August 16, 2017

Q.1) Consider the following statements about Graded Surveillance Measure (GSM) which was in news recently

1. The GSM is a system designed by SEBI to keep a check on shares which see an abnormal price rise not commensurate with the financial health or fundamentals.
2. A review process based on pre-defined criteria for moving securities in / out of GSM framework shall be carried out twice a year.
3. The GSM tags cannot be challenged

Select the correct statements

a) 1 and 2
b) 2 and 3
c) 1 and 3
d) All of the above

Q.1) Solution (a)

Securities and Exchange Board of India (Sebi) directed exchanges to suspend trading in 331 listed companies, suspected of being "shell" entities. It directed stock exchanges to place these companies under the Graded Surveillance Measure (GSM).

The GSM is a system designed by Sebi to keep a check on shares which see an abnormal price rise not commensurate with the financial health or fundamentals. These companies are often illiquid, have low market capitalisations and poor fundamentals.

The regulator may suspect that shares of these companies are being bid up and used for money laundering.

Thus SEBI's intention is to identify and protect investors from dealing in such shares at an early stage. Such shares are monitored for sudden changes in earnings, book value, fixed assets, net worth, and price to earnings multiples, among other factors.

Once a company is identified, it goes in to one of the six stages of the GSM, attracting the corresponding surveillance action. Media reports suggest that over 700 companies have come under GSM since its introduction in February this year.

There are a total of six stages in GSM where the restrictions on trading in the securities get progressively higher. In the first stage, securities are placed under the trade-to-trade category, and a maximum of 5 per cent price movement in shares is allowed.

From the second stage a levy called the Additional Surveillance Deposit (ASD) is applicable for trading in these shares. The ASD will be retained by the exchange for a period of 5 months. So the second stage not only involves a 5 per cent price band for shares, it also attracts an ASD of 100 per cent.

In the third stage, buyers are allowed to trade in the security only once a week, i.e every Monday, apart from paying an ASD of 100 per cent on the traded value, whereas stage four attracts an ASD of 200 per cent.

Similarly, in the fifth stage, in addition to an ASD of 200 per cent, trading is permitted only on the first Monday of a month. The sixth stage, where companies are placed, attracts far higher restrictions.

In this stage trading in these shares are permitted only once a month, that is on the first Monday of the month without any upward movement in price.

There will be a review process by Sebi twice a year where the shares of companies will be moved in or out of GSM.Also, a quarterly review of GSM stages will be done where qualified companies may be moved back from a higher to lower stage.

The companies placed under GSM can challenge Sebi or stock exchanges, the Securities Appellate Tribunal or the high courts for relief.

Read More -
https://www.nseindia.com/invest/content/FAQs_Graded_Surveillance_Measure.pdf

Q.2) Consider the following statements about Shell Companies

1. Shell Company is a corporate entity without active business operations or significant assets.
2. Shell companies are illegal

Select the correct statements

a) Only 1
b) Only 2
c) Both 1 and 2
d) Neither 1 nor 2

Q.2) Solution (a)

Shell Company is a corporate entity without active business operations or significant assets. They are often created to avoid taxes and many big companies create shell corporations to avoid taxes without attracting legal actions.

It can't be asserted that shell corporations are illegal. They are deliberate financial arrangements to avoid taxes. Tax avoidance is not illegal, though it is not desirable.

But many shell companies park black money, carryout illegal transactions and sometimes act as facilitators of money laundering. Often, shell companies remain untraceable and happen to be the vehicle of choice for money launderers, bribe givers and takers, tax evaders and financiers of terrorism.

Read More - http://www.thehindubusinessline.com/opinion/columns/slate/all-you-wanted-to-know-aboutshell-companies/article9818149.ece

Q.3) Introduced in January 2016 to revive investments in road infrastructure projects, (Hybrid-Annuity Model) HAM has seen good initial success. Consider the following statements

1. Government and the private player will equally share the project cost
2. The highway toll tax will be collected by the government i.e. (NHAI)

Select the correct statements

a) Only 1
b) Only 2
c) Both 1 and 2
d) Neither 1 nor 2

Q.3) Solution (b)

HAM's a hybrid — a mix of the EPC (engineering, procurement and construction) and BOT (build, operate, transfer) models. Under the EPC model, NHAI pays private players to lay roads. The private player has no role in the road's ownership, toll collection or maintenance (it is taken care of by the government). Under the BOT model though, private players have an active role — they build, operate and maintain the road for a specified number of years — say 10-15 years — before transferring the asset back to the government.

Under BOT, the private player arranged all the finances for the project, while collecting toll revenue or annuity fee from the Government, as agreed. The annuity fee arrangement is known as BOT-Annuity; essentially, the toll revenue risk is taken by the government, while the private player is paid a pre-fixed annuity for construction and maintenance of roads.

Now, HAM combines EPC (40 per cent) and BOT-Annuity (60 per cent). On behalf of the government, NHAI releases 40 per cent of the total project cost. It is given in five tranches linked to milestones. The balance 60 per cent is arranged by the developer. Here, the developer usually invests not more than 20-25 per cent of the project cost (as against 40 percent or more before), while the remaining is raised as debt.

HAM arose out of a need to have a better financial mechanism for road development. The BOT model ran into roadblocks with private players not quite forthcoming to invest. First of all, the private player had to fully arrange for its finances — be it through equity contribution or debt. NPA-riddled banks were becoming wary of lending to these projects. Also, if the compensation structure didn't involve a fixed compensation (such as annuity), developers had to take on the entire risk of low passenger traffic. In the past, many assumptions on traffic had gone awry affecting returns Now, they are unwilling to commit large sums of money in such models.

HAM is a good trade-off, spreading the risk between developers and the Government. Here, the government pitches in to finance 40 per cent of the project cost — a sort of viability-gap funding. This helps cut the overall debt and improves project returns. The annuity payment structure means that the developers aren't taking 'traffic risk'. From the Government's perspective, it gets an opportunity to flag off road projects by investing a portion of the project cost. While it does take the traffic risk, it also earns better social returns by way of access and convenience to daily commuters.

Q.4) Base Erosion and Profit Shifting (BEPS) framework is concerned with?

a) World Bank
b) World Trade Organisation
c) International Monetary Fund
d) Organisation for Economic Co-operation and Development

Q.4) Solution (d)

Base erosion and profit shifting (BEPS) refers to tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations. Under the inclusive framework, over 100 countries and jurisdictions are collaborating to implement the BEPS measures and tackle BEPS.

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Q.5) Ping Pong Diplomacy was between which of the following countries?

a) North Korea and China
b) Japan and China
c) South Korea and Japan
d) None of the above

Q.5) Solution (d)

Ping-pong diplomacy refers to the exchange of table tennis (ping-pong) players between the United States and People's Republic of China (PRC) in the early 1970s. The event marked a thaw in Sino-American relations that paved the way to a visit to Beijing by President Richard Nixon.