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Chartered Accountants of India

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Presents

# October NEWSLETTER

*"There is a crack in everything.  
That's how the light gets in."  
— Leonard Cohen*



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# What's Inside ?



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# Structured Financing: A Deep Dive with Story and Context

## A Story to Set the Stage:

Imagine you own a successful chain of lemonade stands. The local fair committee requires you to give back 40% of your sales to support community projects—like helping small vendors, providing free lemonade to kids, or building a community park. This rule ensures that everyone in the community benefits from businesses like yours.

However, you face a challenge:

Finding and managing small vendors or community projects directly is time-consuming and complex. So, you find a smart solution—partnering with a smaller lemonade vendor who already has connections with local kids and vendors. This smaller vendor has already lent money to kids to buy school supplies or small gadgets (like loans for cars or phones in the real world).

Here's where things get interesting:

## Understanding the Players:

1. NBFC (Non-Banking Financial Company):

This smaller vendor provides loans to local kids (customers) for small purchases. These loans are numerous but small, covering gadgets or school supplies, similar to real-world retail loans for electronics or vehicles.

2. Trustee Company:

A cousin of yours (trustee company) buys these small loans from the smaller vendor (NBFC) and bundles them together. This helps the NBFC turn their loans into cash quickly, so they don't have to wait for each kid to pay back.

3. Investor (Bank):

That's you! You buy "community support certificates" from your cousin. These certificates, called Pass-Through Certificates (PTCs), represent small parts of those bundled loans. By buying them, you fulfill your community obligation without managing each loan directly.

## How Does This Relate to the real world?

In the financial world, structured financing works similarly:

### 1. NBFC Loans:

NBFCs provide retail loans (for things like cars, bikes, or gadgets) to customers. These loans generate income but tie up the NBFC's cash until repayment. To free up money, they sell a pool of loans to a trustee company.

### 2. Role of the Trustee:

The trustee bundles these loans into Pass-Through Certificates (PTCs). These PTCs are sold to banks or large financial institutions.

### 3. Investor's Benefit:

Banks buy these PTCs to meet the RBI's Priority Sector Lending (PSL) requirement, which mandates that 40% of their loans go to priority sectors like agriculture, MSMEs, education, and social infrastructure.

## The Technical Breakdown

### Priority Sector Lending (PSL) Rules:

The Reserve Bank of India (RBI) requires all commercial banks (including foreign banks with over 20 branches) to allocate 40% of their Adjusted Net Bank Credit (ANBC) to priority sectors. This ensures that essential sectors get adequate funding to support economic growth and social development.

### Structured Financing Process:

#### 1. Loan Pool Formation:

NBFCs create a pool of retail loans (like consumer loans for gadgets or vehicles). A pool differs from an NBFC's loan portfolio, which includes all their issued loans

#### 2. PTC Issuance:

The trustee company bundles the loan pool and issues Pass-Through Certificates (PTCs). These PTCs represent the right to future repayments from the loans.



## Why Structured Financing Matters?

*Structured financing helps banks meet their regulatory obligations efficiently. By investing in PTCs or engaging in direct assignments, banks support vital sectors of the economy without directly managing retail loans. Effective credit rating and risk management ensure that these investments remain secure, contributing to stable financial ecosystem.*

## Recap Through the Story Lens:

*You (the bank) support community projects not by managing each vendor but by investing in pre-packaged loans from a smaller vendor. This way, you fulfill your community obligations (PSL) while managing risk through structured financing. Everyone wins—the NBFC gets cash, the trustee facilitates the deal, and you meet your goals with minimal risk!*



Jayesh Suthar

CRO0725904



*Student*

# Non-Technical Article



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# **Why the Rich Become Richer and the Poor Become Poorer: Insights from the book "Rich Dad Poor Dad"**

The saying, "the rich get richer and the poor get poorer," reflects a persistent truth in society. This phenomenon emphasizes the importance of financial literacy, mindset, and systemic barriers. Understanding these factors provides insight into why wealth disparity continues to grow.

## **Wealth Accumulation Mindset:**

At the core of wealth accumulation is psychological capital. Wealthy individuals perceive money as a tool that can work for them, generating additional income through investments, assets, and entrepreneurial ventures. They focus on acquiring income-generating assets—like real estate, stocks, and businesses—that appreciate over time.

In contrast, many individuals in lower-income brackets tend to view money as a finite resource, often focusing solely on earning a paycheck. This limited cognitive framework constrains their ability to engage in long-term financial planning. When faced with financial challenges, the poor may resort to immediate solutions, such as high-interest loans, which can entrench them deeper in debt rather than investing in opportunities for financial growth.

## **The Importance of Financial Education:**

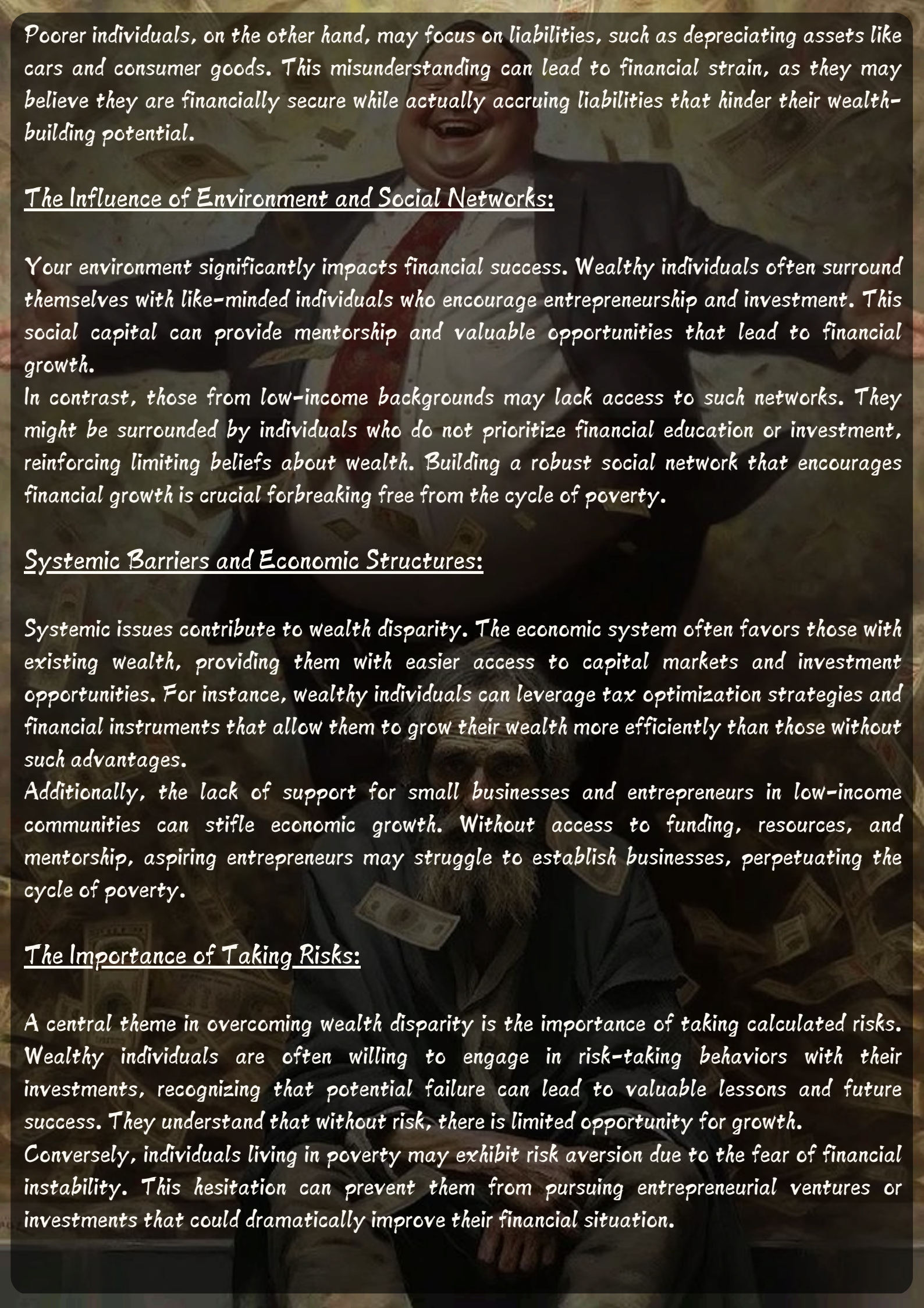
A significant factor in wealth disparity is the lack of financial education among the poor. Wealthy families often pass down financial acumen, teaching their children about investing, entrepreneurship, and money management. This knowledge equips them with the tools to make informed financial decisions and navigate economic challenges.

Conversely, many low-income families may not have access to the same financial education. Educational systems often neglect to teach essential financial literacy, leaving individuals unprepared to manage their finances effectively. This knowledge gap perpetuates a cycle of poverty, as those without financial literacy struggle to build wealth.

## **The Role of Assets vs. Liabilities:**

Understanding the difference between assets and liabilities is crucial in wealth accumulation. Wealthy individuals invest in assets—things that put money in their pockets—while liabilities take money out. By focusing on acquiring income-generating assets, they can build substantial wealth.



A man in a dark suit and red tie is laughing heartily, his arms outstretched. He is surrounded by a shower of US dollar bills falling from above. The background is a blurred pattern of more money.

Poorer individuals, on the other hand, may focus on liabilities, such as depreciating assets like cars and consumer goods. This misunderstanding can lead to financial strain, as they may believe they are financially secure while actually accruing liabilities that hinder their wealth-building potential.

### The Influence of Environment and Social Networks:

Your environment significantly impacts financial success. Wealthy individuals often surround themselves with like-minded individuals who encourage entrepreneurship and investment. This social capital can provide mentorship and valuable opportunities that lead to financial growth.

In contrast, those from low-income backgrounds may lack access to such networks. They might be surrounded by individuals who do not prioritize financial education or investment, reinforcing limiting beliefs about wealth. Building a robust social network that encourages financial growth is crucial for breaking free from the cycle of poverty.

### Systemic Barriers and Economic Structures:

Systemic issues contribute to wealth disparity. The economic system often favors those with existing wealth, providing them with easier access to capital markets and investment opportunities. For instance, wealthy individuals can leverage tax optimization strategies and financial instruments that allow them to grow their wealth more efficiently than those without such advantages.

Additionally, the lack of support for small businesses and entrepreneurs in low-income communities can stifle economic growth. Without access to funding, resources, and mentorship, aspiring entrepreneurs may struggle to establish businesses, perpetuating the cycle of poverty.

### The Importance of Taking Risks:

A central theme in overcoming wealth disparity is the importance of taking calculated risks. Wealthy individuals are often willing to engage in risk-taking behaviors with their investments, recognizing that potential failure can lead to valuable lessons and future success. They understand that without risk, there is limited opportunity for growth.

Conversely, individuals living in poverty may exhibit risk aversion due to the fear of financial instability. This hesitation can prevent them from pursuing entrepreneurial ventures or investments that could dramatically improve their financial situation.



## Changing the Narrative: From Employee to Investor:

Shifting your mindset from being an employee to becoming an investor or entrepreneur is crucial. This transition involves understanding the importance of financial independence and actively seeking opportunities to build wealth. Wealthy individuals often cultivate entrepreneurial skills, exploring multiple streams of income rather than relying solely on a paycheck.

By contrast, many poor individuals may remain trapped in traditional employment, believing that job security is the only path to financial stability. This lack of exploration limits their potential to create wealth and achieve financial freedom.

## The Psychological Impact of Financial Strain:

The mental and emotional toll of financial insecurity can also play a role in wealth disparity. Financial struggles can lead to stress, anxiety, and a scarcity mindset. This psychological burden can hinder the ability to focus on long-term goals or seize opportunities for growth. In contrast, individuals with financial security often experience a sense of freedom that allows them to pursue their passions, invest in themselves, and take risks that can lead to further wealth accumulation.

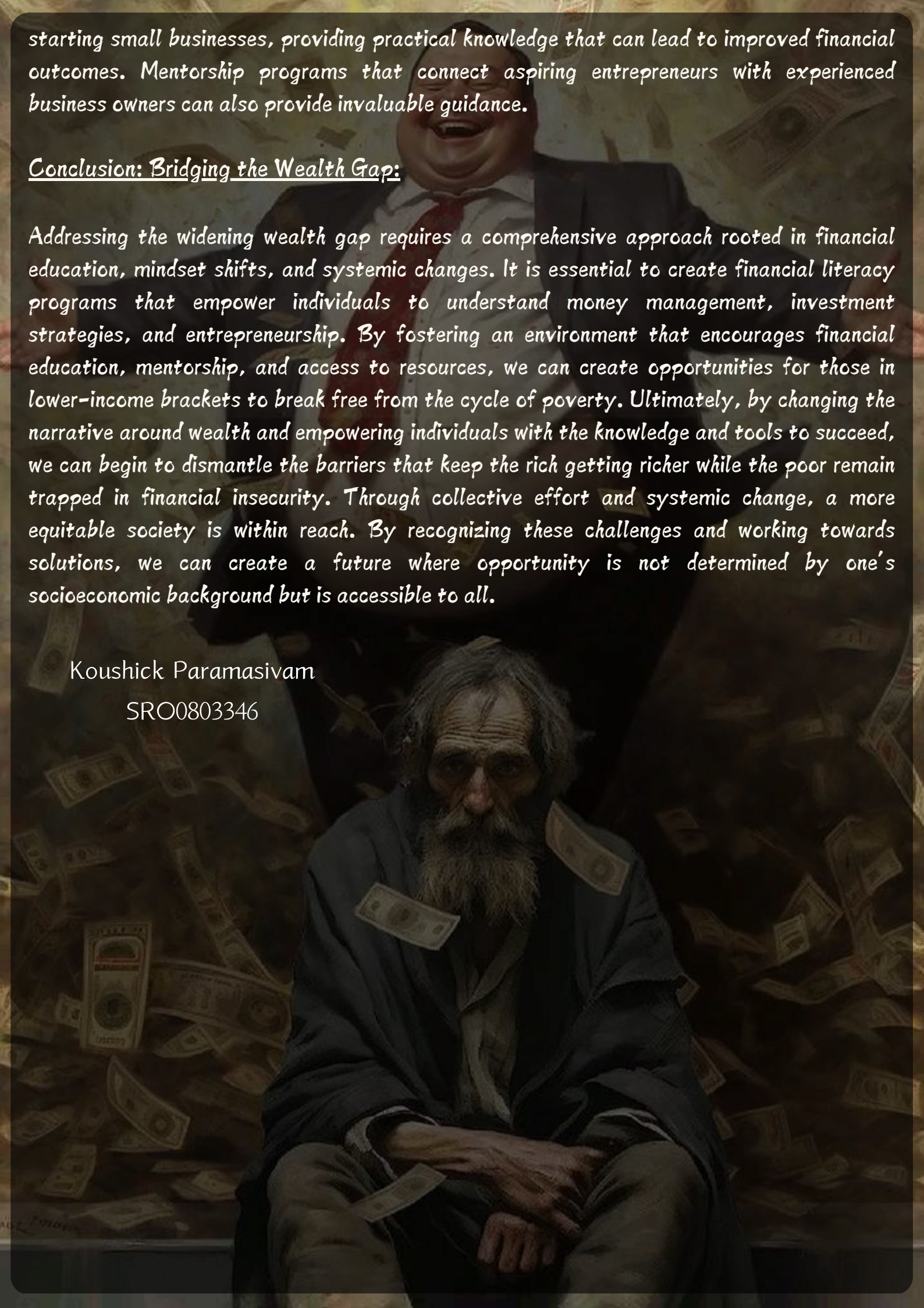
## The Role of Government Policies:

Government policies also play a significant role in wealth distribution. Tax structures that favor capital gains over earned income can disproportionately benefit the wealthy. While the rich can leverage tax advantages to accumulate more wealth, lower-income individuals often face higher effective tax rates on their income, limiting their ability to save and invest. Social safety nets, when adequately funded and structured, can provide crucial support for those in poverty, allowing them to invest in their futures. However, inadequate or poorly designed welfare programs can trap individuals in cycles of dependency, making it difficult for them to break free from poverty.

## Community Initiatives and Support Systems:

Community-based initiatives can also play a vital role in addressing wealth disparity. Programs that promote financial literacy, entrepreneurship, and job training can empower individuals to improve their economic situations. By fostering an environment that supports skill development and access to resources, communities can help bridge the gap between the rich and the poor. Local organizations can offer workshops on budgeting, investing, and





*starting small businesses, providing practical knowledge that can lead to improved financial outcomes. Mentorship programs that connect aspiring entrepreneurs with experienced business owners can also provide invaluable guidance.*

*Conclusion: Bridging the Wealth Gap:*

*Addressing the widening wealth gap requires a comprehensive approach rooted in financial education, mindset shifts, and systemic changes. It is essential to create financial literacy programs that empower individuals to understand money management, investment strategies, and entrepreneurship. By fostering an environment that encourages financial education, mentorship, and access to resources, we can create opportunities for those in lower-income brackets to break free from the cycle of poverty. Ultimately, by changing the narrative around wealth and empowering individuals with the knowledge and tools to succeed, we can begin to dismantle the barriers that keep the rich getting richer while the poor remain trapped in financial insecurity. Through collective effort and systemic change, a more equitable society is within reach. By recognizing these challenges and working towards solutions, we can create a future where opportunity is not determined by one's socioeconomic background but is accessible to all.*

Koushick Paramasivam

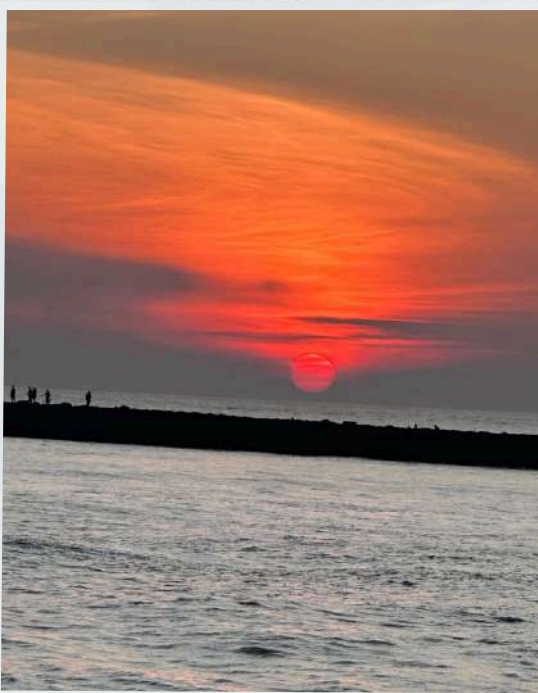
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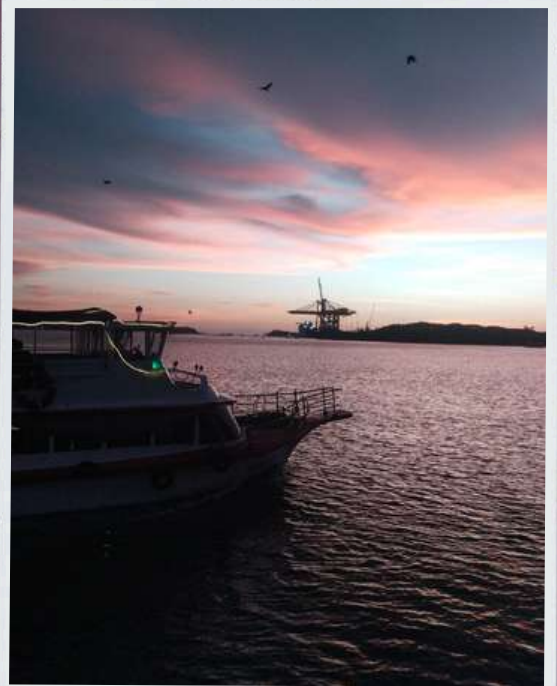
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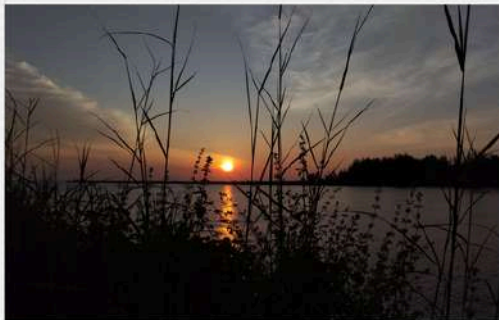
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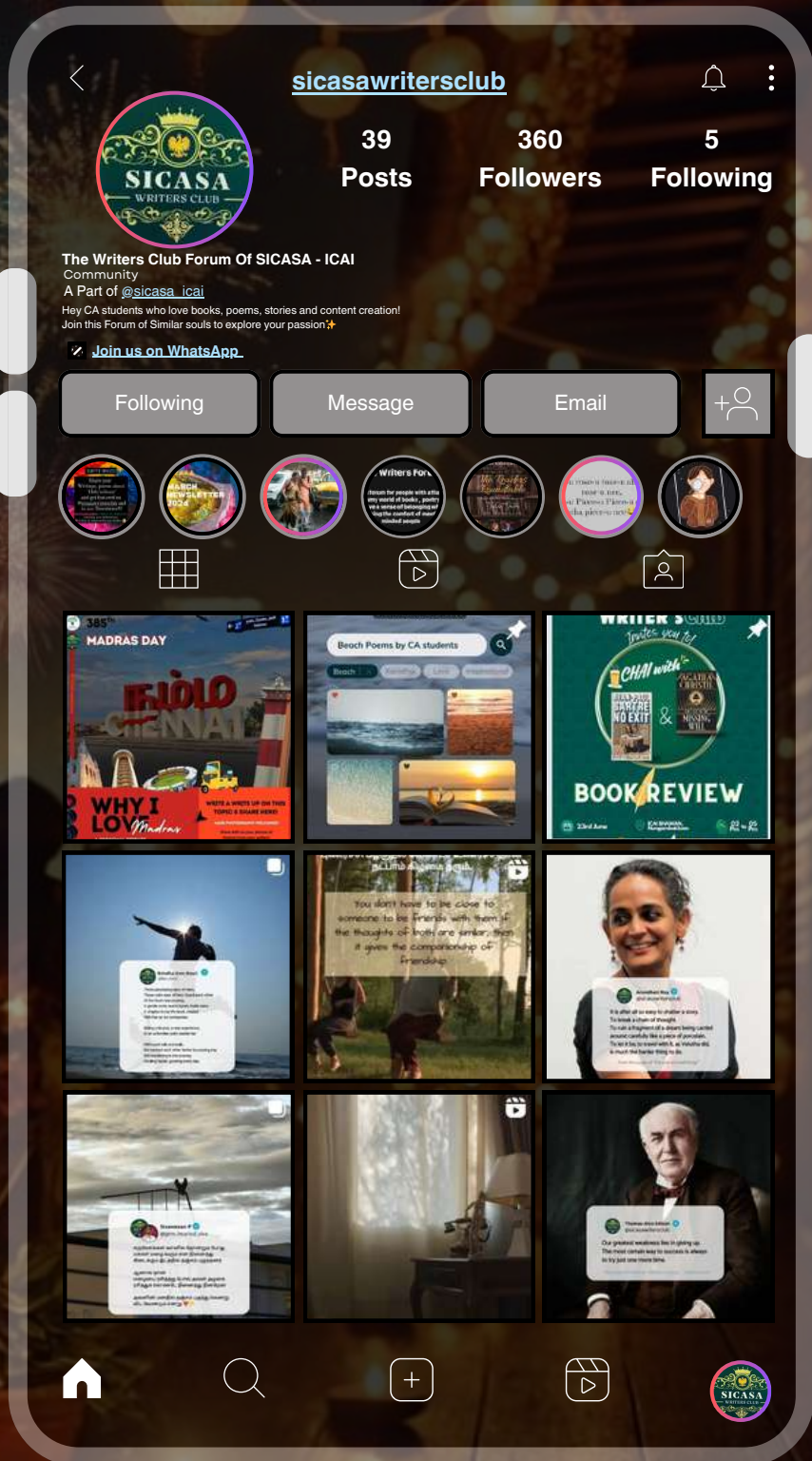
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Harshitha. S  
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&

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