put on barren, otherwise unusable lands. Indeed, it speaks of “diversion of land to renewable energy generation”.

It wants to take into account the “opportunity cost of land” used by solar, but is silent on opportunity cost of land used by coal power plants. It is plainly wrong to factor in opportunity costs, because such costs are anyway already impounded in the cost of the land, which in turn is reflected in electricity tariff. Thus, if a solar power company agrees to sell power at ₹2.44 a kWh, the cost of land is already taken into account.

The *Survey* obviously tries to make a case against renewable energy by invoking ‘opportunity costs’ of land. Does the government factor in ‘opportunity cost of land’ when it fixes prices of agricultural commodities it buys from farmers?

Worst of all, the *Survey* seems to believe that wind and solar are subsidised. It does note that the

subsidy for solar has come down from ₹450 crore in 2015-16 to ₹15 crore in 2017-18. However, the Budget for 2017-18 allocated ₹420 crore for wind and solar. Since solar takes only ₹15 crore, the other ₹405 crore must be going to wind.

The truth is, there is no subsidy to wind too, today. The ₹405 crore for wind is for ‘generation-based incentives’, that were committed to those wind projects that came up when the incentive was in vogue. The scheme has since been scrapped. From April 1 this year, no wind project gets a rupee of subsidy. The wind tariffs that are being discovered through auctions today do not have a subsidy element in them.

On its own

Renewable energy has long discarded the crutches. That they are cheaper than conventional energy is well-recognised all over the world. Thus, when (say) the International Energy Agency says renewable energy is cheaper than

coal, it is a statement of fact, and not “carbon imperialism” as Subramanian terms it.

Above all, in its desperation to fight climate change, the entire world is trying to clutch every straw it can. It is getting clear that even if all the countries keep up their promise made at the Paris conference of December 2015, the world will get hotter than scientists believe is bearable.

And it is also clear that India is one of the more vulnerable countries, given the peninsula's dependence on monsoons and the Indo-Gangetic plain's exposure to the Himalayan glacial systems. India, more than any country, should be asking for roll back of coal.

Incidentally, in the run-up to the Paris conference, Subramanian made a bizarre call that India should not ask the developed countries for funds for its efforts to cope with the effects of climate change. And now, he wants more coal burnt in Indian boilers.

5 THINGS to WATCH OUT for TODAY

■ **The three-judge** Bench of the SC will hear the NEET case today. The Bench has barred medical admissions in Tamil Nadu till August 22. It had asked the Medical Council of India and Tamil Nadu to chalk out a balancing plan — one by which both students who have got through NEET and rural students ill-equipped for NEET can be accommodated in the medical admission list.

■ **Public sector bank** employees will strike work today to protest against the government's proposed consolidation move. Services at public sector banks may take a hit, but operations at private banks are expected to be normal except for delay in cheque clearances.

■ **The inter-ministerial** group on telecom is set to meet today. It is likely to come out with the final report on suggestions for the industry on the same day. One of the proposals that is still being debated is easing of spectrum cap within a particular band (currently pegged at 50 per cent) in case of mergers and acquisitions.

■ **Hyundai** will launch the new-gen Verna, the fifth generation of the mid-size sedan, today. The new Verna will compete with the Maruti Suzuki Ciaz and the Honda City, both of which have outshone the rest in the segment. The C segment can see some frenzied activity with the Verna launch.

■ **The four-day** monsoon session of the Himachal Pradesh Assembly starts today. The government is expected to bring a Bill for setting up a medical university in the State. This would be the last session of the current Assembly as state elections are due in October-November this year.

All you wanted to know about...



AARATI KRISHNAN

SLATE

In the slugfest between its founders and the management at Infosys the past week, corporate governance has been a much-banded word.

What is it?

The term governance refers to the act of managing an entity. What makes the governance of a company so special is the separation of ownership from management in the corporate structure. Public limited companies pool capital from thousands of shareholders to build and run a business. But these owners effectively play no active role in the day to day running of company, delegating all the ‘governance’ to a management team. Ensuring that the management team runs the com-

pany in the interests of its owners, instead of lining its own pockets, is what good corporate governance is all about.

Governance norms for Indian listed companies are set out in the Companies Act, a detailed clause (Clause 49) in the listing agreement that companies sign with the exchanges and in SEBI's new Listing Obligations and Disclosure Requirement Regulations of 2015.

Why is it important?

Most listed companies and large corporate groups in India were born as family-owned businesses. This also meant very little distinction between the company's finances and that of the family owners. With the evolution of the equity markets though, many of these family-owned businesses listed themselves on the exchanges. However, the traditional (mis) governance practices continued. Promoters, though no longer the sole owners, continued to wield disproportionate influence over decisions. Companies freely extended loans to group

entities, folks from the family secured berths on the Board with generous pay packets and companies entered into cosy business deals with family and friends. The rights of public shareholders were freely trampled upon.

This was sought to be fixed in the Companies Act 1956, by requiring company Boards to seek Central Government permission for certain decisions (managerial remuneration beyond a certain limit, loans to directors) and shareholder approvals for others (appointment of relatives, for instance).

As these checks proved inadequate, SEBI constituted a series of committees — Kumar Mangalam Birla Committee in 2000, Narayana Murthy Committee in 2003 and Adi Godrej Committee in 2012 — to come up with more elaborate governance norms for India Inc. The present corporate governance norms, enshrined in the Companies Act, SEBI listing regulations and Clause 49 of the listing agreement are the result of deliberations by these committees. Yet an-

other committee — the Uday Kotak committee — has recently been tasked with a further review.

Why should I care?

Shareholders obviously have the most to lose if a company is prone to bad governance. Bad governance practices can have a bearing on all the stakeholders a company deals with — lenders/banks who extend finance, suppliers who sell it goods or services, employees who invest their career in it and customers who put faith in its brand, product or service quality. The ongoing fracas at Infosys has not just decimated the stock price by over 15 per cent, it may also lead to uncertainty for clients and employees. It is therefore in interests of all these stakeholders that corporate governance is treated with the seriousness it deserves.

The bottomline

You may have no choice in politics. But with companies, you don't have to wait for five years to speak up on bad governance.

A weekly column that puts the fun into learning

BusinessLine TWENTY YEARS AGO TODAY

AUGUST 22, 1997

Petro goods may be dearer 15-20%

An across-the-board hike in the prices of petroleum products is under way with the United Front steering committee authorising the Prime Minister, Mr. I.K. Gujral, and the Cabinet to take a final decision. Although details of the exact hike were not available, indications are that an increase of 15-20 per cent in the prices of petrol, highspeed diesel and liquefied petroleum gas is on the cards. As usual, kerosene may be spared to take care of the fuel needs of the poorer sections of society. The major burden in the price hike is to be borne by LPG and diesel.

IA fares may go up 15% from October

Indian Airlines might raise its domestic air fares across the board by about 15 per cent from October, the seventh year in a row, to meet its mounting operational costs. In this ninth revision proposed since 1990, even the north-eastern region might not receive any preferential treatment compared to the past. Civil Aviation Ministry sources told Business Line that the national carrier has been pressing for a fare hike soon, in view of the substantial increase in its operational expenses, especially salaries and related dues in addition to engineering costs.

Rupee extends losses on inter-bank pressure

The rupee extended its losses against the dollar on another volatile day as a burst of inter-bank covering in the last hour of trading took it well below Wednesday's lows. It ended sharply down from the opening levels of 35.95 and the 36.10 levels around which it was trading for most of the day. It had closed Wednesday at 35.94 after touching a low of 36.15. The RBI, which intervened verbally to slow down the dollar upmove, did not register its presence in the spot all through the day and also towards the close when pressure from the interbank segment emerged.

EASY

ACROSS

01. Domestic animal retailer (7)
05. Cloth for wrapping infant (5)
08. Revolved, spun round (7)
09. Rowing crew (5)
10. A wild ruffian (9)
12. Can (3)
13. Censure (5)
17. A lout (3)
19. Done provisionally, experimentally (9)
21. Irrational, rude, crude (5)
22. Person one can call on for assistance (7)
24. Lumps, knots (5)
25. The height of ambition (7)

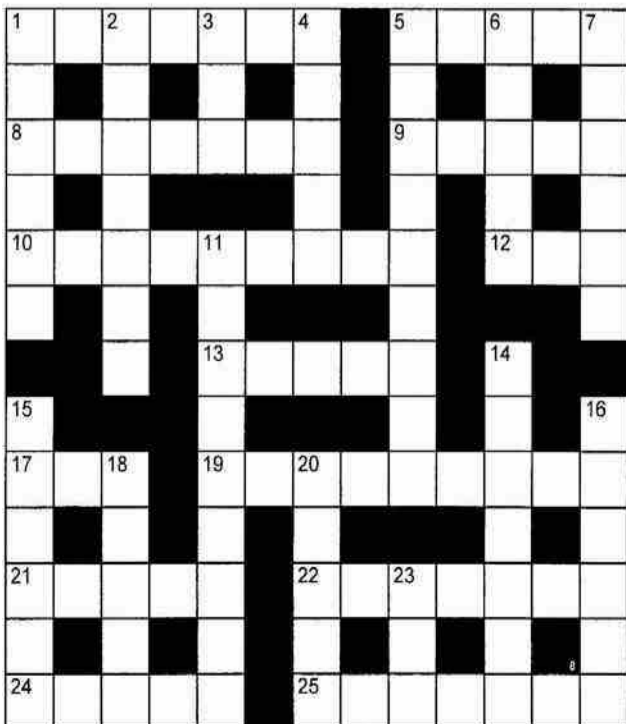
DOWN

01. Temple like tapering tower (6)
02. Forcefully pushes (7)
03. Headwear (3)
04. Italian city, university (5)
05. Wondrous things, people (9)
06. Not serious (5)
07. Detesting (6)
11. Makes bitterly hostile (9)
14. Not public (7)
15. Reel, spool (6)
16. Group of six players (6)
18. Discovered (5)
20. Mother-of-pearl (5)
23. Indication of maiden name (3)

SOLUTION: BL Two-way Crossword 919

ACROSS 1. Motel 4. Frantic 8. Groom 9. Surface 10. Erg 11. Trappings 12. Into 13. Disc 18. Nightmare 20. Fat 21. Reverse 22. Dodge 23. Harvest 24. Rills
DOWN 1. Magnetic north 2. Thought 3. Limits 4. Fiscal 5. Abrupt 6. Train 7. Cheese-cutters 14. Infidel 15. Starve 16. Parent 17. Welder 19. Giver

BL TWO-WAY CROSSWORD 920



NOT SO EASY

ACROSS

01. Where favourites go to the dance one may be sold a pup (7)
05. Baby-wrapper with clip, hard to adjust (5)
08. Stingy rate demand showed how it was spun (7)
09. Boat's crew is drunk, having one over them (5)
10. Ruffian who dreads Poe being upset (9)
12. Yet this roof is corrugated iron! (3)
13. So worthy one is at fault (5)
17. Clumsy chap doesn't begin to loiter about (3)
19. At event, it turns out to be far from sure (9)
21. Be around the furrow that belongs to the lower animals (5)
22. Study, with diplomacy, how one can get in touch (7)
24. Bumps end so confusedly (5)
25. The height at which woman will take things easy (7)

DOWN

01. Father takes a deity inside this

02. Pushes forward this corrosion inside, one having left (7)
03. Trick of three successive wickets fashioned by milliner (3)
04. Where in Italy a DA might get up to it (5)
05. Such extraordinary things to heap on men like this (9)
06. Get off a vehicle when short of cash (5)
07. Not liking to give 3 a gin cocktail (6)
11. Makes one acrimonious to have met tribes in uproar (9)
14. Thomas Atkins will keep himself to himself (7)
15. Old shilling receptacle used with cotton on it (6)
16. Half a dozen may be applied to notes (6)
18. Establish how it was discovered (5)
20. Cognac receptacle partly made of mother-of-pearl (5)
23. It shows one to have been born a woman (3)