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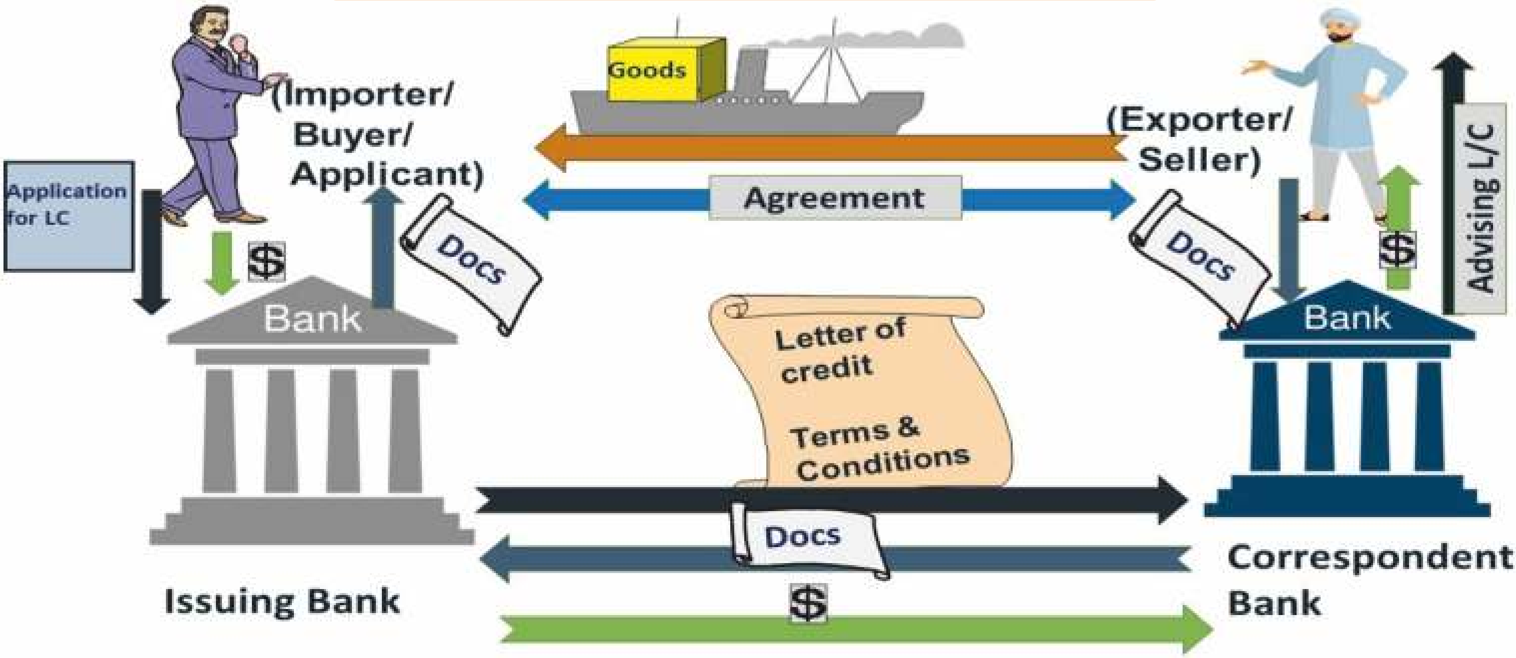
LETTER OF CREDIT / GUARANTEE



Introduction:

It has been observed during my interactions with many people, that they have the following ideas on the main fund based facilities of the bank:

1. Cash credit

Limit sanctioned against stocks or book debts and the facility would be normally for a year with renewal option.

2. Overdraft

Against immovable property.

3. Term Loan

Purchase of fixed assets/Project funding and repayment with certain years of repayment of Equated monthly instalment (EMI) of differential repayments based upon the cash flow of the customer.

4. Housing Loan

Long term loan provided against purchase or construction of house.

5. Bills facility

Purchase/discount of Trade Bills on sight or Usance terms.

However, much clarity could not envisaged on the differences between L.C. and L.G. (Letter of Credit and Letter of Guarantee). This article intended to try to provide a clarity of the differences between Letter of credit and Letter of Guarantee: The basis of the article comprises on the understanding of L.C. and L.G. with the support of Google to some extent. Any suggestion for modifications are most welcome.

Non fund facilities:

Letter of credit (L/C) and Letter of Guarantee (L/C) fall under non fund facilities.

A Non fund based lending/facility is a facility where the lending bank does not commit any physical outflow of funds. The funds position of the lending bank remains intact.

The banker provides a commitment to guarantee/indemnify the claim/dues of the exporter/lender for the imports to be provided/instalment due by the debtor.

Letter of Credit:

Letter of credit is a document from a bank that assures payment to the seller/exporter once all the requirements of letter of credit are met.

Import Letter of Credit:

The letter of credit would be insisted by the exporter of goods in case their comfort level with the buyer/importer is not much and to secure timely payment.

Once the importer requests for the import of goods, the exporter in the foreign country would normally insist for a Letter of credit from a prime bank of the importer.

On establishment of the L.C., the exporter would export the goods to the buyer as per the terms of L.C. and send the export documents (viz: bill of lading/Air way Bill, Bill of origin, Insurance papers, etc.) to the buyer's bank. If the exports and documents are as per the terms of contract/L.C., the bank has to honour the payment & take recourse with the buyer and recover the amount.

Inland letter of credit:

Inland letter of credit is an obligation of the bank that opens the letter of credit(the issuing bank) to pay the agreed amount to the seller on behalf of the buyer, upon receipt of the documents specified in the letter of credit under domestic business transaction.

The Bank will charge the commission for the issue of Letter of Credit.

The Letter of credit can be bifurcated into L.C - sight or L.C- DA/Usance Terms.

Letter of Credit (Sight):

If the payment of the L.C. is immediate on receipt of the documents from the exporter/seller, is termed as L.C.(Sight).

Letter of Credit (Usance):

If the payment of the L.C. is on usance terms (i.e. payable after 90 days or 180 days depending of the L.C. terms, the bank will first accept the documents. At the time of the due date of the usance, the payment will be made by the bank.

The banks will proactively advise the customer to deposit the required funds in the account to meet the L.C. liability. If the L.C. is invoked and not paid, it would crystalise in a fund based liability(B).

Letter of Guarantee:

A letter of guarantee is a type of contract issued by a bank on behalf of a customer who has entered a contract to purchase goods from a supplier. The letter of guarantee lets the supplier know that they will be paid, even if the customer of the bank defaults.

If there is a default from the customer on the due date, the lender can have a direct recourse against the Guarantor, irrespective of the action against the primary borrower. This is mainly because of the liability of the Guarantor is Co-extensive and also joint & several.

Foreign Guarantee:

A guarantee issued by the bank on behalf of the customer to a beneficiary in other country guaranteeing the payment for the obligations to be met on due date.

Inland Guarantee:

A guarantee issued by the bank on behalf of the customer to a beneficiary for assuring/ guaranteeing the payment for the obligations to be met on due date.

The guarantee can be broadly bifurcated into the following broad categories.

Performance Guarantee:

A performance bond, also known as a contract bond, is a surety bond issued by an insurance company or a bank to guarantee satisfactory completion of a project by a contractor. The term is also used to denote a collateral deposit of good faith money, intended to secure a futures contract, commonly known as margin.

Money Guarantee:

A guarantee issued to guarantee/assure money/instalment payment to the lender on behalf of the borrower.

Bid Bond Guarantee:

A bid bond is a type of construction bond that protects the owner or developer in a construction bidding process. It is a guarantee that you, as the bidder, provide to the project owner to ensure that if you fail to honor the terms of the bid, the owner will be compensated. A bid bond is typically obtained through a surety agency, such as an insurance company or bank, and it helps guarantee that a contractor is financially stable and has the necessary resources to take on a project. Bid bonds are commonly required on projects that also involve performance bids and payment bonds.

The Benefits to the issuer:

The Bank will get the commission for the guarantee / L..C issued apart from deposit by way of security margin, without extending any fund based credit facilities while issuing the Guarantee/L.C.

Risks in the issue of Letter of Credit/Letter of Guarantee:

Once the Letter of credit or Letter of Guarantee are issued it becomes irrevocable. On Crystallisation of liability, the same has to be paid by the issuer. For proper tracking and follow up, the L.C./L.G. will be a part of contingent contra entries in the Balance Sheet, which is required as part of disclosure.

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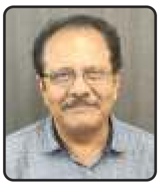
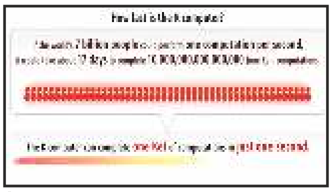


ARTIFICIAL INTELLIGENCE (AI)

Artificial intelligence (AI) is an area of computer science that emphasizes the creation of intelligent machines that work and react like humans. Artificial intelligence is a branch of computer science that aims to create intelligent machines. It has become an essential part of the technology industry. Research associated with artificial intelligence is highly technical and specialized.

COMPONENTS OF AI?

1) Hardware Components of AI
   - Pattern Matching
   - Logic Representation
   - Symbolic Processing
   - Numeric Processing
   - Problem Solving
   - Heuristic Search
   - Natural Language processing
   - Knowledge Representation
   - Expert System
   - Neural Network
   - Learning
   - Planning
   - Semantic Network



2) Software Components
   - Machine Language
   - Assembly language
   - High level Language
   - LISP Language
   - Fourth generation Language
   - Object Oriented Language
   - Distributed Language
   - Natural Language
   - Particular Problem Solving Language
3) Architectural Components
   - Uniprocessor
   - Multiprocessor
   - Special Purpose Processor
   - Array Processor
   - Vector Processor
   - Parallel Processor
   - Distributed Processor

TYPES OF AI

There are Three types of Artificial intelligence: ANI, AGI, and ASI.

- ANI: has a narrow-range of abilities
- AGI: is about as capable as a human
- ASI: is more capable than a human

For now, AGI and ASI are Sci-Fi, and all existing AI is ANI (e.g. Googlebot).

1. Artificial Narrow Intelligence (ANI):

a. Example: RankBrain by Google and Siri by Apple

When an AI's ability to mimic human intelligence and/or behaviour is isolated to a narrow range of parameters and contexts, it's called ANI (also known as Weak AI or Narrow AI). All existing AI are ANI.

b. It's important to keep in mind that we are talking about narrow intelligence, not low intelligence.

2. Artificial General Intelligence (AGI):

a. When an AI's ability to mimic human intelligence and/or behaviour is indistinguishable from that of a human, it's called AGI (also known as Strong AI or Deep AI).

b. Most experts believe AGI is possible; however, seeing as the Fujitsu-built K, one of the world's fastest supercomputers, took 40 minutes to simulate a single second of neural activity,

I can't believe this till now, but it is real.

3. Artificial Super Intelligence (ASI):

a. When an AI doesn't mimic human intelligence and/or behaviour but surpasses it, it's called ASI.

b. ASI is something we can only Postulate about. It would surpass all humans at all things: maths, writing books about Orcs & Hobbits, prescribing medicine and much, much more.

How It Is Useful in Accounting:

The Use of AI In Financial and Accounting System is actually leading to Real Profits for every Entities.

It Also Uses in

- Identify and interact with suppliers.
- Automatically intake, code, process and route invoices, using optical recognition technology.
- Denote payment deadlines, approval workflows, and the approvers.
- Data Entry, Verifications, Referrals and Fraud Detection.
- Creative Thinking, Decision Making, Accurate Analysis.
- Strategy Planning.

In the near Future AI will take over the World with its technology. We should use our Technology upto its Core. Despite of Decrease or Increase in Technology,we should have effective control over it.

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|Article|

SECRET OF SHADOWS

Black was one of the most important colours used by ancient Greek artists. In Latin, the word for colour black is "attraction". Darker shades were associated with cruelty, brutality and evil. These formed the basis for the English word "atrocious" and "atrocity". Black was also prevalent in the roman culture signifying death and mourning.

Though Black technically is not a colour because it is the result of the absence or complete absorption of visible light. Black has been the symbolic colour of solemnity and authority across culture and for this reason, it is still commonly worn by judges and magistrates. In tamil tradition most people dislike black because they assume that it is against purity. Hence they don't prefer to wear dresses in black colour on special occasions. But in the corporate parlance black characterises strength, power, status, elegance and even prestige. Hence people wear black colour suits and blazers for official meetings.

This article on significance of black colour would not be complete without mentioning about E.V. Ramasamy Periyar one of the great Tamil leader, who was known for his rationalistic approach. He was always clad in black dress. Fondly remembered as "Thanthai Periyar" He fought against caste eradication in the society and upliftment of rural communities. He further advocated for the modernisation of villages by providing public facilities such as school, libraries, radio stations, roads, bus transport, and police station. He also advocated for women rights, that women should be given their legitimate position in society as the equals of men and they should be given Good Education and Right To Property. Periyar also spoke out against Child Marriage. Influenced by his ideologies our late Tamil Nadu Chief Minister Dr. Karunanidhi switched over from his conventional 'politician – white shirt' to 'Periyar's black shirt', signifying his allegiance to Periyar's Doctrines.

Unlike the popular views, that there is much mystery connected to black colour, in my opinion black is a colour where one can feel the positiveness. Whenever I wear black dress it gives me confidence in attitude and also in personality. I believe the very essence of black brings out the beauty in all things it is associated with. Just like the stars sparkling in the dark night sky. Black makes it all possible.

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What is hedge accounting?

Hedge accounting is the process of reflecting in the financial statements, the effect of balancing or managing the risk exposure, arising from particular risks by using eligible hedging instruments, commonly called as financials instruments. It attempts to reduce the volatility in the profit and loss statement, occurring when accounting for transactions involving foreign currency is made.

For example, hedging the risk of currency fluctuation is done using forward contracts, which is a type of financial instrument.

There are three important elements involved in hedge accounting.

1) Hedge Items (Those items which create the risk exposure)
2) Hedging Instruments (Financial instruments which mitigate the risk exposure)
3) Hedge Relationship

If any of the above elements are not eligible or do not qualify, then proper hedge accounting cannot be done. In essence, if hedge accounting is done without confirming the eligibility of all the above elements, then the financial statements will reflect a distorted picture.

Types of Hedge accounting

Fair Value Hedge

This is the process of mitigating the risk exposure, arising from changes in the fair value or market value of an asset, a liability or an unrecognized firm commitment, by hedging it using financials instruments. Put options are good for hedging the risks in this case.

Cash Flow Hedge

This hedging method manages the risk associated with cash flows rather than any asset or liability values. Future contracts are good hedging instruments for this type of risk exposure.

Hedge of Net Investment in foreign operation

Here, hedging is done to mitigate the risk exposures, which arise when any net investment is made in any foreign operation. Net investment simply means the net of investments made in the assets and liabilities of the concerned foreign operation and Foreign Operation means any subsidiary, associate, joint venture, or branch whose activities are based in a country or currency other than that of the reporting entity.

How does it work?

Under traditional accounting practices, a security and its hedge are treated as separate components when priced. Hedge accounting treats them as a single accounting entry that reflects the combined market values of the security and the hedge. This in effect, shows a clearer picture of the various hedged positions in the financial statement.

Applicability of Hedge Accounting

For hedge accounting to be done properly, three rules must be mandatorily followed.

1) Documentation – of the risk management objectives and strategies.
2) Testing the effectiveness of the hedge relationship.
3) Recruiting personnel with expertise in hedge accounting.

Pros and Cons

Pros in hedge accounting

1) Hedge accounting ensures that the enterprise value of the concerned entity is correctly reflected, as earnings volatility would be negatively perceived by investors.

2) It helps in the correct evaluation of the entity's credit worthiness.

3) Properly done, hedge accounting is an effective risk management technique, allowing