



News Analysis (16 Nov, 2018)

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National Financial Reporting Authority

The Ministry of Corporate Affairs has notified rules determining the jurisdiction, powers, function and duties of the **National Financial Reporting Authority (NFRA)**.

- The **Companies Act, 2013** provided for the creation of a National Financial Reporting Authority.
- Earlier, the Union Cabinet on March 1, 2018 approved the creation of a National Financial Reporting Authority (NFRA) as an **independent regulator** for the auditing profession, in an attempt to tighten regulatory oversight over chartered accountants and plug loopholes.

Background

- The need for establishing NFRA was felt in the wake of accounting scams and to establish an independent regulator for enforcement of auditing standards and ensuring the quality of audits.
- **Section 132 of the Companies Act 2013** gives the central government the power to set up such an authority.
- A **Parliamentary Standing Committee** had also **recommended** that the National Advisory Committee on Accounting Standards be institutionalized by setting up an NFRA.
- At present, Institute of Chartered Accountants of India (ICAI) is the auditing regulator. ICAI plays the **advisory role** with respect to accounting and auditing standards and policies.
- Setting up the NFRA indicates, to an extent, the lack of trust in ICAI to effectively address malpractices associated with accounting and auditing profession.
- The current regulator ICAI is against setting up of NFRA. ICAI is of the view that NFRA should not be given the power of investigation as the ICAI is doing the same work. Also, the multiplicity of regulators will not serve any purpose as steps suggested by the

government for NFRA are already being undertaken by the institute.

Institute of Chartered Accountants of India

- The Institute of Chartered Accountants of India (ICAI) is a **statutory body**.
- It was established by **The Chartered Accountants Act, 1949**.
- The Institute functions under the administrative control of the **Ministry of Corporate Affairs**.
- It is aimed at **regulating the profession of Chartered Accountancy in the country**.

Key points

- NFRA will oversee the quality of service and undertake investigation of the auditors of **listed entities; unlisted entities with paid-up capital of not less than ₹500 crore or annual turnover of over ₹1,000 crore or those having aggregate loans, debentures or deposits of not less than ₹500 crore as of March 31 of the preceding financial year**. While ICAI retains jurisdiction of small listed companies.
- The NFRA will also have oversight over **auditors of banks, insurers, electricity firms and also those body corporates referred to it by the Centre**.
- It will investigate matters, **either suo moto or on a reference made to it by the Central Government**, of professional misconduct by chartered accountants (CA) or CA firms, impose penalty and debar the CA or CA firm for up to 10 years.
- Make recommendations to the Central Government on the formulation and laying down of accounting and auditing policies and standards for adoption by companies or class of companies or their auditors.
- Monitor and enforce the compliance with accounting standards and auditing standards in such manner as prescribed.
- Oversee the **quality of service of the professions** associated with ensuring compliance with such standards, and suggest measures required for improvement in quality of service and such other related matters. This will make Quality Review Board (QRB) redundant, which was mandated earlier to look into the quality of service rendered by auditors.
- The rules also provide for a **detailed procedure on disciplinary proceedings** that will be undertaken by the NFRA. It has mandated **time-bound disposal (90 days)** of the show cause notice through a summary procedure.
- The National Financial Reporting Authority shall consist of members **not exceeding fifteen part time and full-time members**.
- The chairperson and members, who are in full-time employment with National Financial Reporting Authority, shall not be associated with any audit firm (including related consultancy firms) during the course of their appointment and two years after ceasing to hold such appointment.

Benefits of establishing NFRA

- With the constitution of NFRA, India is now eligible to become a member of the **International Forum of Independent Audit Regulators (IFIAR)**, which was denied until now for want of an independent audit oversight body in the country. This will enhance investor confidence as well as standing of India in the global arena.
- Improvement in foreign/domestic investments.
- Enhancement of economic growth.
- Supporting the globalisation of business by meeting international practices.
- Further development of auditing profession.
- Establishment of NFRA will free resources for the ICAI to work on developing new and complex skills needed in the uncertain world of technology.

Way forward

- The NFRA has an uphill task of creating a structure and processes for effectively delivering on the complete range of functions like standards setting, professional development, quality monitoring and disciplining of medium and large-size audit firm. Moreover, disposal of disciplinary cases in 90 days, is going to be onerous and challenging task.
- The NFRA should keep its distance from ICAI. Otherwise, it will be yet another case of regulatory capture.
- For the NFRA to be effective, it should consist of independent experts with an impeccable record of integrity.
- The NFRA should also look at company secretaries who are currently governed by the Institute of Company Secretaries of India (ICSI) as they have an equally important role in examining rule compliance.
- There is no contradiction or overlap between NFRA and ICAI, as each of them has their exclusive jurisdiction. Hence, both should meaningfully co-exist and harness mutual synergies and complementarities.

ASEAN Summit, East Asia Summit, RCEP Summit, Quad Meeting

PM recently concluded his visit to Singapore and attended the ASEAN-India Summit held on sidelines of **33rd ASEAN (Association of Southeast Asian Nations) Summit, 13th East Asia Summit (EAS) and Regional Comprehensive Economic Partnership (RCEP) Summit.**

- Singapore as the current Chair of ASEAN is hosting these Summits.
- India also participated in **3rd “Quad” Meeting.**

33rd Association of Southeast Asian Nations (ASEAN) Meeting

About ASEAN

- The Association of Southeast Asian Nations, or ASEAN, was established in 1967 with the signing of the ASEAN Declaration (Bangkok Declaration).
- The ASEAN members are Indonesia, Thailand, Singapore, Malaysia, The Philippines, Vietnam, Myanmar, Cambodia, Brunei, and Laos.
- On sidelines of 33rd ASEAN Summit, India-ASEAN Summit was also organized.
- As strategic partners, India and ASEAN have trade and economic relations.
- Trade between India and ASEAN stood at around **\$ 81 billion in 2017-18 and constitutes 10% of India's total trade**. Exports to **ASEAN countries constitute 11% of India's total exports**.
- India and ASEAN have a combined population of **1.9 billion which is a quarter of the world's population** and the combined GDP of \$5 trillion.
- In 2017, India and ASEAN celebrated 25 years of their engagement and the India-ASEAN Commemorative Summit was held on January 25th, 2017.
- India's relation with ASEAN is marked by **3 C's Culture, Commerce and Connectivity**.

[More About ASEAN-India Relationship](#)

13th East Asia Summit

- India also participated in 13th East Asia Summit.
- The East Asia Summit (**Established: 2005**) is a **forum of 18 countries** of the Asia-Pacific region formed to further the objectives of **regional peace, security, and prosperity**.
- There are **six priority areas of regional cooperation** within the framework of the EAS: Environment and Energy, Education, Finance, Global Health Issues and Pandemic Diseases, Natural Disaster Management, and ASEAN Connectivity.
- India endorses regional collaboration in all six priority areas.
- The members of East Asia Summit consists of **10 ASEAN nations** (Indonesia, Thailand, Singapore, Malaysia, The Philippines, Vietnam, Myanmar, Cambodia, Brunei, and Laos), and **8 other members-** Australia, China, **India**, Japan, New Zealand, South Korea, Russia, and the US.

2nd Regional Comprehensive Economic Partnership (RCEP) Summit

The Prime Minister also participated at the 2nd RCEP Summit, they reviewed the progress that has been made in the negotiations of RCEP.

3rd Quad Meeting

- It is the **grouping of four democracies –India, Australia, the US, and Japan.**
- The Quad association of members who have a shared objective to ensure and support a **“free, open and prosperous”** Indo-Pacific region and **rules-based global order.**
- Connectivity, counter-terrorism, and cybersecurity was the focus of the conversation at the third meeting of the ‘Quad’ countries.
- The US, Japan, and Australia emphasized “rules-based order” in their statements, which was missing from the Indian statement.
- A serious discussion took place on Sri Lanka and Maldives, both in India’s immediate neighborhood and influenced by China’s expansionism.

More About Quad

Significance of the Meetings

- Such meetings give a platform to **India to have a greater role for the economic integration** of the region and to ensure an open and inclusive Indo-Pacific.
 - Such meetings help India to take a closer look at pressing issues in bilateral relations and the overall security and economic situation in India’s extended neighbourhood.
 - Many of the ten members of the **ASEAN perceive India as a much-needed counterbalance to China.**
 - India also realises the centrality of ASEAN in its extended neighborhood through its 'Act East Policy'.
 - India could work on the implementation of connectivity projects, such as the India-Myanmar-Thailand trilateral highway, and building new trade and transport linkages with all the ASEAN states.
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New Super-Earth Discovered

A newly published research paper has reported the **discovery of a planet through radial velocity method** in orbit around one of the closest stars to the Sun, **Barnard’s star.**

The potentially **rocky planet** is known as **Barnard’s star b.**

Barnard’s star

- At nearly 6 light years away, Barnard’s star is the **next closest star to the Sun** after the **Alpha Centauri triple system** (Alpha Centauri A, Alpha Centauri B, Alpha Centauri C or Proxima Centauri).
- It is a type of faint, low-mass star called a red dwarf. Red dwarfs are considered to be the best places to look for exoplanets (planets outside our Solar System).

Barnard's star b

- Barnard's star b is a '**Super-Earth**' with a mass of at least 3.2 times that of the Earth, and it orbits around Barnard's star once every 233 days.
- Super Earth is just a planet with more mass than Earth, but less than a larger planet like Uranus or Neptune.
- Barnard's star b is the **second-closest known exoplanet to the Sun after Proxima b** (discovered in 2016) orbiting around the red dwarf star Proxima Centauri.

Significance

- The planet lies at a distance from the star in a region that is known as the '**snow line**'.
- Snow line is beyond the habitable zone in which liquid water, and possibly life, could exist.
- The planet's surface temperature is estimated to be around -170°C , meaning it is likely to be a frozen world. Such conditions would make it uninviting to Earth-like life.
- However, if the planet has a substantial atmosphere, the temperature could be higher and thus conditions could be potentially more hospitable.

Radial Velocity Method

- The researchers used the radial velocity method also known as Doppler spectroscopy during observations that led to the discovery of Barnard's star b.
- This technique detects wobbles (fluctuations) in a star which are likely to be caused by the gravitational pull of an orbiting planet.
- These wobbles affect the light coming from the star. As the star moves towards the Earth its spectrum appears slightly shifted towards the blue and, as it moves away, it is shifted towards the red.
- This is the first time that this technique has been used to detect a planet this small so far away from its host star.

Important Facts for Prelims (16th November 2018)

Arecibo Message

- The Arecibo message is a 1974 interstellar **radio message carrying basic information about humanity and Earth** from Puerto Rico. November 16, 2018, marks 44 years since researchers sent humankind's **first interstellar radio message**.
- The transmission consisted of a simple, pictorial message and was aimed at a cluster of roughly 300,000 stars known as M13 located 25,000 light years away.
- The broadcast marked the first time a human being had intentionally transmitted a

message targeting another solar system.

Pushkar Camel Fair

- It is held in the town of Pushkar in Rajasthan.
 - The Pushkar Camel Fair was started to attract the local camel and cattle traders for a business meeting during the holy Kartik Purnima festival.
 - Though Pushkar is a tiny town, it is home to a number of temples. It is also believed that Pushkar is the only place in the entire world to have a temple dedicated to Hindu God Brahma, who is also known as the 'Creator of World'.
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