SBI Monthly review

June 2012

State Bank of India

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Highlights of Previous Issues

March 2012

Low-Carbon Growth in a Fragile Decade for the World Economy	Prof. Nicholas Stern IG Patel Professor & Director India Observatory, LSE Chair of the Grantham Research Institute on Climate Change and the Environment London School of Economics and Political Science
Europe's Crisis can Hurt India	Dr. Brinda Jagirdar General Manager & Head Economic Research Dept, State Bank of India Mumbai
Ensuring Food Security through the 'Right to Food'	Dr. Yogesh Suri Adviser (Development Policy), Planning Commission, Government of India
Union Budget 2012-13	Prepared by Economic Research Department State Bank of India, Corporate Centre Mumbai
Legal Decisions on Banking	Shri M.Manoharan Manager (Law), Law Department, SBI, LHO, Chennai

April 2012

Inclusive FinancialInnovation	Shri Krishna Kumar Managing Director & Group Executive (National Banking) State Bank of India
FY 2011, FY 2012 and FY 2013 Economic Outlook	Shri Yasuo Yamamoto Senior Economist, Mizuho Research Institute Limited
End to End Approach in Reshaping Operating Models in Banking	Shri D.Subramani Assistant General Manager, CPC State Bank of India, Bangalore (LHO)
Book Review - Growth with Financial Stability : Central Banking in an Emerging Market by Rakesh Mohan Oxford University Press pp: liii+500	Review by Shri Sumit Jain Dy. Manager (Economist), ERD, SBI, Mumbai
Legal Decisions on Banking	Shri J. Venugopal AGM (Law), Law Department, SBI, CC, Mumbai

May 2012

From the Chairman's Desk	Shri Pratip Chaudhuri Chairman, State Bank of India, Mumbai
Gold Consumption and its Impact on Indian Economy	Dr. Brinda Jagirdar General Manager & Head Economic Research Dept. State Bank of India Mumbai Shri Sumit Jain Dy. Manager (Economist), ERD, SBI, Mumbai
India, Russia & China: A Comparative Analysis from the Field	Mr. Morten Dyrmose Ph.D. Candidate in Economics School of Economics & Finance University of St Andrews United Kingdom
Legal Decisions on Banking	Shri Syamjith P Law Officer State Bank of India, SARB, Chennai

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Assigning Importance to Creation of Green Jobs in Environmental Impact Assessment in India[1]

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1. Introduction

1.1 Environmental protection and promotion are presently receiving serious attention in the light of Earth Summit in 2012 (Popularly known as Rio +20), which marks the 40th anniversary of the 'UN Conference on the Human Environment' held at Stockholm in 1972, the 20th anniversary of the 'UN Conference on Environment and Development' held at Rio de Janeiro in 1992 and 10th anniversary of 'Rio+10 Summit' held at Johannesburg in 2002. While Environment Impact Assessment (EIA) is an instrument to achieve this objective, creation of green jobs has both a cause and effect relationship with environmental considerations. It is felt that creation of green jobs can be assigned due importance in the schematic framework of EIA so as to optimize the environmental benefits.

[1] *The article is based on the keynote lecture delivered by Dr. Ashok Sahu at a Workshop on "Environmental Impact Assessment: Issues, Challenges and Policy Implication in India (EIA-12)" organized by the School of Humanities, Social Sciences and Management, Indian Institute of Technology (IIT), Bhubaneswar during June 9-10, 2012. The views expressed in the article are personal.*

2. Understanding Environment

2.1 Literally, environment means the surrounding external conditions influencing development or growth of people, animal or plants, living or working conditions etc. Traditionally, environment was viewed as consisting of only physical aspects of planet earth's land, air and water as biological entities. Over time, the scope has been extended to cover the social, economic and political activities in this regard. Environment can be defined as consisting of four segments as indicated below:

Atmosphere: The atmosphere implies the protective blanket of gases, surrounding the earth.

Hydrosphere: The hydrosphere comprises all types of water resources like oceans, seas, lakes, rivers, streams, reservoir, polar icecaps, glaciers and ground water.

Lithosphere: The lithosphere is the outer mantle of the solid earth. It consists of minerals occurring in the earth's crust and the soil e.g., minerals, organic matter, air and water.

Biosphere: The biosphere indicates the realm of living organisms and their interactions with environment viz. atmosphere, hydrosphere and lithosphere.

2.2 The major impending disorder scenarios are looming large because we have lost the balance in the keys of human existence i.e. Panchtatva (air, water, earth, fire and land) which are responsible for our survival (Kumar, 2012).

3. Environmental Framework in India

3.1 The Rio Conference led to the adoption of Global Conventions in the areas of climate and biodiversity as well as preparation of a roadmap for environmentally, economically and socially sustainable development model while spreading the message "good ecology is good business". Other international measures like the Clean Development Mechanism (CDM) set up under Kyoto Protocol of the United Nations Framework Convention on Climate Change (UNFCCC), Bali Action Plan etc. have impacted environmental policy making.

3.2 In fact, sustainable development taking into account environmental parameters has received priority attention in Indian Policy Making. The idea is embedded in the Directive Principles of State Policy (Article 48 A) and Fundamental Duties (Article 51 A (g) of the Constitution of India. The Ministry of Environment and Forests (MoE&F) is the nodal Ministry in the Government of India for planning, promotion, coordination and overseeing the implementation of India's environmental and forestry related policies and programmes. The Ministry is guided by the principle of sustainable development and enhancement of human well being, sought to be

achieved by a set of legislative and regulatory measures like: (a) the Environment (Protection) Act, 1986, (b) the Forest (Conservation) Act, 1980, (c) the Wildlife (Protection) Act, 1972, (d) the National Conservation Strategy and Policy Statement on Environment and Development, 1992, (e) the National Forest Policy, 1988 and (f) the National Environment Policy, 2006, which aim at the preservation, conservation and protection of the environment. In the 'Report to the People on Environment and Forests 2009-2010', the Ministry acknowledges the importance of inclusive growth, not just in promoting the conservation of natural resources, but also in ensuring informed and participatory decision- making about the development path the country wants to take in future. The Report lists issues for debate in five challenge areas, namely, (i) air environment, (ii) water environment, (iii) solid waste management, (iv) forestry, biodiversity & wildlife, and (v) coastal resources management as well as climate change (GoI, 2010).

4. Environment in Indian Planning

4.1 So far as Indian planning is concerned, sustainable development has remained a focus area. The Report of the Committee on India Vision, 2020 stated:

"Economic growth the world over is driven by energy, whether in the form of finite resources such as coal, oil and gas or in renewable forms such as hydro-electric, wind, solar and biomass, or its converted form, electricity. This energy generation and consumption power the nation's industries, vehicles, homes and offices. It also has significant impact on the quality of the country's air, water, land and forest resources for future growth to be both rapid and sustainable. It needs to be as resource-efficient and environmentally benign as possible" (GoI, 2002).

4.2 The Approach Paper to the Twelfth Five Year Plan which focuses on faster, sustainable and more inclusive growth states that statutory and regulatory framework for managing the environment is well established in India. But the effectiveness and adequacy of this framework needs to be critically examined as the objectives of energy security, requirements of expanding industry, urban centers and transportation also need to be realised. Hence there will be trade-offs which require careful balancing, proactive search for solutions by using new technology including satellite imagery, Global Positioning System(GPS), Geographic Information System (GIS) and computational and analytical systems, besides additional financial allocation. The issues relating to land, mining, forest and wildlife management, climate change, waste management, reduction of pollution, conservation of forest and biodiversity etc. need to be viewed in the light of the enormous interconnection that exist within the broader dynamics of environmental management (GoI, 2012).

5. Important Environmental Promotion Initiatives in India

5.1 Among specific important environmental promotion initiatives taken in India mention needs to be made about:

(i) National Action Plan for Climate Change which identifies measures that promote the objectives of sustainable development of India while also yielding co-benefits for addressing climate change. It comprises of eight National Missions:

- **The National Solar Mission** aims at increasing the share of solar energy in the total energy mix through development of new solar technologies, while attempting to expand the scope of other renewable and non-fossil options such as nuclear energy, wind energy and biomass.
- **The National Mission on Enhanced Energy Efficiency** constitutes four new initiatives, namely, (a) a market based mechanism for trading in certified energy savings in energy-intensive large industries and facilities, (b) accelerating the shift to energy efficient appliances in designated sectors, (c) demand side management programmes in all sectors by capturing future energy savings, and (d) developing fiscal instruments to promote energy efficiency.
- **The National Mission on Sustainable Habitat** attempts to promote energy efficiency in buildings, management of solid waste and shift to public transport including transport options on bio-diesel and hydrogen.
- **The National Water Mission** has the objective of conservation of water, minimizing wastage and ensuring more equitable distribution both across and within states.
- **The National Mission for sustaining the Himalayan Ecosystem** is aimed at evolving management measures for sustaining and safeguarding the Himalayan glacier and mountains eco-system.
- **The National Mission for a Green India** focuses on enhancing eco-system services and carbon sinks through afforestation on degraded forestland in line with the national policy of expanding the forest and tree cover to 33% of the total land area of the country.
- **The National Mission for Sustainable Agriculture** would develop strategies to make Indian Agriculture more resilient to climate change, new varieties of thermal resistant crops, new credits and insurance mechanisms and improving productivity of rain fed agriculture.
- **The National Mission on Strategic Knowledge for Climate Change** is intended to identify the challenges of, and the responses to, climate change through research

and technology development and ensure funding of high quality and focused research into various aspects of climate change.

(ii) In the energy sector, steps taken include improving energy efficiency and conservation measures including setting up Bureau of Energy Efficiency, power sector reforms, promoting hydro and renewable energy, reduction of gas flaring and environmental quality management.

(iii) Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), one of the largest social protection programmes in the country providing legal right to work, strengthens ongoing efforts in the areas of water harvesting, watershed management, soil healthcare etc. which are primarily environmental support measures.

6. Environmental Impact Assessment (EIA)

6.1 While EIA originates from the National Environment Policy Act (NEPA), 1969, USA, the Rio Declaration marks an international consensus on the value of EIA as a mechanism for identifying and addressing the environmental impacts, risks and consequences of developmental proposals and actions.

6.2 EIA may be defined as a formal process used to predict the environmental consequences of any development project. It is a tool designed to identify and predict the impact of a project on the bio-geographical environment and on human health and well-being, to interpret and communicate information about such impact, to analyse site and process alternatives and to provide solutions to shift out, or abate/mitigate the negative consequences on human beings and the environment. EIA ensures that the potential problems are foreseen and addressed at an early stage in the project planning and design (FAO, 1996).

6.3 In short, EIA is a smooth disciplinary management tool in the hands of managers to make important decisions about major development projects with following objectives:

- Predict environmental impact of projects.
- Find ways and means to reduce adverse impacts.
- Shape projects to suit local environment.
- Provide options to decision-making.

6.4 EIA is also used in a broader context. For example, Strategic Environmental Assessment (SEA) expands EIA from a Project (eg. establishment of a coal fired thermal power plant) to a Programme (eg. having a number of such plants), Plan (eg. regional or city planning) or Policy (eg. promotion of non-renewable energy source

for electricity generation for achieving sustainable development goals) (Kavi Kumar, 2008). The Twelfth Plan Approach Paper states that focus needs to be given for Cumulative Environmental Impact Assessments (CEIAs) for vulnerable regions.

7. EIA Practice in India

7.1 Till 1994, EIA clearances were the administrative requirements for big projects undertaken by the Government or public sector undertakings. The MoE&F, vide notification dated 27th January, 1994 made environmental clearance mandatory under the Environmental (Protection) Act 1986 and Environmental (Protection) Rules 1986, later superseded vide Notification dated 14th September 2006.

7.2 The Schedule to the 2006 Notification lists the projects or activities requiring prior environmental clearance under following broad heads:

1. Mining, extraction of natural resources and power generation
2. Primary processing
3. Materials production
4. Materials processing
5. Manufacturing/ Fabrication
6. Service sectors
7. Physical infrastructure including environmental services
8. Building/Construction projects/area development projects and townships

7.3 Depending upon the threshold, the projects/activities will be categorized as 'A' and 'B', requiring approval of MoE&F or State/UT Environment Impact Assessment Authority (SEIAA) respectively, whose decision will be based on the recommendations of the Expert Appraisal Committees. The stages involved in environmental clearance process are (i) Screening (only for category 'B' projects and activities to determine whether further environmental studies for EIA are required prior to grant of environmental clearance), (ii) Scoping (to develop the 'Terms of Reference' for EIA Report, (iii) Public consultation and (iv) Appraisal.

7.4 The 2006 Notification prescribes a form which, inter alia, seeks information in detail about the nature of activity to be carried out such as:

1. Construction, operation or decommissioning of the Project involving actions, which will cause physical changes in the locality (topography, land use, changes in water bodies, etc.).
2. Use of Natural resources for construction or operations of the Project (such as

land, water, material or energy, especially any resources which are non-renewable or in short supply).

3. Use, storage, transport, handling or production of substances or materials, which could be harmful to human health or the environment or raise concerns about actual or perceived risks to human health.

4. Production of solid wastes during construction or operations or decommissioning.

5. Release of pollutants or any hazardous, toxic or noxious substances to air.

6. Generation of noise and vibrations, and emissions of light and heat.

7. Risks of contamination of land or water from releases of pollutants into the ground or into sewers, surface waters, groundwater, coastal waters or the sea.

8. Risk of accidents during construction or operation of the project, which could affect human health or the environment.

9. Factors which should be considered (such as consequential development) which could lead to environmental effects or the potential for cumulative impacts with other existing or planned activities in the locality.

7.5 The 2006 Notification, in addition, prescribes a check list of environmental impacts (on land, water, vegetation, fauna, air, aesthetics, socio-economic aspects, building materials, energy conservation and environment management plan) in respect of building/construction projects, area development projects and townships. It also provides for a generic structure of EIA documents with components like project description, anticipated environmental impacts & mitigation measures, analysis of alternatives, environmental monitoring programme, project benefits, environment cost benefit analysis, disclosure on consultants, etc.

7.6 The project benefits, as mentioned in the generic structure of EIA documents are the following:

- Improvements in the physical infrastructure
- Improvements in the social infrastructure
- Employment potential - skilled, semi-skilled and unskilled
- Other tangible benefit.

7.7 It can be reasonably concluded that while employment generation is taken cognizance of, it has not been accorded due importance in the EIA structure

primarily because it is not a focus area. There is possibility of ushering in a conceptual change, if the employment aspect is supplemented by 'Creation of Green Jobs' in EIA format as well as environment clearance procedure.

8. Creation of Green Jobs

8.1 Creation of green jobs gained prominence in the context of sustainable development to mitigate adverse impact of climate change. The most authoritative statement on climate change comes from the Inter-governmental Panel on Climate Change (IPCC). According to its Reports global warming and climate change are caused by human activity, through release of 'greenhouse gases' (CHG) including carbon dioxide (CO_2), methane, nitrous oxide and a number of hydro carbonic gases accounting for about 60, 20, 6 and 14 percent of the total effect respectively, which reduce the ability of the earth to return part of the energy received from the sun to the atmosphere. Three quarters of CO_2 emissions come from the use of fossil energy like coal, petroleum and natural gas and the balance form land use changes, in particular tropical deforestation. Making economic growth and development compatible with the climate stabilization calls for "Low Carbon Economies" worldwide. While historically industrialized countries have been responsible for the bulk of emissions, developing countries particularly those which are rapidly industrializing, are becoming major emitters in spite of comparatively low emissions per capita. A reduction of emissions by half would requires cuts of the order of about 70 percent by industrialized countries and 30 percent by developing countries. Decoupling economic growth from emissions supposes major advances in energy efficiency of products and services in power generation, in buildings and transport, a significant increase in the use of renewable energy, lower emissions from land use and use of new technology in carbon capture and storage. The IPCC estimates the likely cost of mitigation at 0.12 percent of world GDP (ILO, 2007).

8.2 In this context emphasis needs to be placed on creation of green jobs which is also popularly known as 'Green Jobs Initiative'. By definition green jobs refer to economically viable employment which promotes environment as well as reduces its adverse impact to sustainable level. As per International Labour Organization (ILO), green jobs are those that (a) reduce consumption of energy and raw materials, (b) limit greenhouse gas emissions, (c) minimize wastage and pollution, and (d) protect and restore ecosystems. These jobs can be created in all sectors and types of enterprises, in rural as well as urban settings, as well as in countries at all levels of economic development. Green jobs are in essence holistic catering to triumvirate objectives of development, employment and environment, thereby making mitigation measures technically possible, economically viable and socially acceptable. It has a clear poverty alleviation undertone. Hence it is necessary for

assessing the potential for green jobs and monitoring progress to provide a framework for policy and investment, addressing the skills requirements as green technology and resources can only be deployed effectively with qualified entrepreneurs and skilled workers, and ensuring enterprises' and economic sectors' contribution to environment protection by harnessing labour-management initiatives in favour of green work-places. In other words, promoting green jobs requires establishment of suitable framework for creating awareness, providing necessary incentives, making investment in human resources and assisting both financially and technologically enterprises capable of carrying out the work.

8.3 Green Jobs Initiative has started taking roots all over the world. New Job opportunities created in wind and solar energy production in Germany and Spain, making building more energy efficient in Germany, bio-energy in environment-related infrastructure in Korea and low carbon industrial strategy in UK, are pointers in this regard. The Green Jobs Act of 2007 in USA has authorised funding of upto $ 125 million to establish job training programmes to help address job shortages that are impairing growth in green industries such as energy efficient buildings/ construction, renewable electric power, energy efficient vehicles and biofuels development. Similarly, initiatives taken in India include CNG-based transport system, production of Jatropha-biodiesel, recharging of shallow tube wells, recycling & waste management, promoting energy efficiency in existing buildings, encouragement to renewable energy sources, etc.

9. Conclusion

9.1 The emphasis needs to be both on creations of green jobs in India, as well as its institutionalization. Creation of green jobs requires a target oriented approach with suitable financial and fiscal incentives, addressing skill development issues and technical back-up which can be considered in different fora including the Twelfth Five Plan. So far as institutionalization of green jobs is concerned, it can be suitably integrated with the EIA framework and approval process for environment clearance. If it is agreed in principle, necessary modalities can be worked out. For instance, the generic structure of the EIA Document can provide for collection of information regarding creation of green jobs. To begin with, all jobs which directly or indirectly help in achieving the National Action Plan for Climate Change can be classified as green jobs. This may be accorded due priority and also deliberated during public discussion, which apart from facilitating environmental clearance, will generate awareness. Such discussion can be construed as social dialogue, which constitutes an essential ingredient of ILO's concept of 'decent work'. Ultimately if EIA framework in India incentivises creation of green jobs, it will be a win-win situation for all stakeholders.

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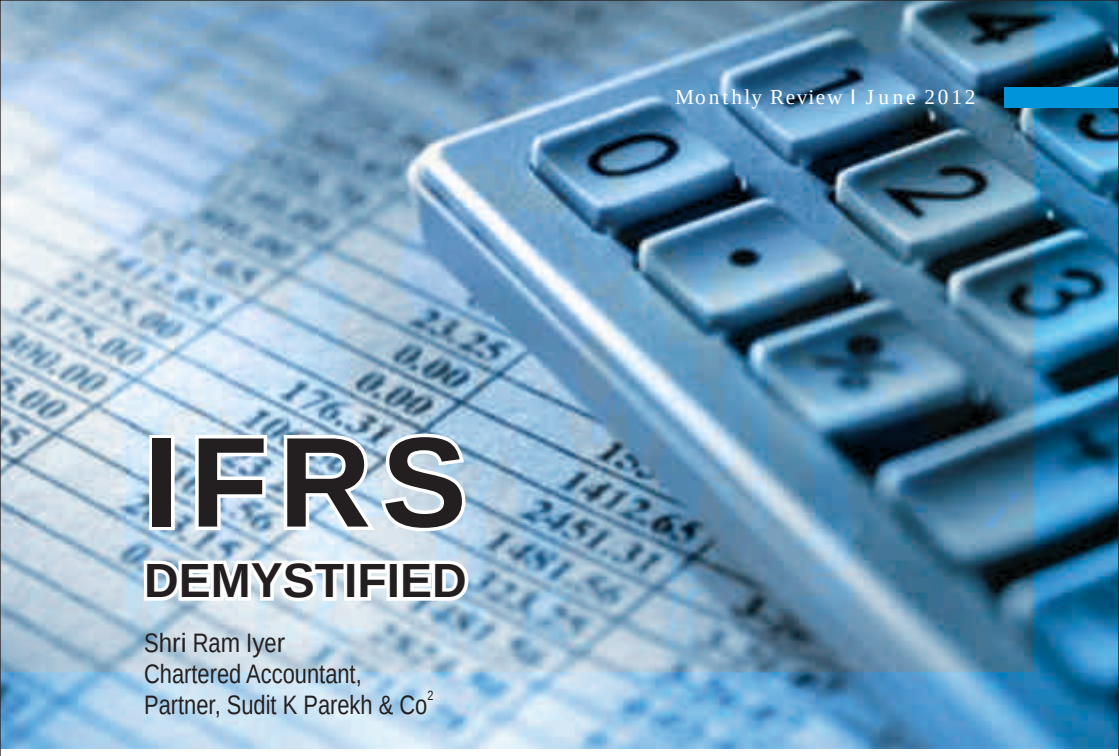

IFRS DEMYSTIFIED

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Introduction

IFRS is one of the most common four-letter words! It is on the lips of many finance professionals, hotly debated, highly controversial and is here for good. You may have heard these comments a lot:

- IFRS is coming to India soon
- Everything in IFRS is fair valued
- IFRS is principles-based
- IFRS requires significant judgement, and so reduces comparability
- Bankers need to understand IFRS
- Systems need to be changed to accommodate IFRS

Several of these comments are right, some are not. Let's see if we can find our way through this. The guidance for banks can get really complex so in this article I aim to focus on the more common aspects.

Why is everyone talking about IFRS?

More than 150 countries and thousands of entities around the world have moved to

[2]*This article is the work of the author and in no way represents the views of Sudit K Parekh & Co.*

IFRS. It is the future of accounting and financial reporting. India too is moving towards it in a customised manner. IFRS affects the way entities report their financial performance and position. That's why it is a major topic of discussion. For example, a bank's investments in government securities may be accounted at cost under Indian accounting but may be fair valued under IFRS. We'll see later in this article what fair value means but this can have a big impact on the reported numbers.

What is IFRS?

IFRS stands for International Financial Reporting Standards. It is a language for reporting financial performance. Indian companies, banks and financial institutions currently report under Indian regulations (Companies Act, Indian Accounting Standards, RBI Guidelines, etc.), all of which is commonly known as Indian GAAP (Generally Accepted Accounting Principles). On the other hand, IFRS guidelines are issued by the IASB (International Accounting Standards Board), based in London, but operating independently for the benefit of all countries.

The guidance in IFRS covers all the headings that we see in financial statements, like:

- How to present information in the financial statements
- What disclosures to make
- When and how to recognise revenue (and how much!)
- Why, when and how to fair value certain items
- How to report investments
- How to determine NPA provisions (primarily relevant for banks)
- How to depreciate fixed assets (known as property, plant and equipment in international accounting)
- How to value acquired businesses
- Accounting for derivatives and hedging activities
- Consolidating numbers of a group of entities

There are several more topics covered in the IFRS guidance, which totally would easily cross 3,000 pages.

Before IFRS became prominent around the world, the benchmark guidance was US GAAP (short-form for US accounting guidance known as US Generally Accepted Accounting Principles). One of the difficulties in applying US GAAP has been its volumes of rules. Eventually, companies and practicing accountants worldwide felt

that accounting guidance should provide guiding principles rather than rules. IFRS, with its focus on principles thus gained ground.

It is worth making a couple of other points. US GAAP is still a gold standard for accounting guidance because of its detailed rules. As IFRS evolves, it does enjoy the benefits of the extensive research already done in US GAAP. If you are interested in doing a detailed study of accounting guidance, please do refer to US GAAP. Secondly, although IFRS aims to be principles-based, it will be tough to implement it uniformly around the world unless there is specific guidance going beyond just principles. Thus, we find that IFRS is gradually adding more rules as we move along.

Applying accounting guidance requires judgment. This is one of the controversies around IFRS. For example:

- How do you determine fair value?
- When do you consider an asset as impaired?
- How much provision should you make against an impaired asset?
- How much revenue should you book periodically in a long-term project?
- How do you account for a derivative or a hedging instrument?

There is a fear that different reporting entities will use different judgements to arrive at the numbers and thus make financial information non-comparable. However, as long as every entity applies its judgement objectively, non-comparability is not an issue in itself. There are bigger issues to deal with!

Key implications for banks

Banks are affected by many of the guidance that affects other companies. However, banks are also uniquely affected in areas like loan loss provisioning, investment accounting, derivatives and hedging, as we see in this table:

Generally applicable principles	Initial Recording	Subsequent Accounting	Derecognition	Key Disclosures
Loans	At amount disbursed	maturity: at amortised cost using effective interest rate and after reducing impairment losses	When the loan is repaid or sold or securitised (along with transfer of underlying risks)	Gross amounts, classified by portfolio, provisions, fair values, impaired loan amounts

Generally applicable principles	Initial Recording	Subsequent Accounting	Derecognition	Key Disclosures
Investments	At amount invested	If you hold the investment to maturity: at amortised cost using effective interest rate and after reducing impairment losses If you hold the investment for trading purposes: at fair value. In such cases, both realised and unrealised gains /losses are reported in the profit and loss account. Thus, the profit and loss account could show significant volatility due to unrealised gains/losses. If your intention is not clear: at fair value but only realised gains / losses are reported in the profit and loss account; unrealised amounts are retained in the equity section until the investment is sold.	When the investment is sold	Gross amounts, classified by type of investment, impairment losses, fair values, impaired investment amounts
Deposits, Borrowings	At amount received	At amortised cost using effective interest rate	When the amounts are repaid	Gross amounts, fair values, interest rates, collateral description
Derivatives	Zero value	At fair value	When the derivative	Narrative explanation of

Generally applicable principles	Initial Recording	Subsequent Accounting	Derecognition	Key Disclosures
			contract expires or is settled	objectives, amounts of fair values by type of derivative, realised and unrealised gains and losses
Hedge Accounting	Zero value	Hedges are generally fair valued but the profit and loss account impact of fair value is managed better through hedge accounting	When the hedge contract expires or is settled or when hedge accounting is terminated	Description of hedging objectives, amounts of fair values, how hedge effectiveness is determined
Property, plant and equipment	At cost of acquisition	At cost less depreciation less impairment losses. Depreciation is based on the useful economic life of the asset. Revaluation adjustments can also be done where appropriate	When the asset is disposed off	Category-wise movement during the year in cost, depreciation or amortisation, impairment and revaluation.
Consoli-dation of group entities	Controlled entities are consolidated. Control could be through majority voting rights or in certain cases where the majority of the risks are with the reporting entity (i.e. even without majority voting rights)	At book values as stated in the consolidated entities' individual financial statements	When the consolidate d entity is sold to a party outside the group or is no longer controlled	Disclosures of the consolidated entities are merged as part of the consolidated group

Generally applicable principles	Initial Recording	Subsequent Accounting	Derecognition	Key Disclosures
Acquiring another business	At fair values of acquired assets and liabilities, including tangible and intangible assets (even if they were not previously recorded in the balance sheet of the acquired business). Goodwill or negative goodwill is also recorded based on the difference between the price paid and the aggregate fair value of the assets/liabilities acquired	An acquired business is consolidated at subsequent periods at book values as appearing in the consolidated entities' individual financial statements	Same guidance as for consolidation	Summary information regarding material acquisitions during the period, including how consideration was paid, amount of goodwill or negative goodwill

Note that the table only depicts the current accounting guidance. The IASB is on a continuous program of improvements to the guidance so we should expect several of the above guidance to change over time.

How does loan loss provisioning work?

One of the biggest impact areas on adoption of IFRS is NPA provisioning. Banks in India are required to follow the RBI's Prudential Norms. These norms provide

percentage-based guidance on NPAs. IFRS on the other hand takes a judgemental approach to provisioning. Here are some practical pointers to how the approach and effect can be significantly different between Indian accounting and IFRS:

- IFRS does not prescribe fixed provisioning percentages
- "The lender should first determine whether a loss is incurred on a loan or group of loans with similar characteristics. A loss is incurred when the lender does not expect to recover the contractual amounts due under the loan at the contractually agreed times
- "Provisioning for groups of loans with similar characteristics: For example, auto loans, housing loans, travel loans or small ticket working capital loans can be grouped. Each lender needs to determine their own classification. Generally, the lender looks at the empirical evidence and estimates a probable incurred loss in the portfolio. Gross cash flows are estimated at a portfolio level and discounted using an average interest rate appropriate for the portfolio. For example, if the auto loan gross portfolio has a balance outstanding of Rs 100 crores, and the lender estimates that the overall gross future cash flow will be Rs 102 crores (including future interest) and the discount (using the average interest rate in the portfolio) is Rs 4 crores, then the present value of the net estimated recovery is Rs 98 crores. Therefore, the estimated loss is Rs 2 crores
- "Provisioning for individually evaluated loans: Large corporate loans are generally subjected to individual evaluation. For example, the gross outstanding loan balance of a corporate borrower is Rs 30 crores and the borrower has either defaulted or is showing signs of default. Thus the loan is impaired and may need a provision. The lender expects to recover gross future cash flows including interest of Rs 27 crores and discounts the cash flows at the loans' originally contracted rate of interest. If the present value is Rs 25 crores, then the estimated loss is Rs 5 crores
- At the end, the lender should step back and see if the resulting provision numbers need to be further adjusted for relevant macro and micro-economic factors
- As we can see, the following factors are critical in loan loss provisioning:
    - Segmenting loans based on common characteristics
    - Determining whether to pool a group of loans or to evaluate them individually
    - Determining whether a loss is incurred
    - Estimating the gross expected future cash flows
    - Determining an appropriate discount rate

- Computing the present value
- Finally, considering any other relevant factors that affect the provisioning

• "Since provisions are based on estimates, accurate and complete data and diligent use of judgement are important. The loss provision is based on the best available information. In subsequent periods, new information may emerge that may lead to an increase or decrease in the previously reported loss. This does not mean that the previous provision was wrong

What are amortised cost and effective interest rate?

Loans and held-to-maturity investments are generally accounted at amortised cost. For example, a bank may have provided project finance of Rs 10 crores. The stated interest rate is 10% and the bank has charged Rs 40 lakhs as project evaluation fee. If the project evaluation was a substantive service, then the fee should be recorded as revenue in year 1. However, if this fee was just an upfront cash payment by the borrower, then it should be deferred and amortised over the period of the loan since it is just a mutually agreed adjustment to the effective interest rate. The "fee" amount is therefore added to the loan's overall cash flows to determine the effective interest rate, which would be more than 10% in this case. In other words, the effective interest payment is not just the stated interest rate of 10% but also the upfront "fee" of Rs 40 lakhs, which is interest by another name. The initial loan amount becomes Rs 9.6 crores instead of Rs 10 crores. The initial cash flow of Rs 40 lakhs is amortised in such a way that coupled with the principal and interest flows every year, the effective income recorded in the profit and loss account represents a constant rate of return on the loan balance. Thus the loan is accounted at amortised cost using the effective interest rate.

A similar logic applies to investments in Government of India dated securities that are bought in the secondary market at above or below par.

What is fair value?

Another hotly debated topic is fair value. The first myth to break is that fair value is not applicable to all items in the IFRS financial statements. For instance, property, plant and equipment are generally accounted at cost, unless they are revalued using fair values or are compared with fair values for determining whether an asset is impaired. Also, loans originated by banks are generally accounted at amortised cost, not at fair value, unless the loans are held for resale. Borrowings and deposits taken are also generally accounted at amortised cost. Similarly, investments that are held to maturity are accounted at amortised cost. As we can see, there are several significant items in the balance that are not accounted at fair value.

Having addressed this myth, fair value does have a big impact in the accounting for investments that are held for trading purposes or that are available for sale and in the accounting for derivatives and stock options. In addition, the assets and liabilities of an acquired business need to be mostly fair valued at the time of acquisition. Finally, although many items are not accounted at fair value, there is a requirement to disclose the fair value of all financial instruments in the notes to the accounts.

Fair value is generally the exit or market price of an asset or liability, i.e. the price that an unrelated third party would pay to takeover an asset or liability, in an arm's length transaction. In practice, fair value is based on the type of asset, the nature of the market, the appropriateness of the market information and related factors. For example, here are some indicative fair value sources for different items:

- Property, plant and equipment - quotes from interested parties, discounted cash flow analysis
- Intangible assets like brands, copyrights - discounted cash flow analysis, generally carried out by expert valuers, especially for high value items
- Quoted equity shares or bonds - market quote
- Mutual funds - NAV
- Unquoted equity shares - present value computed using inputs like current share price, expected dividend yields, market interest rate and expected price volatility. Valuation models are freely available but valuation is generally carried out by expert valuers using well-known valuation models
- Loans / deposits / borrowings - present value based on contractual cash flows discounted at the market rate for instruments with similar credit ratings and similar tenor
- Derivatives - counterparty quotes from banks, dealers, brokers or model-based valuation

So far, we have addressed some specific technical aspects of IFRS. Let's now turn our attention to some broader aspects.

How does IFRS affect systems?

The more volumes there are in a business, the bigger the systems impact. A small service company with a few hundred transactions need not worry about the systems impact due to IFRS. By contrast, a bank with millions of borrowers and depositors and thousands of investments cannot collate IFRS information without a good system. This is where core banking and treasury systems come in very handy. For instance, as we saw earlier, many small value loans are pooled together to determine the loss provision. To do this, a bank would need historical data on loan values,

dates, interest rates, payment details, credit rating, NPA triggers, etc. Modern banking systems are capable of holding such data but the real benefit is derived only by ensuring completeness and accuracy of data input.

IFRS versus Basel

The Basel capital maintenance, liquidity and risk management guidance is the global standard for banks. However, Basel does not deal with accounting. It instead deals with prudential norms for asset classification, valuation and provisioning such that banks are guided towards maintaining adequate capital. As such the fundamental guidelines do differ between IFRS and Basel. However, there are alignments especially in the area of disclosures in financial statements. For example, IFRS complements the Basel disclosure requirements relating to credit and market risk.

How IFRS affects banking professionals

IFRS is not just a new way of accounting and reporting, it tries to align with the way a business looks at itself. We saw earlier how IFRS requires large impaired loans to be individually evaluated and how expected contractual cash flows need to be discounted. This process of determining how much money a lender can expect from a borrower in present value terms is not just accounting, it is the way a banker practically monitors a loan. As such, it would be beneficial for bankers to get a working knowledge of IFRS, especially from a lending and investing perspective. IFRS attempts to get quite close to reality.

When is IFRS coming to India?

All relevant regulatory authorities in India are keen to implement IFRS. Converged IFRS known as Ind AS (Indian Accounting Standards) has already been notified in India. These converged standards take us very close to IFRS with some tweaking to take care of transition issues. However, implementation currently seems to have taken a back seat due to various factors. Hopefully, India will embrace the common international accounting and reporting platform sooner rather than later.

Russia's Economic Growth and Challenges: With Special Reference to Finance and Banking

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Vladimir Putin's Third term of presidency up to May 2018 is expected to be highly significant in the contemporary history of Russia. Having been at the helm of affairs of the country since more than a decade, Putin is confident to take the country to new heights despite prevailing socio-political and economic constraints both inside the country and in many parts of the world. An effort has been made here to examine and analyze issues concerning Russia's economic growth and challenges with special reference to finance and banking in the country.

Economic Performance

Putin during his last address as PM in March 2012 asserted that Russian economy has recovered from the crisis of 2008-2009, stating that in 2011 GDP (at 2008 prices) comprised 41, 421 Trillion Rubles ($ 1.4 Trillion), which was higher than 41,277 Trillion Rubles in 2008, and after declining in 2009 and 2010. Putin also claimed that "every key indicator, without exception, of Russia's development shows a positive dynamic," at a time when some European countries were facing crisis conditions. He stated that inflation was under control, there was decline in unemployment and Russia's accession to World Trade Organization was a sign of growing economic clout in the world. Putin has also geo-economic and geo-strategic objectives for ensuring the organization of Eurasian Economic Union comprising Russia, Belarus and Kazakhstan is in place by 2015, which if it materializes could become a powerful regional body having great significance for Europe and Asia.

So far as the financial position of Russia is concerned, in support of Putin's contention, the newly appointed deputy Prime Minister Arkady Dvokovich on 31st May 2012 stated that Russia's hard currency reserves amounted to $ 513 and hence the country was 'prepared for any scenario'. It is also contended that during the last couple of years despite global financial problems of 2009, the banking sector of Russia witnessed growth thanks to the support of the Federal government and the Central Bank of Russia (CBR). In spite of various constraints and problems during the crisis period of 2008-2010, Russian banking system remained flexible and adaptive. This is evident from the fact that in 2011 banking sector assets increased by 23% and lending by 36%.

In order to assess the stability of the banking system to withstand Europe's debt crisis, officials at Russia's Central Bank conducted a Stress Test applying a macro-model as of January 1 of 2012. One year was taken as the possible terms for the stress. An effort was made to assess the possible losses under two scenarios namely 'Pessimistic 'and 'Extreme '. The results are as follows. In 2012 under pessimistic scenario, banking loss will be 1.3 Trillion Rubles while under extreme scenario it will be 2 Trillion Rubles. Possibly under the conditions prevailing in January 2012, CBR experts came to the conclusion that the Russian banking system was strong enough and that its capital could withstand average stress. There was reasonable basis for this contention since Top 30 banks' profit went up by 51% in 2011: Sberbank of Russia made net profit of 75%, Gazprom bank made huge profit and so also many other major banks. Only in the case of VTB bank profit went down by 57%, and so also Bank of Moscow whose profit was down by 60%. As forecast by the Central Bank of Russia, in 2011, aggregate banking sector profit amounted to 848 Billion Rubles, which was 48% more than in 2010 at 573 Billion Rubles. CBR is optimistic about the banking sector, which is expected to grow by 20% in 2012.

Hence coinciding with the Duma election at the end of 2011 and campaign for presidential election in March 2012, there was basis for Putin to claim that the Russian economy was on the path of recovery and the banking and finance sector was resilient. After winning the highly contested and somewhat controversial presidential election, soon after assuming office in May 2012, Putin announced fresh targets and roadmap for economic growth and development in the next six years up to 2018. He has signed decrees setting out plans to attract businesses, promote investment and spur economic growth. For instance, he has proposed to create 25 million high-productive jobs, increase investment from less than the present 20% to 27% of GDP, improve Russia's rating on World Bank's 'Doing Business' from present 120th position to 20th by 2018, etc. Putin has also issued directives and timeframe to the newly appointed prime minster Medvedev and ministers of government for achieving targets relating to privatization, infrastructure development, soliciting foreign capital, social policy for health, education, etc.

With regard to Russia's economic growth, including finance and banking sector, there are divergent views. In contrast to the official optimistic assessment of the economy, several analysts and institutions both in Russia and abroad do not fully accept the official contention. Some critics opine that many of the claims of economic growth were made for public consumption and were politically motivated. For instance, even as per official figures, GDP in 2011 had barely touched the level of 2008 after recording decline in 2009 and 2010. Hence to claim that that there is dynamic growth process in the economy could be premature. According to Natalia Akindinova of Moscow's HSC Center for Development, at present Russia's economic performance is not too rosy since apart from prevailing low GDP growth rate which is below 4% , there is static growth in employment and out of 110 major industrial establishments only 10 have shown growth in the recent period.

As regard Putin's proposed directives for economic development during his Third Term of presidency, analysts feel these are rather overambitious considering the fact that preconditions for fulfilling them and resources needed for implementing the plans are inadequate. As opined by some analysts in Russian Journal Vedomosti in May 2012, many of the economic targets might take 10-15 years to achieve and not 6 years as set out by Putin and that Putin's latest economic decrees are reminiscent of command-style economics of the Soviet era. This is because to fulfill some of the targets, Russia should need sustained economic growth of 7% while at present growth is below 4%. In support of this contention Alexander Morozov, the chief economist for Russia at HSBC in Moscow, has candidly opined that Putin's economic goals are attainable in boom time and that the Russian government has so far done little to improve the country's business environment. Hence Putin's targets are good intentions and not pragmatic.

There are also different perceptions about the state of the economy and its impact on the banking sector. During the last one year, the economic scenario has been changing very rapidly in Russia due to both domestic socio-political factors as well as fast changing global conditions. All these developments have implications for the banking sector as well.

Firstly, the Russian economy has been over dependent upon energy and defense sectors as a source of income. Oil and gas account for about 65-70% of exports and ferrous and non-ferrous minerals about 8-10% of export earnings. As opined by World Bank experts, Russia has not paid attention to diversification of its economy and its export base and is heavily dependent on exports of energy and raw materials. In support of this view Russian economist V. Kuznetsov of Russia's Institute of Analysis of Enterprises and Markets says: 'We continue to depend upon raw material export rent. Other main item is defense and for twenty years there are no additional items'. Despite being aware of this, during the last over a decade not much has been done by the government except declaring policy intentions. In fact,

Medvedev several times expressed his support for modernization, liberalization, diversification and even political reforms. In his maiden speech after taking over presidency in May 2012 Putin has also promised to continue the task of modernization and business-friendly policies of former president Medvedev.

Secondly, among the BRIC countries, Russia also lags behind in economic growth and competitiveness of exports (in non-energy and defense sectors). In the case of many sectors, the level of technology has remained the same as during the Soviet era.

Thirdly, financial condition has worsened and has very adversely affected the population at large which is evident from the fact that according to the data of the Ministry of Economics in the first quarter of 2012, expenses of the population increased to about 8 Trillion Rubles exceeding the income by about 30%. This shows rising cost of living for the vast majority of the population because, due to high inflation, household expenses have been rising and savings have declined during the last few years.

Fourthly, volatile economic and political situation in the country since the second half of 2011, have impacted financial conditions which triggered capital outflows exceeding inflows. Russia has been suffering from persisting net outflow of private capital which was $35.1 billion in the last quarter of 2011 and again in the first quarter of 2012, which is an indication of lack of confidence about the investment climate in the country. For attaining stable and sustained economic growth, Russia requires massive capital inflow apart from mobilizing domestic resources. That is not possible without radical economic reforms as candidly stated by Vladimir Tikhomirov, chief economist at Otkritie Capital and policies pursued by Putin over a decade have not created that environment.

Fifthly, there are external factors that have a direct bearing on the Russian economy. For instance, European countries are major importers of Russian oil and natural gas apart from metals, and hence economic slowdown in Greece and Spain and the continuing Eurozone crisis is affecting their demand for energy which in turn have led to decline in international prices for energy products. Oil prices have done down below $ 100 per barrel from the 2nd week of June 2012 and exchange rate of Ruble has gone down vis-a- vis dollar to about 33 per dollar. Hence these factors have made Russia's economy and finance sector vulnerable. A candid observation made by the former finance minister Aleksei Kudrin who is associated with a Think Tank, that Russia might face another financial crisis. In fact if international oil prices fall below $ 80 per barrel and global financial situation also worsens, then Russia could also face a crisis.

Impact on Finance and Banking

Given this background of the macroeconomic scenario, it is worthwhile to examine its impact on the banking and financial sector of Russia. It is important to note that

top 5 banks in Russia which account for 50% of banking assets are either state controlled or affiliated with State-controlled companies such as Sberbank (dealing with savings), VTB (dealing with foreign trade), Gazprom bank (dealing with energy sector) etc. Some Russian banks are also engaged in acquiring assets both in the country and abroad. At the same time while state controlled banks enjoy certain advantages, the prevailing adverse external financial conditions affected the privatization plan under which the Russian state was to decrease its share in state owned companies. This was evident from the fact that while in the beginning of 2011, about 10% share of the state in VTB was sold; during the second half of 2011 the proposal of selling 7% share in the Sberbank was withheld due to decline in the expected rate of return.

Russia has many private banks affiliated to large enterprises and business groups, which have network of branches operating at federal level and engaged in variety of banking services including auto loans, mortgage lending apart from deposit management. They have strong political linkages as well and hence can play an important role in the economy. Russia also has many small private banks which are associated with business groups and small and medium enterprises. While their objective is to secure funds for their owners and attract low-cost funds, they have been exposed to a new set of problems.

In January 2012 the minimum capital requirement was raised from 90 to 180 million Rubles. Hence, as opined by some finance experts, many of the small banks could either liquidate taking their money out of the country or merge with large banks. In fact during 2011 the number and volume of unfair acquisitions in Russian banking is expected to have increased. Similarly, Russia has been a victim of money laundering which seems to have increased. In fact during the year 2011 capital outflow was of the order of $ 70 billon as compared to $ 36 billion in 2010. While there are no specific data, there are strong possibilities that money invested in such small banks could also be part of capital outflow to safer and less volatile regions. In fact as Putin has come back to Kremlin, it will be a challenge for him to prevent capital outflow and try to reverse the flow of capital into Russia.

Russian banking sector suffers from many problems notwithstanding growth in some respects. Firstly, financial analysts as also managers working in the banking sector are candid in their opinion that the quality of banking services in Russia is far from satisfactory and needs radical improvement. This is evident from the fact that cash transactions are very common among Russians in many cities and towns apart from villages. Secondly, there are weaknesses in the banking sector in Russia such as poor credit standing of the non-export sectors in the country, besides underdevelopment of domestic capital market as also pointed out by Standard and Poor's Rating Service. Thirdly, due to large scale liquidation of banks, there is lack of trust among Russians so far as small private banks are concerned. In fact there

was a mushrooming growth of such pocket banks in the 1990s and a large number of them did not survive. Millions of Russians lost their hard earned savings during their lifetime. Fourthly, private banks suffer from the problem of bad debts which according to some analysts could be about 12% at present of total debts. But the banks still keep these bad debts on their books as recoverable and do not write off.

Notwithstanding some of these problems, the banking sector comprising state banks as also private banks can play an important role in the economic policy measures proposed by the State with regard to modernization, innovation and infrastructure development initiated by the Russian government. In fact this is highlighted in the policy as spelt out by Putin recently in 'Strategy 2015'. While state banks have certain advantages so far as network of branches and volume of deposits are concerned, according to finance experts there is need for creating an environment of competition and improvement of managerial services in the banking sector as a whole. As already stated above, so far as top 50-60 banks are concerned, they have close political ties with the government. Hence they can play an important role in implementing economic policy measures undertaken by the Russian government.

An important development in the banking sector is the policy decision of the Russian government regarding privatization wherein the government plans to reduce the share of the state to only 51 percent, while leaving management to private initiatives. According to Russian sources this is with regard to Savings Bank of Russia, VTB dealing with foreign trade, Russian Agricultural Bank. Leading banks are also involved in the state proposal of setting up an International Financial Center in Moscow. During the period 2012-2018 Putin's new administration seems to be keen that this project should materialize.

At the same time State banks have challenging tasks to perform. On the one hand as per Strategy 2015 approved by the government, state banks are expected to become competitive in a short span of time overcoming shortcomings prevailing in the system, but they also have to share the burden and responsibility to ensure stability and growth in the economy. This is a difficult task since there are a large number of loss making and inefficient enterprises in Russia in which thousands of workers are employed, which need financial support. While from the perspective of banks, lending loans or credits could be risky, the interest of the government is that these enterprises continue to function with financial support of the banks to ensure continuity of employment and avoid social and political unrest. Hence as observed by an analyst, Russian financial system forces state banks to hold liquid assets, restructure bad debts, and invest in doubtful and risky projects.

Foreign capital investment plays an important role in the contemporary period in the world. In the post-Soviet period, as opined by many analysts, the decade of the 1990's was relatively more favorable for foreign capital investment than the

subsequent period. Economic policies pursued by the Russian government from time to time have a direct bearing on the foreign capital investment. Total FDI in Russia increased from $ 2.7 Billion in 2000 to $ 72.8 Billion in 2008. Again in contrast to the period of 2005-2008 when FDI in the banking sector was increasing and thus contributing to the resource base of Russian banking system, during the period of 2009-2010 its influence declined partly due to the global financial crisis and partly due to domestic economic policies concerning foreign capital. Western economist Silvana Malle has opined that Russia's 'Law on Foreign Investment in Strategic Sectors' that came into force in May 2008 was highly restrictive that covered 42 industries raising concern that Russia might move towards protectionism. All these policies impacted sentiment and hence the share of foreign capital in the Russian economy was not significant and much less as compared to that in China or India. Hence in 2010 FDI Confidence Index calculated from 0 (low) to 3 (High) was 1.24 for Russia, 1.93 for China and 1.64 for India.

While there is growing realization of the role and need for foreign capital to achieve various objectives of economic development such as modernization and diversification of the country, necessary conditions for attracting investment lacking. Some efforts have been made by the Russian leaders and corrective measures have also been taken including amendments to the 2008 law to attract foreign capital. Even as Putin has given special emphasis on attracting foreign capital in his latest address, there is need for creating a conducive environment by the Russian government, particularly easing restrictive measures and ensuring fair competition. Moreover, there is urgent need to improve investment climate in the economy which is going to be a challenge for the country.

In conclusion it may be stated that there are substantial differences between the optimistic official claims regarding the performance of Russia's economic growth as also of the finance and banking sectors, and cautious and less optimistic assessments by analysts and institutions both in Russia and in the West. Over-dependence on energy and defense sectors and neglect of diversification of economy has made Russia's economic and financial conditions vulnerable to external shocks and uncertainties. There is persisting dominant role of the State with regard to finance and banking sectors including certain private banking institutions which have close political linkages. There are several problems affecting the economy including poor investment climate, lack of competitiveness, lagging technology, poor quality of banking services, falling value of the Ruble, etc., which need to be tackled. Hence even as Vladimir Putin has displayed confidence and issued policy statements and directives for taking the country to new heights during his Third Term through his Strategy-2015, it is going to be a difficult task as Russia will continue to face several formidable challenges in the years to come.

Winning the War for Talent in a Competitive Marketplace

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"War for Talent" - coined by McKinsey in 1997

The war for talent is heating up in today's competitive markets. Most companies today acknowledge that human assets are their most important assets. But companies don't own people the way they do their factories or products. Their success or failure hinges on the quality and duration of their relationship, with their people. In this era of mounting performance pressures, people who are dynamic, constantly improving and building on opportunities available will be able to drive the organization to new levels of performance. The war for talent is a business reality and will persist for years to come and forces causing it are deep and powerful. A few companies realizing this, have revolutionized their approach to talent management. Most aren't yet out of their starting blocks.

What exactly is talent? A natural ability or skill that a person is born with. Most often our attention is restricted only to talent in the executive ranks or maybe a high potential manager. However, talent should encompass everyone in the company no matter what function or what level. Every single employee has a role to play, directly or indirectly, in creation or delivery of value to the market.

Why is talent important? Having great talents has always been important, but now, it has become critical. Demand for business leaders and other skilled workers are growing rapidly in response to the opportunities and challenges to be addressed in

[3]*This article is based on a paper presented for BANCON- 2011 and was selected for the Journal "The Indian Banker".*

this knowledge based economy. High performers are likely to leave companies, where they feel they are underdeveloped, undervalued and underpaid. Switching jobs is no more a stigma… it's easier to do than ever before, all thanks to the transparency of the Internet and the head-hunting industry. Most companies today are ill prepared to meet the attrition problems. Regardless of the size, companies have yet to arrive at a formula that will make their organization attractive to talented people. Attracting and retaining great talent is becoming exceedingly difficult as the demand for talented people outstrips supply. This demand for talent will ebb and flow with the economy.

A great talent is what separates winning companies from the rest. Studies have revealed that about 20% of the workforce can be treated as the **most valuable group** and out of this; 3-5% are **Super Performers.** Having talented people in key positions enhances performance to a large extent. Organizations today need to offer life-cycle solutions to employees. A reputed brand, career progression, recognition, rewards, work-life balance and remuneration in tune with their value to the company, are some of the key factors. All these can be broadly summed up under two heads:

1. Attracting and recruiting the right talent
2. Talent Retention

I) Attracting and Recruiting the Right Talent:

"You can't retain talent that you can't attract in the first place"

As the pace of growth quickens, without the right talent, businesses cannot prosper. There is no dearth of opportunities for a knowledgeable person. Changing workplace demographics and the impact of reducing employee loyalty has led corporate India to search for answers to recruit and retain their most strategic asset, "TALENTED PEOPLE". As more and more multinationals open offices, attracting and retaining the best talent is becoming an increasingly strong differentiator of success.

Two factors, a burgeoning technology and a shrinking talent pool have vastly impacted the recruitment landscape. Where once good employers found it relatively easy to land the top candidates, today there is a severe talent shortage in certain fields. Despite the clear need to hire effectively, in many companies, the HR functions have yet to catch up. No longer can companies merely designate external or internal recruiters and decide where to place job postings and advertisements. A competitive approach, an effective recruitment strategy is important to win the talent war. The internet offers candidates as well as employers powerful new resources that weren't available a generation ago. The company needs to have a keen sense of who they are looking for and do it in new ways, new places. Having superior

talent at all levels of the organization is to be given the same amount of attention as budgeting and operation issues. Success of a company depends upon the type of talent it is able to rope in and is to be measured with the same rigour the company applies to growth targets and market share.

There are always facts… skills, certifications and experience. But, there is a plethora of other attributes, the non-tangibles and this supports hiring the right talent for an organization. It is important to distinguish between learnable skills and native competencies. In every position, certain skills can be taught. But in many others, native intelligence, goal orientation, honesty and people's skills must be inherent or a person will under-perform. Once a candidate is in the door, there is skill assessment, personality profiles, references and experience. While these are tried and tested approaches, the staff turnover today is still very high somewhere in between 20% - 40%. Something is clearly not working and there is a high price to be paid for missing the mark - high recruitment and training costs. Beyond the cost element is the performance challenge. Achieving consistent performance in a fluid environment is very difficult. Listening skills, the ability to handle stress, response in demanding situations, the ability to lead and to interact with peer groups are highly desirable attributes.

II. Retaining Talent:

"Talented people who continue to develop skills and increase their value to the organization and the customers are the most important resource of a company"

Hiring knowledgeable people is important for an employer, but retention, even more important. Key employee retention is critical to the long term health and success of the business. Corporate branding helps to attract the right kind of talent, but retaining talent is the lead indicator of the strength for a corporate brand. High attrition rates indicate that, either the company has attracted the wrong type of people, or is not living upto its promise. Building loyalty among the most productive and talented people in the workforce is very important.

Why is employee retention so important?? Is it just the turnover costs? The answer is a definite no.

Effects of a high turnover:

1. Cost of Turnover: Cost of turnover adds hundreds of thousands, to a company's expenses, which include hiring costs, training costs and loss of productivity.

2. Interruption in Customer Service: Customers do business with an organization in particular, because of the employees. Relationships are developed and when an employee leaves, the relationships built by the employee for the organization are severed leading to potential customer loss.

3. Turnover Leads to More Turnovers: When a talented employee leaves the company, other employees often start having second thoughts about continuing there. Moreover, co-workers have to pick up the stack. This unspoken negativity often intensifies for the remaining staff.

4. Goodwill of the Company: Goodwill of the company is maintained only when attrition rates are low. Higher retention rates, motivates more talented people to join the organization.

5. Regaining Efficiency: When a talented employee leaves, time is lost in training a new employee and bringing him to the level of the previous one, which many a times goes un-noticed and even after this we are not assured of the same efficiency.

Workplaces today are full of up-tight people, worried about their careers, future and opportunities. Employees are often stressed and burned out, and it is absolutely essential to keep up their morale and sanity. Recognizing their skills and personality and offering a matching job, motivates and contributes to employee satisfaction. No matter how inspiring the leaders are, they are only as effective as their team. A team's output is healthy only if members are in consensus with each other and the key ingredient is having right people in the right job. A workforce that is nimble, adaptable and prepared to participate in the organization in the new level of competitiveness is a must. As more and more organizations re-engineer, restructure, merge, downsize, right size and at times even capsize, employees today confront uncertainty almost on daily basis. Rules keep changing in terms of what we do, how we do it and whether we do get to do it or not! Most of us do not have any control over making of these rules and as a result there is a sense of powerlessness which translates into increased stress, demoralization and less productivity, all of which affects the retention of the super performers and losing good employees costs money.

How can organizations help employees maintain their spirits, their drive and sanity in this situation?

It is here that talent management plays a very crucial role. Though everyone agrees that talent management is critical to a company's success, very few are confident, that their present actions will attract and retain a strong talent pool. Managing talent requires enormous efforts and a great deal of behavioural change. Here are some of the key areas:

1. Work Environment:

It is important that organizations create an environment where employees enjoy coming to work every day, where there is good fellowship, staff attack their work with zeal and confidence, where they like the people they work with, are appreciated and rewarded and think of themselves as partners rather than employees. People

who enjoy what they are doing, does it better. It unleashes creativity, work ceases to be drag and takes on an effortless, easy flowing zen-like quality that results in great ideas, high productivity, morale, satisfaction and yes, the end result - employee retention. Employees rarely leave an organization they are happy to work for, financial compensation notwithstanding.

2. Build Talent Rich Organisations:

The top management and the HR department together have to work towards this goal. Talent rich organizations look at talent at different levels in the organization rather than a handful of individuals. They would like to see a good number of people with great potential, experience, maturity and aggressiveness to steer the organization forward. "The future belongs to those who see possibilities, before, they become obvious", says John Scully. **Zero Talent Outages** and **Succession rather than replacement** should be the mantra. Having two or three people trained and ready, willing and able to step into the shoes of those promoted and retiring, or those resigning is a must. People, who are responsive to business opportunities that open up, will definitely take the company forward. The company has to ensure that succession plans are in place and the aim should be to have efficient people, ready to take on the mantle. For this, a pool of talented people has to be created on a continuous basis.

3. Instilling a Talent Mindset:

A talent mindset is to be instilled at all levels of the organization, beginning with the senior management. Talent focused managers are truth tellers and feedback providers. They do it in a way that is honest and respectful. Preserving the dignity of the other person is equally important. Leaders with a talent mindset, sit-up, roll their sleeves and **make talent their job,** continuously creating and encouraging talent. They ensure that a clear link, between the business strategy and the talent required, is established. They hold themselves and leaders at levels of the organization accountable for the strength of the talent pool.

4. Create Winning Teams:

Successful team's need people who can make things happen. To create winning teams and retain employees, it is essential, that a company asks itself- Why would a talented person want to work here? Following are the criteria employees look for in an organization:

a) Exciting work: Performers want interesting, meaningful, challenging roles that make them feel passionate about their work. Much of the feeling good about a job is the result of being valued for one's unique talents. A great job is one which is demanding and stretching, which makes it interesting and worthwhile.

b) Great company: Talented people prefer to work for companies that are well managed, have admirable corporate culture, values and great leaders. They want to work for growing and stable organizations and along with other winners want to contribute to that success. They want to be part of a winning team. Organizational success, growth, reputation and innovation are all important to great performers. Two aspects of corporate culture that are most critical to super performers are a **strong emphasis on performance and a trusting open environment.**

c) Wealth and rewards: Individual expectations of developmental, financial and psychological rewards are way up, in this competitive era. Talented people want to make money that is commensurate with the wealth they create. Super performers must be rewarded with a significantly differentiated compensation. It is not only the tangibles that matter, people need to be valued and recognized for their individual contributions. Competitive compensation is crucial, and does not necessarily mean that the organization should pay more for every position, but it does mean that paying according to the market is important.

d) Growth and development: Employees have to work their way up before they get to the top. Performers expect their companies help them to develop related skills and help them fulfill their dreams. Development through training, challenging jobs, experiences, a candid feedback and good mentoring is crucial to performance. If a company can develop talent more effectively than anyone else, it will attract all the talent that it can handle. Why in the world would employees want to leave if they are developing and growing more rapidly, than they would anywhere else? It is important to provide catalysts for capacity building.

5. Talent Management:

Advent of a multi-polar world is changing the rules of talent management. Talented professionals are increasingly mobile, have highly transferable skills, are internet literate, well informed and above all **sought after**. Managers and leaders of today are struggling to find and keep these valuable individuals.

Following are the key areas where a company needs to pay attention to:

a) Communication and performance measurement systems: People need to know what is expected of them and have their contribution measured. Only then, employees will see a link between efforts and performance. It is difficult to hold people accountable for their work, unless, expectations are made clear.

b) Providing materials and equipment to work right: Providing the right support, resources and tools so that employees can use their talents and capabilities is a great motivating factor. Having in place systems and procedures that facilitate

accomplishment of work is equally important. In the absence of these employees may perceive expectations as unrealistic.

c) Provide opportunities to do what they do best everyday: Talents, knowledge and capabilities should match the demands of the job. All talent is not created equal. Talents can sometimes be very specialized and narrow, hence knowing each individual's strengths and limitations is critical to maintain a healthy work atmosphere.

d) Ensure people have managers who care: Marcus Buckingham of Gallup says, **"People Join Companies but Leave because of Managers".**

A person may join a Nokia, Nortel, Infosys or General electric… because of generous pay packages and reputation of the company. But it is the relationship of an employee with his immediate boss that determines how long he stays and how productive he is. A relationship between mangers and people under their immediate control is critical. Listening to their ideas and concerns and sending encouraging signals is important. Talented, productive people thrive on being respected, appreciated and recognized for their contributions. A diminished relationship directly affects staying power.

e) Surround talented individuals with people who have a drive for quality: Companies need to recognize real contributors and put them on with teams which have similar standards and results will follow. Talented individuals always set high standards for themselves and expect the same from their team-mates. Arbitrarily placing individuals on teams which under-perform can demotivate them.

Simple though they may seem, when put into practice, these simple changes can fundamentally shift the way people think about talent management.

6. Grow Great Leaders:

Talented people crave for an opportunity to grow or else they will leave. Growing great leaders entails giving them challenging jobs and gently pushing them beyond what they thought themselves capable of. It also entails giving them a candid feedback that they need to grow and improve, i.e. weaving mentoring into the fabric of the organization and not just as an appendage.

7. Differentiate and Affirm:

Very often there is a temptation to treat all employees alike. Assessment of talent and differentiation of how and how much to invest in the top and bottom line performers is a must. Top performers need to be encouraged and challenged with better opportunities and rewarded for the value they create. At times there may be the difficult task of moving the low performers to lower positions or maybe even out of the company. At the same time those solid performers who are neither superstars nor

blockers cannot be overlooked. It is important to nurture them, raise their performance and job satisfaction to higher levels through continuous skill development and affirmation. Employees are astonishingly loyal to employers who respond to their needs and are willing to go that extra mile.

Ability to advance one's career, balance work-life and family are significantly important to top performers. At the end of the day people make decisions based on what is best for their careers and families. Jack Welch, the world's most admired corporate citizen, said **"Nothing matters more in winning, than getting the right players on the field".**

The bottom line for WINNING THE WAR FOR TALENT is, **providing lifetime solutions** and of course striving to become the **employer of choice.**

Legal Decisions on Banking

Shri M.Karuthaiah Thalaivar
Manager (Law), Law Section, State Bank of India, Administrative Office, Madurai.

Case No. Writ Appeal (MD) No. 1436 OF 2011

V.Mathivanan vs. State Bank of India

Division Bench - Madurai Bench of the Madras High Court

Facts of the Case

1. Shri. V.Mathivanan was appointed as Assistant on 06.06.1991 in State Bank of India, Valparai Branch in Coimbatore District under Ex-serviceman category and promoted as Senior Assistant in 2004. While he was working at Modagam Branch of Madurai Module, he was placed under suspension on 20.07.2009 and was served with a charge sheet vide proceedings dated 11.09.2009 which contained 13 charges.

2. The allegations made against Shri. V. Mathivanan is that he forged the signatures of 64 Self Help Groups under brand SEVA TRUST and fabricated 64 non-existent Self Help Groups and that the he had morphed photographs of Self Help Group members and the faces of President and Treasurer of each Self Help Group in unrelated group photo.

3. In collusion with others, Shri. V.Mathivanan has forged the documents to derive the pecuniary benefit through the loan amounts. Immediately, on receipt of the charge sheet, he addressed a letter offering his explanation. The proceedings initiated in terms of the Memorandum of Settlement on 01.08.2002 listed out as many as 12 charges and on being informed about the appointment of an Enquiry

Officer, Shri V.Mathivanan has written a letter on 09.05.2011, wherein he sought for assistance of an Advocate in the enquiry proceedings.

4. By proceedings dated 16.05.2011, the Bank rejected the said request on the ground that the presenting Officer engaged by the Bank was not an Advocate, but an official. Once again Shri. V.Mathivanan has sent a letter dated 23.05.2011 contending that the right to defence is a fundamental right and accordingly, he should have the services of an Advocate in the enquiry proceedings. Further he has stated that the letter written by the Bank is contrary to the Regulation and Instructions and the Memorandum of Settlement on Disciplinary Action Procedure for Workmen dated 01.08.2002, in particular, Clause 12(a)(iii) and violation of the Constitution of India, he sought for permission to have the assistance of an Advocate, on 25.05.2011.

5. The Bank, however, refused such permission and pointed out that if he so desired, he might engage the services of a representative of Registered Trade Union of the Bank Employees as provided in the Memorandum of Settlement dated 10.04.2002 to defend his case. Subsequent thereto, once again, on 14.06.2011, Shri. V.Mathivanan wrote a letter informing the Bank about engaging the services of M.Rajarathinam, Advocate and contended that under Section 30 of the Advocates Act, 1961, the Advocates can practice as a matter of right in all "Courts", "Tribunals" or any "Quasi-judicial authority". In these circumstances, Shri. V.Mathivanan prayed that suitable letter be issued to his Advocate.

6. The Bank replied on 27.06.2011 that the terms of Bi-partite settlement is binding on both sides. In these circumstances, the Bank refused permission for him to have the assistance of an Advocate. Instead, the Bank informed him that he can engage a Defence Representative from the Union as per the Bank's guidelines/Bi-partite settlement.

7. Shri. V.Mathivanan has challenged the order refusing permission to have the assistance of an Advocate before single judge. It was decided in favour of the Bank stating that engaging the services of a lawyer as defence representative in a domestic enquiry is not a matter of right and that it is only at the discretion of the Bank. Subsequently he filed Writ Appeal.

Decision

The appeal filed by Shri. V. Mathivanan to have a lawyer to defend his case was dismissed without any order as to cost.

Reasons for the Decisions

The Bank has relied on the decisions of the Honourable Supreme Court in

- Crescent Dyes and Chemicals Ltd., v. Ram Naresh Tripathi reported in (1993) 2 Supreme Court Cases 115;

- N.Kalindi and others v. M/s.Tata Locomotive and Engineering Co., Ltd., Jamshedpur reported in AIR 1960 SUPREME COURT 914, a decision consistently followed till this date;
- M/s.CIPLA Ltd., and others v. Ripu Daman Bhanot and another reported in AIR 1999 SUPREME COURT 1635;
- Bharat Petroleum Corporation Ltd., v. Maharashtra General Kamgar Union and others reported in AIR 1999 SUPREME COURT 401;
- Indian Overseas Bank v. Indian Overseas Bank Officers' Association reported in AIR 2001 SUPREME COURT 4007;
- State Bank of India, rep. by Assistant General Manager (Personnel & HRD), Chennai v. Presiding Officer, Industrial Tribunal, Madras and another reported in 2007-II-L.L.J. 968 (Mad), only to insist on the contention that adequate opportunity is provided under the Settlement and granting of assistance through an Advocate is the matter of discretion. The bank has pointed out that the right of representation is only a restricted right which has been recognised in the Settlement between the Management and the employee. In these circumstances, no grievance could be raised.

In considering the issue as to whether the employee has a right to have the representation through a lawyer, the Court has referred to the decision in Management of National Seeds Corporation Ltd., Vs. K.V.Rama Reddy reported in 2007-II-L.L.J. 30 and referring to the decision in Indian Overseas Bank Vs. Indian Overseas Bank Officers' Association and another reported in AIR 2001 SC 4007, to point out that the basic principle is that an employee has no right to representation in the departmental proceedings by another person or a lawyer unless the Service Rules specifically provide for the same; and that the right to representation is available only to the extent specifically provided for in the Rules. Thus, in the context of the law declared, no employee can claim assistance or representation by a legally trained person as a matter of right.

In the case of Chairman and Managing Director, Hindustan Teleprinters Ltd., Chennai v. M.Rajan Isaac reported in (2005) 2 MLJ 119 and held that in the enquiry proceedings, a workman is not entitled to have the assistance of a lawyer of his choice. In the absence of specific provisions either in by-laws, guidelines, etc., enabling the workman to have the legal assistance, this Court rejected the plea of the delinquent officer.

In D.G., Railway Protection Force and others v. K.Raghuram Babu reported in AIR 2008 SUPREME COURT 1958, the Apex Court reiterated the principles following the earlier decisions. In paragraphs 10 and 11, it is held as follows:

"10. Following the above decision it has to be held that there is no vested or absolute right in any charge-sheeted employee to representation either through a counsel or through any other person unless the statute or rules/standing orders provide for such a right. Moreover, the right to representation through someone, even if granted by the rules, can be granted as a restricted or controlled right. Refusal to grant representation through an agent does not violate the principles of natural justice.

11. In the present case, Rule 153(8) only provides for assistance to a charge-sheeted employee by an agent. Thus, a restricted right of representation has been granted by Rule 153(8). Even if no right of assistance had been granted by the rules, there would be no illegality or unconstitutionality. How then can it be said that when a restricted right is granted, the said restricted right is unconstitutional."

Ordinarily, a delinquent officer has to conduct his case on his own in a domestic/departmental enquiry as the same is not a criminal trial or a suit where a party has the right to be represented by an Advocate.

The Honourable Apex Court clarified this by further saying that if the charge is serious and complex nature, the delinquent's request to be represented through a counsel or agent could be conceded. The Apex Court referred to the decisions of the House of Lords, particularly, Lord Denning who held that **"in a domestic enquiry, justice can often be done in them better by a good layman than by a bad lawyer"**.

The provisions of the Advocates Act and the decisions rendered regarding the right of representation, nothing had been contended before the learned Single Judge as to how the gravity of the charges leveled against the V.Mathivanan makes the right of representation through an advocate an absolute one.

It is not denied by Shri. V. Mathivanan that neither the enquiry officer nor the representative of the Bank and the Management are legally trained persons in the enquiry proceedings. On the admitted fact that the Settlement does not provide for engaging a lawyer as a matter of right and that the Bank itself have not appointed a lawyer as the enquiry officer nor the representative of the Management to be a lawyer, the court do not find any justification in accepting the case of V.Mathivanan that he is entitled to have the assistance of a lawyer.

Epilogue

Engaging Advocate as defense representative is vested with the bank and the discretion is reserved with the Bank as per the Memorandum of Settlement on Disciplinary Action Procedures for Workmen dated 01.08.2002 and it cannot be claimed as a matter of right.

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Articles are invited from both staff members and others for publication in the SBI Monthly Review. The size of the article should be about 2,500 to 3,000 words and should be sent in soft version and also a hard copy. The article can be on a topic concerning the economy, agriculture, industry, banking, finance, the monetary or external sector, international economic developments, management, including human resources management, or any topic of particular relevance and interest to bankers.

To encourage quality writing honorarium has been increased from 1st April 2011. Selected original article for the Monthly Review will be paid an honorarium of ₹ 3,000 to non-staff writer and ₹ 2,500 to one from among the staff. A lump sum payment of ₹ 1,500/- is made for an article based on a paper presented at a seminar/conference or published elsewhere, earlier.

Ordinarily, no correspondence is entertained in respect of articles sent for publication.

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